



**Leaderschoice**  
INSURANCE SERVICES

# Leaders News Alert

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## Workers' Compensation

### New System to Reduce Effects of a Single Claim

**N**EW RULES approved by California's insurance commissioner, Dave Jones, will reduce the effects of a single claim on small and mid-sized employers' workers' comp premiums, addressing an issue that has long haunted many California companies.

The changes approved for the Experience Rating Plan will introduce a new formula for gauging an employer's expected and excess losses for claims.

It will replace the current "split-point" system that has been blamed for being too volatile and punishing small employers for incurring a single workers' comp claim.

#### The current system

The current system calculates all losses up to a \$7,000 split point and then a portion of the losses over that level, which are deemed "excess losses."

Typically, if the costs of a claim or claims are at or below the primary expected losses, the effect on an employer's premium is mini-

mal. But if the costs exceed expected costs, there will be a disproportionate impact.

#### Starting in 2017

The new system will use a variable split point for determining primary and excess losses that are counted in an employer's workers' comp experience.

The new system, which will take effect in 2017, includes split points as low as \$4,500 – and as high as \$75,000 for the largest employers.

The change will put greater emphasis on the number of claims an employer incurs, and de-emphasize the cost of claims on employers' X-Mods and workers' comp experience.

The Workers' Compensation Insurance Rating Bureau, the body that tracks workers' comp claims costs experience in California, says the new system "enhances the accuracy of the experience rating formula, especially for smaller employers, reduces volatility and provides flexibility for simplifying the experience

rating formula in future years."

The Rating Bureau had to act because the \$7,000 split point has been in place for more than a decade without change.

But it has been loath to do so because of the negative effect it would have on smaller employers.

The new system also closes a loophole that some small and mid-sized employers are using to avoid the impact of their claims history. In some cases, employers near the rating threshold can avoid the impact of a large claim by refusing to cooperate with an audit by their workers' comp carrier.

In these cases, the unaudited premium is excluded from the rating calculation, and that can make the employer ineligible for an X-Mod because their premium total is now below the rating threshold.

Under the new rules, an employer that had an X-Mod and is no longer eligible because of the exclusion of unaudited pay, will still receive an X-Mod if it is greater than 100.

This change, too, will take effect for 2017 policies. ❖

#### CURRENT METHOD

##### ONE CLAIM HURTS

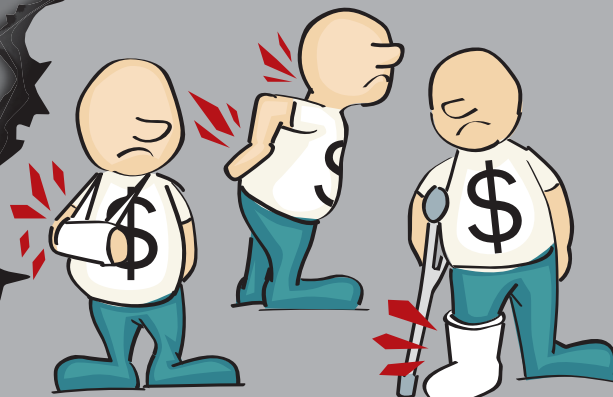
One claim that costs more than \$7,000 can have an outsized effect on a small firm's premium.



#### METHOD IN 2017

##### CLAIM FREQUENCY MATTERS

An employer's experience rating will put greater emphasis on the number of claims incurred, and de-emphasize the cost of one claim.



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## Property Risk

# Prepare Your Building for El Nino Storms

**F**ORECASTERS ARE predicting one of the most intense El Nino weather patterns for this upcoming winter, and heavy rains are expected in large swaths of the West Coast.

The roof is your commercial building's first line of defense from the elements, including heavy rain and extreme heat. It is also the most vulnerable part of your building.

To make sure it can handle this year's rains, you should have in place a regular program of inspection, maintenance and repair.

These activities should be part of your planning in order to prolong the useful life of your roof and make sure it does its job in protecting your business. Also, taking care of problems now can prevent leaks from rains that can cause serious long-term damage later.

If it's been a while since you've had your roof inspected, your first priority should be to identify and fix any major problems.

Signs of problems may be apparent even inside the building. Water stains on a ceiling may be a sign of leakage, which could be seeping in from a crack or hole in the roof.

These problems need to be addressed immediately as even the smallest leak can cause damage. Also, if the building has mold or odors inside, this may be a sign of water penetration.

While internal water damage or mold may signal trouble above, it's also important to visually inspect the roof itself to look for problems that are likely to worsen over time.

You can either do the roof inspection yourself if it's safe to do so, or hire a professional. The Insurance Institute for Business and Home Safety recommends the following:

## What to look for and fix

- **Standing water or ponding on the roof.** This can lead to premature aging and deterioration of the cover, which will lead to leaks.
- **Bubbles.** Bubbles may indicate trapped moisture within the roof cover, which can lead to leaks.
- **Gaps or broken roof flashing.** Flashing is strips of metal or other impervious material installed around the perimeter of the roof edge where the roof cover meets the wall. It is also installed around

objects that protrude from the roof in order to deflect water away from seams and joints.

A gap in the flashing increases the potential for roof cover failure during high winds, and for water intrusion or mold.

