

Risk Monitor



The 2006 Hurricane Season Is Predicted to Be Intense – Check Your Insurance Coverages Before It's Too Late

Last year's hurricane season should be a powerful reminder for homeowners of the need to purchase comprehensive insurance coverage before the first hurricane strikes. As a result of Hurricane Katrina, nearly \$57.6 billion in claims were filed last year making it the costliest year by far for the insurance industry. Even still, studies show that many at-risk homeowners still do not carry sufficient insurance coverage.

The official Atlantic hurricane season runs June 1st through November 30th. Once a storm is within range of land it is too late to change or add coverage. Therefore, it is imperative that homeowners review their insurance policies now.

Make sure your homeowners' policy reflects your needs in the following areas related to hurricane coverage:

Hurricane Deductible - Multiple states have implemented separate deductibles for hurricanes based on a percentage of the home's insured value. In Florida, these deductibles are available in two, five and now ten percent options. According to new Florida legislation, a homeowner is responsible for just one deductible in the event of multiple claims caused by multiple hurricanes.

Note that wind damage caused by non-hurricane storms is subject to your policy's general deductible not the hurricane deductible.

Flood Insurance - Flood damage is not covered under a standard homeowners' policy, but flood insurance is essential in high risk areas.

Replacement Cost vs. Actual Cash Value - Replacement Cost policies cover the amount needed to replace or repair a home without a deduction for depreciation. These policies generally cost about 10 percent more, but they provide much more comprehensive coverage than Actual Cash Value policies.

This newsletter is designed to give you timely and important information regarding employee benefits, government regulations, new products, and other areas of interest to employers and their employees. We value you, your employees, and your business and continue to strive to provide you with the very best products and service available.

We hope you have seen our new sign in downtown Fort Worth!

Guaranteed or Extended Replacement Cost - Provides additional coverage if widespread damage inflates the cost of building materials and labor.

Inflation Guard - Automatically adjusts policy limits to reflect changes in construction costs so you do not have to increase your limits each year.

Building Code Upgrades - If your home is severely damaged, it will need to be rebuilt to comply with current building code standards that could add increased building costs. Law and ordinance coverage ensures these extra costs are covered.

Additional Living Expenses - Covers the costs of living elsewhere while your home is being rebuilt or repaired.

To protect your assets in the event of a hurricane, also:

- Inventory, photograph or video tape all household items. Keep receipts, inventory lists, copies of your insurance policy and insurance company contacts in a safe place that can be accessed in the event of a storm.
- To minimize losses, take steps to protect your property when a hurricane is imminent, such as covering your windows with shutters, siding or plywood.
- Keep materials such as plywood and plastic on hand in case you need to make temporary repairs after a storm. Keep receipts as repairs are made, as they may be reimbursable by your insurance company.
- Be wary of rushing into a contract or placing a hefty deposit with a company for repairs. Unfortunately, fraudulent contractors often flock to natural disaster sites, so it is important to consult your insurance agent before hiring anyone.



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Insureds Save Big with All Their Eggs in One Basket

When it comes to finances, diversity is usually the watchword. You've been told time and time again that diversifying your investments keeps your portfolio healthy. While diversity may be the way to go when investing, it is not necessarily the most prudent course of action when buying commercial property/casualty insurance. The majority of agents have historically encouraged clients to put all their eggs in one basket, and the results of a new survey prove they have been right all along.

In November 2005, Wausau Insurance commissioned Boston-based Atlantic Research & Consulting to poll two hundred risk managers, chief financial officers and other executives responsible for purchasing coverage. The researchers found that 89 percent of the firms realizing a savings through integration cut the overall cost of their risk management program by a minimum of 4 percent. Approximately 35 percent realized savings of 7 to 10 percent. The most significant gain stemmed from combining workers' compensation and general liability under one carrier.

Eighty-one percent of the financial executives surveyed stated they saved a minimum of \$1 in lost productivity expenses for every \$1 they saved by reducing workers' compensation claim costs. This is an increase from last year in which 70% reported such savings.

