

## Report on Non-Electronic Instrument Mfg. Study

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# Report on Non-Electronic Instrument Mfg. Study

## **3682, Instrument Mfg. – non-electronic – scientific or medical – N.O.C.**

### **Introduction**

The WCIRB reviewed Classification 3682, *Instrument Mfg. – non-electronic*, to evaluate the procedures for classifying employers that design proprietary, non-electronic instruments and subcontract manufacturing to other concerns. The *Special Industry Classification Procedures for Electronic Products Design and Manufacturing*, found in Part 3, *Standard Classification System*, Section IV, Rule 3, of the *California Workers Compensation Uniform Statistical Reporting Plan—1995 (USRP) (Electronic Products Design and Manufacturing procedures)* apply to the classifications in the *Electronics Industry Group* and specify that employers that design a proprietary product and subcontract the manufacturing operations to other concerns are assigned to the appropriate *Electronics Industry Group* manufacturing classification provided the following functions are performed:

1. Product design;
2. Manufacture of the prototype, or subcontract the manufacture of the prototype; or
3. Receipt of the manufactured product and performance of quality control operations prior to shipment.

However, because Classification 3682 applies to non-electronic instrument manufacturing and is not included in the *Electronics Industry Group*, it is not subject to the *Electronic Products Design and Manufacturing* procedures. The objective of this study is to clarify the procedures for classifying employers assigned to Classification 3682 that design proprietary, non-electronic instruments and subcontract manufacturing to other concerns.

### **Classification Analysis**

Prior to the establishment of Classification 3682, its constituents were assigned to Classification 3681, *Instrument Mfg. – professional or scientific – N.O.C.*, an *Electronics Industry Group* classification that applied to the manufacture of both electronic and non-electronic instruments. Effective January 1, 2006, Classification 3681, *Instrument Mfg. – professional or scientific – N.O.C.*, was amended to 3681(1), *Instrument Mfg. – electronic – professional or scientific – N.O.C.*, and Classification 3682, *Instrument Mfg. – non-electronic – scientific or medical – N.O.C.*, was established. Employers assigned to Classification 3681 that designed proprietary electronic or non-electronic instruments and subcontracted manufacturing to other concerns were classified using the *Electronic Products Design and Manufacturing* procedures.<sup>1</sup>

The study that resulted in the establishment of Classification 3682 did not address the classification procedure for employers that design proprietary, non-electronic instruments within California and subcontract the manufacturing processes.

The *Electronic Products Design and Manufacturing* procedures provide direction for determining the classifications that apply to employers that design proprietary electronic products within California and subcontract some or all of the manufacturing operations to other concerns, frequently overseas. This is a common business model for electronic products manufacturers within California. These employers typically retain product designers and engineers, some of whom may work exclusively in office areas and qualify as *Standard Exception Employees* for assignment to Classification 8810, *Clerical Office Employees*. However, product designers, engineers and other employees who assemble or test prototypes, handle components or finished products or otherwise have exposure that exceeds the scope of a *Standard Exception Employee* are assignable to the applicable electronics manufacturing classification, even when all manufacturing is subcontracted, based on these procedures.

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<sup>1</sup> Prior to January 1, 2014, these procedures were contained in the *Rulings and Interpretations Supplement* to the *California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP)*. Effective January 1, 2014, these procedures were incorporated into the USRP at Part 3, *Standard Classification System*, Section IV, *Special Industry Classification Procedures*, Rule 3, *Electronic Products Design and Manufacturing*.

Although the same business model is used by some California-based employers that design proprietary, non-electronic products, there is currently no classification procedure to support the assignment of their non-clerical employees to Classification 3682. For this reason, such employees may be assigned to Classification 4511, *Analytical or Testing Laboratories*, by analogy if operations resemble a testing laboratory, or to Classification 8018, *Stores – wholesale*, if operations include distribution of the finished products to customers. For example, in the case of employers that design non-electronic implantable medical devices, it is common to have a product specialist deliver the products to physicians and provide information regarding their use.

