

Risk Monitor



Preparing for a Workers' Compensation Audit: Relax and Don't Look So Guilty!

You are scheduled for a workers' compensation audit, and the dreaded time is drawing near. No fear. A little common sense and preparation will save you a lot of time, money, and frustration.

First and foremost, make sure you have scheduled the audit at a time that is convenient for you and allows you to devote a few hours to the audit. You should stay with the auditor the entire time. If you feel you have been pressured into meeting at an inconvenient time, call and reschedule. You will need to devote your full attention to the auditor, and to the auditing process.

Before the meeting, gather and organize your payroll reports, classification divisions, certificates of insurance, and overtime payroll records. You can summarize each of these beforehand and have the summaries ready for the review. This may streamline the audit process somewhat and assist you in more effectively communicating your business' important information. Furthermore, if your calculations are well organized and can be reconciled to payroll stubs, W2s and other payroll records, the auditor will feel comfortable relying on your data.

Be prepared for the auditor to question you about the job duties and classifications of various employees. This is to be expected and should not alarm you. If you have a question about proper classification, call your agent beforehand. Make sure you understand the different employee job classifications and have all of your employees properly classified. For instance, if an employee works 90 percent of the time in the office and 10 percent of the time outside of the office, the auditor can charge 100 percent of the payroll for that employee to the outside sales classification, a higher-rated class. Again, being prepared, and working beforehand to have a good understanding of the different classifications, is key to ensuring your audit goes smoothly.

Next, make sure you adjust payrolls, deducting bonus pay from any overtime pay. Also, be sure to apply the minimum and maximum payrolls to your calculations, if applicable. These maximums and minimums vary slightly, depending on the career and on the state. The minimums and maximums also vary greatly for executive officers, sole proprietors, and even partners. Do your homework here and apply maximums and minimums where needed.

If you have issued any payments to subcontractors that do not have certificates of workers' compensation, these payments may be charged against your workers' compensation. If you did not get a copy of a subcontractor's workers' compensation certificate, you can get it before the audit, as long as the certificate is current and shows the subcontractor was covered while working for you.

Once you've taken the time to gather the necessary information, organize it, and summarize it, relax. Auditors are not there to do you harm. Work with them; give them direct, honest answers to their questions, backed by applicable paperwork whenever possible. When the audit is complete, request the audit worksheet from the auditor.

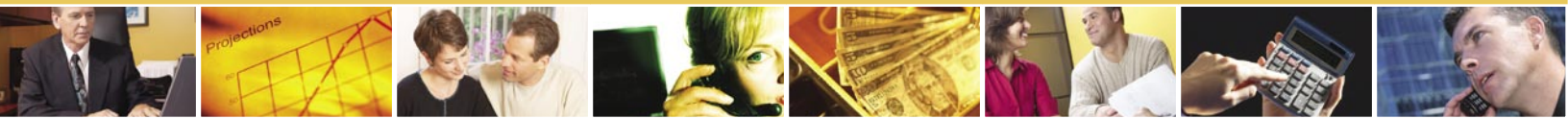
The good news is that you have the right to request a corrected audit, in the event you feel any errors were made. You also have the right to recover any overpayments made during the three preceding audit periods.

Lastly, if an independent agent or broker represents you, ask the agent to review the final audit for accuracy. The audit should be checked against the current policy and against the general liability audit, making note of any discrepancies in payroll estimates and classifications.

Welcome to the Lucien Wright Insurance Newsletter!

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent risk management topics which may affect your organization. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us should you have any questions or needs.





Business Income Protection a Must for Small Businesses

If disaster strikes, most small-business owners are ill-prepared to recover the costs of the company's payroll, operating expenses and profits. Furthermore, these business owners aren't well-informed about business income insurance, the coverage that can help them recoup those losses, according to a new survey by Safeco.

Small-business owners typically take four to six months to rebuild their property and resume operations and another six months to a year to return to previous income levels, if their property is destroyed and their company is shut down, according to insurance experts. Yet in Safeco's survey, only 19 percent of all small-business owners surveyed believed it would take six months or more to recover to their current level of operations if their workplace was totally destroyed.