Seventy-five percent of those polled said they save at least \$1 in lost productivity expenses for each \$1 saved by reducing expenses for general liability, property and commercial auto lines claims. This is up from 60% who indicated such savings last year.

The majority of respondents noted that they saved a minimum of \$2 in lost productivity expenses for every \$1 saved by reducing claim costs across all four lines of coverage. Additionally, for second consecutive year respondents indicated slightly higher lost productivity savings from workers' compensation than from the other three lines of coverage.

Some of the other findings the survey uncovered included:

- Mid-sized companies with more than 500 employees reported much larger productivity savings by reducing claim costs across all lines than companies with 100-500 employees.
- General liability and property along with workers' compensation and general liability were indicated as the two coverage pairings most likely to display the greatest efficiency when combined with one carrier.
- Approximately 70 percent of those surveyed indicated their company had integrated multiple lines of insurance with one commercial carrier. This is a decline from the previous year, when 89 percent said they integrated multiple lines with one insurer.

Premium Damage Control for Workers' Compensation Insurance


When you obtain workers' comp for your business your initial premium rates are based on your company's payroll and the average cost of insurance in your particular industry. This premium rating will continue until your business becomes eligible for an experience rating. An experience rating will take into account the amount of claims filed in order to determine your loss ratio compared with your industry average. In general, an employer will need to be insured for at least two consecutive policy years to become eligible for experience rating. Simply put, if your company follows safety prevention and files fewer claims than expected the amount of your premium will be positively affected.

Businesses can reduce their workers' compensation costs in other ways. One method is to split payroll for an employee who performs two different tasks, each one governed by a different risk classification. Separate payroll records must be kept and duties specifically identified. If an employee splits time equally between office work and a higher risk job duty, you could potentially decrease this employee's risk factor by 50 percent for as much as half the workday.

The same can be said for classifying workers correctly. Misclassification is a common oversight leading to higher worker's comp premiums. The National Council of Compensation Insurance (NCCI) provides more than 700 job classifications in a publication called the Scopes Manual. Most states use this manual as the basis for their classification schedules. Since workers' compensation premiums are directly impacted by your reported job classifications, it is well worth your time to verify both your company and employees are classified correctly. Keeping track of changes in job duties throughout the year is also important. If an employee is promoted to a less risky position, your premiums will be lowered accordingly.

Since your workers' compensation premiums are based on payroll you may be able to reduce your payroll totals by deducting overtime pay. Some states will allow you to make this conversion for purposes of calculating your payroll. Again it is important to keep detailed records to produce accurate payroll data.

Employee Drug Testing: Effective Tool Despite Legal Pitfalls



Drugs and the workplace are clearly a negative combination. Employers may not only be liable for the negligence of an employee under the influence of drugs but also for negligently hiring an employee with a history of abusing drugs. Lowered productivity and higher absenteeism are just a few more reasons employers want to keep drugs out of their workplace. Drug testing can be an effective way to do just that.

Drug testing can be a useful tool to prevent hiring substance abusers, deter employees from abusing drugs, provide early identification and treatment referral of employees with drug problems and provide a safe and productive workplace for all employees. While illicit drug users are not protected under the American with Disabilities Act (ADA) and the ADA specifically provides that employers may prohibit the use of drugs in the workplace, drug testing still is full of legal pitfalls.

First and foremost, employers should always consult with legal counsel before implementing any drug-testing program. Drug-testing restrictions are in place on federal and state levels and employers need to make sure they are in compliance. State constitutions and statutes vary. Some limit circumstances where drug testing is allowed and others have set requirements on pre-employment drug testing. In addition, some states impose specific testing procedures and specific tests for false positive results.

The Fourth Amendment of the United States constitution, which protects against unreasonable searches and seizures, protects most government but not private sector employees from drug testing. Federal government employees in “sensitive” positions

or essentially those who operate commercial vehicles, carry a firearm or are in contact with sensitive information are generally subject to drug testing. For unionized workforces, implementation of a drug testing program as well as the disciplinary consequences of testing positive for drugs must be negotiated.