The WCIRB has identified fewer than ten employers that design proprietary non-electronic medical instruments within California that have been assigned to classifications other than Classification 3682, *Instrument Mfg. – non-electronic*.<sup>2</sup> In order to classify operations based on the business of the employer, which is the underlying objective of the Standard Classification System, these employers' operations should be classified as 3682. Employers that design proprietary instruments and subcontract their manufacture are part of the same industry as employers that manufacture instruments; they are not part of the testing laboratory or wholesale store industries.

The business model of designing proprietary products and subcontracting some or all manufacturing operations to separate concerns is also prevalent in the clothing manufacturing industry. There is no Industry Group or Special Industry Classification Procedures applicable to the clothing manufacturing industry; however, Classification 2501(1), *Clothing Mfg.*, contains classification procedures similar to those for the *Electronics* Industry Group classifications:

This classification includes clothing manufacturers that design garments, even if some or all of the sample making, production sewing or assembling operations are subcontracted.

### **Other Jurisdictions**

The National Council on Compensation Insurance, Inc. (NCCI) assigns Classification 3685, *Instrument Mfg. NOC*, to the manufacture of a wide variety of electronic and non-electronic professional or scientific instruments. Certain Code 3685 operations are designated as "not otherwise classified" (NOC).

The NCCI assigns Classification 3681, *Television, Radio, Telephone or Telecommunication Device Mfg. NOC*, to the manufacture of electronic products that are not instruments and are not more specifically described by another classification.

The NCCI advised that, unlike California, it does not have any specific industry rules or procedures relating to the assignment of manufacturing classifications to employers that design proprietary products and subcontract some or all manufacturing operations to other concerns.

### **Findings**

Based on staff's review, the WCIRB determined that similar to businesses described by the *Electronics* Industry Group classifications, the design of non-electronic instruments, irrespective of whether the employer performs the actual manufacturing, is best described by Classification 3682, *Instrument Mfg. – non-electronic*, provided the employer also (1) manufactures the prototype or subcontracts the manufacture of the prototype; or (2) receives the manufactured product and performs quality control operations prior to shipment.

### **Recommendation**

Based on these findings, the WCIRB recommends amending Classification 3682, *Instrument Mfg. – non-electronic*, to specify the classification procedures for employers that design proprietary non-electronic instruments and subcontract the manufacturing operations.

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<sup>2</sup> Each of these employers would be reclassified from either Classification 4511, *Analytical or Testing Laboratories*, or 8018, *Stores – wholesale*, each having an advisory pure premium rate higher than that of Classification 3682.

**Recommendation**

Amend Classification 3682, *Instrument Mfg. – non-electronic*, to specify the classification procedures for employers that design proprietary non-electronic instruments and subcontract the manufacturing operations.

PROPOSED

**INSTRUMENT MFG. – non-electronic – scientific or medical – N.O.C.**

**3682**

This classification applies to the manufacture ~~and~~ shop repair of non-electronic instruments, including but not limited to micrometers, surveying levels, sighting rods, hypodermic syringes, scalpels and microscopes. This classification also applies to the manufacture of catheters, ~~binoculars, compasses, telescopes,~~ implantable medical devices, orthodontic components, medical hand tools, ~~binoculars, compasses,~~ non-electronic scales, measuring tapes, or rifle scopes ~~and telescopes.~~

This classification also applies to employers that design proprietary, non-electronic instruments and subcontract manufacturing to other concerns provided the employer also:

1. Manufactures the prototype or subcontracts the manufacture of the prototype; or
2. Receives the manufactured product and performs quality control operations prior to shipment.

Employers that neither design nor manufacture the product, but purchase products from manufacturers for resale purposes, shall be assigned to the applicable Stores Industry Group classification notwithstanding that they may engage in some product preparation or quality control operations.

The manufacture of electronic medical instruments shall be classified as 3572, *Medical Instrument Mfg.*

The manufacture of electronic professional ~~and~~ scientific instruments shall be classified as 3681(1), *Instrument Mfg. – electronic*.

The repair of instruments away from the shop shall be separately classified.

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