"This is a real problem in the small-business market. Too often we find that by the time entrepreneurs are able to rebuild their workplace, they're in poor financial shape, and reopening is not easy," said Caryn Siebert, vice president of claims for Safeco Property and Casualty Companies. According to Safeco's survey of small-business owners (500 companies with less than 100 employees):

- More than half (55 percent) said they do not have business income insurance;
- Even more (63 percent) say they are unfamiliar with business income insurance;
- Nearly half (45 percent) estimated it would take them less than three months to recover to their current level of operations if their business was totally destroyed; and
- Six out of ten say they don't have the information they need to determine their business income insurance requirements.

Business income insurance (the new term for business interruption insurance) covers the loss of business income following the interruption of operations while the business is rebuilt. Business income is net income (net profit or loss before income taxes) that would have been earned plus continuing necessary operating expenses incurred, including payroll. In short,

it pays "continuing business expenses" as well as "profits." It is designed to make the Profit and Loss Statement perform as though no loss occurred.

The business income coverage form can also include extra expense insurance, which covers all necessary expenses incurred during the period of restoration that would not have been incurred if the loss had not occurred. For example, the costs incurred from leasing a new location to conduct business while repairs are being made to the permanent location.

Business income insurance is not sold separately. It is included in a standard business owners' package (BOP), and can be added to a property insurance policy. Most important, policy limits must be sufficient to cover the company for more than a few days. After a major disaster, it can take more time than many people anticipate getting the business back on track. There is generally a 48-hour waiting period before business income coverage kicks in.

Some small businesses should consider adding an extended period of indemnity. Sometimes, business income policies cover losses only up to the point where the business reopens. But at times, following a catastrophic event, like those of September 11, revenues for businesses are reduced over an extended period of time. Extended period of indemnity covers losses for a period of time that are incurred following the original claim.

Premiums can vary widely from client to client. Premiums for the coverage can appear to be high in comparison to the premium for property insurance, and thus smaller business owners often forgo the coverage or buy a reduced limit. Rates vary by the risk - restaurants pay more because of the higher risk, than, real estate offices, where the company can quickly set up operations in a new location.

Many insurance companies offer to estimate the business income insurance needs of smaller businesses as well as provide business income insurance education for smaller business owners. Give us a call today to learn more about coverage for your business.

continued from page 4...Closing the Gap When Your Car Is Worth Less Than You Owe

your situation, but help you assess whether you need it, or would be better off directing those insurance dollars to a more immediate need. And it is likely to be more cost-effective than the insurance offered by the dealer.

While the insurance product is most often referred to in the press and at dealerships as gap insurance, some companies, such as Progressive Insurance Company, call it loan/lease payoff coverage. And there might be other names, but your agent will know the ones that apply to the products of companies he or she represents.

If you decide gap insurance is a good idea for your situation—and remember, you would otherwise be self-insuring for losses during the time when your car's loan exceeded your car's value—discuss gap insurance with your agent when you

start looking for your new car. You will want to ask your agent to investigate the instances in which a company's gap coverage would not kick in, and how it would pay if it did. Some policies pay replacement value for a totaled car, even if replacement value is thousands higher than when you bought the car. Others pay only the total owed on the car. And still others pay a percentage of the total owed, leaving you to self-insure for part of that gap. Some companies also require that you place your collision and liability insurance with them as well, but you may well get a discount for 'packaging' all of it; your agent can help you through this

If you think gap insurance is just another little bill to pay, remember this essential fact: having it may make the difference between surviving the loss of a car in good shape, or in great distress.

How Your Small Group Health Insurance Renewal Is Determined

Insurance

Have you ever wondered how insurers determine small group (2-50 employees) renewal rates? Be assured that it's not an arbitrary process. Yes, there is a method to this madness! Although there are various formulas used, generally insurers use the following factors to calculate your renewal rates:

General Health Care "Trend"

This is a baseline factor applied to all group health insurance renewals. Basically "trend" refers to the change in cost of health care products and services, and how consumers utilize these products and services. New facilities, technologies, and procedures encourage more people to receive advanced services. The costs of these goods and services are expensive and increasing rapidly.