It is important to know that testing for alcohol is subject to different restrictions. While a current illegal user of drugs is not protected by the ADA if an employer acts on the basis of such use, alcoholism is considered a disability and is protected by the ADA if the individual is qualified to perform essential functions of the job. Still, an employer may require that employees not be under the influence of alcohol on the job and has certain rights under certain circumstances to discipline, discharge or deny employment to an alcoholic. Again, the complicated ins and outs of ADA guidelines and state and federal legislation make it key to consult legal counsel for guidance when developing a testing program.

When developing a drug program, the following factors need to be considered: who will be tested (which positions); when will tests be conducted (pre-employment, upon reasonable suspicion); which drugs will be tested for; and how will tests be conducted. Employers should have written drug policies including the circumstances under which an employee or applicant will be denied employment. To minimize potential liabilities, results of drug tests must be kept confidential and employees should obtain a release from all employees or applicants being tested.

It is also extremely important that employers retain a reputable drug-testing laboratory. The Drug and Alcohol Testing Industry Association’s website at www.datia.org includes a searchable database of accredited members.



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Approximately thirty-one states allow employers to reduce their premiums by paying a deductible that is generally between \$100 and \$5,000. Your state insurance department or insurance broker can inform you if this is an option for your business.

It is also important to maintain an excellent safety record. Utilize proper equipment and clothing to prevent accidents and injuries. Be sure to train employees well in safety practices and procedures. Create a safety manual for all employees.

And always follow the Occupational Health and Safety Administration guidelines related to your business.

Since many states have different regulations that govern workers' compensation it is important to consult expert advice in this area. An experienced agent that understands your business can work as your advocate with an insurance company, guide you through the classification process, and lead you to credits that lower your premium.

Umbrella Policies Provide an Extra Layer of Protection

Hopefully, you will never be served with legal papers and involved in a costly lawsuit. But in the event you are, it will be imperative that you have the insurance to cover your legal liability. That's where a personal liability umbrella policy can help.

Umbrella policies supplement the liability coverage you have through home and auto insurance and provide an extra layer of security by protecting your assets that might be at risk in a liability lawsuit.

If you don't have enough liability coverage from your home and auto policies to adequately resolve a claim, the person suing you can go after your home and your other assets to pay for damages. Umbrella policies cover damage claims that you, your dependents, or even your pets may cause.

Umbrella policies kick in after, and pay in addition to, your auto and home insurance liability limits. The bulk of the risk is assumed under the primary auto or home policy, which enables insurers to offer umbrella policies at very reasonable costs.

However, most insurance companies will not sell an umbrella policy unless both your auto and home insurance is with them. In addition, your insurer may stipulate that your auto or homeowners liability limits be at least a certain amount, such as \$200,000 to \$300,000. Umbrella policies are generally sold

with a deductible that might run anywhere from \$250 to \$1,000, pocket change if you're being sued for millions!

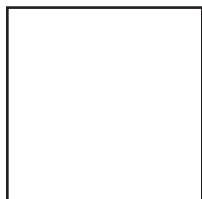
Umbrella policies provide much broader coverage in case you are sued, covering you if you cause bodily injury, property damage, or personal injury. Certain umbrella policies also cover you if you face liability arising from your service on the board of a civic, charitable, or religious organization.

Umbrella policies typically do not cover claims from business endeavors. If you own a business, even a small one, you'll need to purchase business insurance to protect yourself from business-related liability claims.

To determine if you need an umbrella policy, analyze your risk of being sued and the assets you have at risk. Do you have a swimming pool or trampoline that may pose a threat to visitors? Of course, you may decide your personal situation makes lawsuits very unlikely.

Before making any decision, compare the umbrella premium with the cost of raising the liability limits on your auto and homeowners policies. It may work to your advantage to raise these current limits by several hundred thousand dollars, and you may come out spending less than you would on umbrella policy premiums.

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