This component also includes "prescription drug trend." More drugs are being introduced into the market and aggressively marketed. The costs of advertising and research/development of these drugs are significant. These rising costs, in combination with increasing utilization, all contribute to this baseline factor.

Keep in mind this "trend" also has much to do with your group's geographic location. Just as home prices differ upon location, so do health care costs. Premiums in certain areas may reflect the higher cost of more people using state-of-the-art, yet expensive treatments and services.

Group-Specific Medical/Health Factor



When permitted by state regulations, a carrier may adjust renewal rates based on the overall health of the people covered under your health plan. Your premiums may be adjusted to cover expected future claims costs. Depending on your state, certain rate caps might exist which limit the amount an insurer can raise premiums based on your group's health status alone.

Most carriers use a "prospective" system, meaning that they look at medical conditions and diagnoses, which may affect the group's claims experience in the coming year. Claims from the past year, which are resolved or if the risk is no longer present, are not taken into account using a prospective rating system.

Your renewal adjustment can also be positively impacted by good claims experience.

Group-Specific Characteristic/ Demographic Profile



This component includes:

1. Age bracket changes (An employee or spouse turns 40, for example, moving them from the 35-39 bracket to the 40-44 bracket.)
2. Gender and coverage composition changes (The percentage of females and males changes or the mix of single and family contracts changes.)
3. Changes in the group's location (Claims costs are geographically-based, so the rates may change if the company moves to a new locale.)

Group-Specific Administrative Expenses

This factor includes the fixed costs needed to administer the plan. The larger the group, the lower the expense load. For example, a two-person group would have a larger expense load, as a percentage of premiums, than a 25-person group.

So, what can you do to influence the costs? Ideas include adjusting your plan design and/or premium contribution to support more efficient utilization, encouraging employees to become smarter health care consumers through communication efforts, and promoting prevention and wellness programs. It's a start at least...

Closing the Gap When Your Car Is Worth Less Than You Owe

You probably know that the minute you drive your new car off the dealer's lot, it loses a significant portion of its value. If you intend to keep it for at least a couple of years, to get to that break-even point and then sell it, the loss of value may not bother you.

That loss of value would bother you a lot, though, if the nearby river overflowed and your new car floated away with everything else that wasn't bolted down. You might still owe \$20,000 on it. Your insurance carrier, however, might cover it for current value and send you a check for \$14,000. You would end up owing the bank or finance company \$6,000, with no car to show for it.

Unfortunately, that's not the worst news. These days, the big discounts being offered for new car purchases are depressing the value of slightly used cars even more. That means, in auto industry parlance, that new car buyers who finance their new cars are even more 'upside down' than ever before. Lately, the average gap between what a car is worth and what is owed on it is \$2,200.

In addition to discounting widening the gap, other factors, too, are putting new car buyers in the financial hole. One of these is the buyer's tendency to look for longer terms and lower payments. But the longer it takes to pay for the car, the longer it takes to reach the point at which you owe less than the car's depreciating value. Another is the finance industry's desire to accommodate these buyers, not to mention gain more interest. In California, some dealers are writing seven-year finance contracts. (Many

people recall when three-year loans were standard, four-year unusual and five-year unheard of. These days, five-year loans are common.)

Dan Kiley, reporting in USA Today, noted that Friendly Chevrolet in Dallas estimates that 90% of its customers are upside-down, often owing as much as \$10,000 to \$15,000 more than the car is worth at trade-in time.

Gap insurance can fix that. Some gap insurance policies can also be worthwhile if you simply want to trade the car in during its 'upside down' period.

Dealers, becoming more aware of the problems these widening gaps can cause, are beginning to offer gap insurance, usually costing between \$500 and \$700. But some manufacturers, including Honda and Toyota, discount so infrequently that they find only 15% of their customers—versus 90% for some big discounters—are 'upside down' and may not offer gap insurance at the dealership. And, in any case, dealer gap insurance may not be as comprehensive as the gap insurance you can find through an agent.

If you finance through a bank or credit union rather than the dealer's finance company, you probably will not be offered gap insurance, either. In fact, you may not be able to purchase it through the bank or credit union at all. Again, the best bet is to check with an agent, who can not only find you the best policy for

continued on page 2

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