- **Roof cover tears.** Torn roof cover or worn or cracking seams can allow water to enter the building.
- **Skylights.** Check to be sure they are properly secured. Skylights that are not well sealed and secured around the frame's edge can leak, which can cause the lights to dislodge and allow for rain and debris to enter the building, especially during high winds.
- **Lightning protection system.** Check to see if your lightning protection system is loose or detached. This can lead to a tear or puncture in the roof covering, especially during winds. A lightning protection system that has disconnected metal cables or aerials cannot provide the intended protection for the building's occupants. ❖

## Gutter Cleaning Tips

- Prepare the gutters before you clean them. Make sure you take all the debris and gunk out of your gutters. With leaves dropping in the fall and the occasional strong winds, it's important that you remove all foreign matter.
- Make sure all the spikes connecting the gutters to your building are in good condition. Check that they go through the gutter, fascia board and into the rafter behind it.
- Look for leaks in your gutters and cracked caulking in the seams. Scrape out the old caulking and dry it before using new sealant. Fix all leaks.
- Check that rivets on the downspout are secured. If any are loose, you'll need to pull them out and replace them.
- Check for rusty areas of gutters. Rust can be sanded and repainted with rust-proof paint.
- Once you've done all of the above, have the gutters cleaned with a pressure washer and test them to make sure the water flows unrestricted out through the downspout.





## Protecting Your Firm

# Don't Get Caught without a Business Succession Plan

**M**ANY BUSINESS owners may be good at running their companies, but the majority of them are failing to address essential long-term planning that is critical to sustaining their businesses.

The one area that the majority of business owners often neglect is planning for business continuity if they die or become disabled, according to the "2015 MassMutual Business Owner Perspectives Study."

While the question of your death or disablement is not one that's fun to ponder, it makes good sense for business owners to put plans in place in case the worst happens. One of the key ways to ensure that is to have in place a buy-sell agreement, which would essentially sell your company in the event that you are unable to run it any longer.

Business owners in the survey identified these concerns:

- The effect on the business of the death or disability of the owner or key employee (55%).
- Protecting the business from disability and death of an owner or key employee had the second and third highest levels of importance (44% versus 42%, respectively). However, these two pillars were not very top of respondents' minds, with 55% saying they rarely or never think about the effect of disability and 59% saying they rarely or never think about the effect of death.
- Of those with a buy-sell agreement in place, just over half said it was funded with life insurance, but only 5% said it was funded with disability buy-out insurance. The rest were either funded with cash flow from the business or not funded at all.

## What's a buy-sell agreement?

A buy-sell agreement, also known as a buy-out agreement, is a legally binding agreement between co-owners of a business that governs the situation if a co-owner dies or is otherwise forced to leave the business, or chooses to leave the business. If the business has just one owner, then the agreement should specify who would be buying the company and continuing its operation.

A buy-sell agreement should be designed to protect the business from the five D's - death, disability, divorce, departure and disqualification.

When properly executed, a buy-sell agreement can help ensure the continuity of the business when ownership needs to change hands for any reason.

It is a legally binding agreement that requires one party to sell and another party to buy ownership interest in a business when a triggering event occurs, such as the death, disability or retirement of an owner.

This agreement structures the method and manner in which the business will continue in the event of the owner's death.

In a 2003 article for *Franchising World* magazine, Patrick Olearcek explains: "The proprietor and one or more key employees [or partners] enter into an agreement which provides that the proprietor's estate will sell the business to the employee at death."

By agreeing to buy the company, the key partner, employee or associate relieves the owner's family of the responsibility, and instead

provides them with a lump-sum payment. A key employee, as opposed to the owner's family, is in a much better position to continue the business operations properly.

## Funding the agreement

The majority of buy-sell agreements are funded with life insurance. In the case of a sole proprietorship, a policy covering the life of the owner is typically bought and paid for by the key employee who has agreed to purchase the business.

The employee is also the beneficiary of the policy, which has a death benefit equal to the pre-determined purchase price of the business.

Upon the death of the owner, the employee would receive the proceeds of the life insurance policy, then transfer that money to the owner's heirs in exchange for all interest in and assets of the business. ❖

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## Workplace Safety

# Make Sure Workers Focus on Eye Safety

**T**HOUSANDS OF people are blinded each year from work-related eye injuries that could have been prevented with the proper selection and use of eye and face protection.

Eye injuries alone cost more than \$300 million per year in lost production time, medical expenses and worker compensation.

OSHA requires employers to ensure the safety of all employees in the work environment.

Eye and face protection must be provided whenever necessary to protect against chemical, environmental, radiological or mechanical irritants and hazards.

Eye and face protection is addressed in specific standards for the general industry, shipyard employment, longshoring and the construction industry.

It is impossible to predict when and where an eye incident might occur, but it can happen literally in the blink of an eye, injuring or even blinding a worker who's not wearing proper protection.

It's an employer's responsibility to identify the eye safety hazards at the workplace, and then provide workers with the best protection against them.

Along with training on how and when to use eye protection equipment, workers should learn about cleaning, storing and replacing equipment.

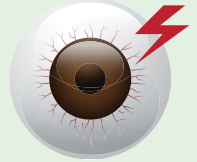
In most cases, workplace eye injuries can be avoided if workers have been trained to know when and what eye protection equipment should be worn – and what to do in case of an eye injury.

Opposite are some common causes of eye injuries, with suggested first-aid responses.

In all cases, professional medical attention should be sought as soon as possible after taking initial first-aid measures. ❖

## Eye Injury Responses

**Foreign particles** – Go to the nearest eyewash station or water source and flush the eye until the object is rinsed out. Don't rub the eye because the object can scratch or become embedded in the eye. If the object doesn't rinse free, bandage the eye loosely and seek medical attention.



**Chemical splashes** – Seconds count! These require immediate action. Go immediately to the nearest emergency shower or water source. Look directly into the stream of water, hold the eyes open with your fingers, and flush the eyes for at least 15 minutes.

**Light burns** – Exposure to welding, laser or other radiant light without appropriate eyewear does not cause immediate pain, but – four to 12 hours later – exposed eyes may begin to feel "gritty" and become sensitive to light. Redness or swelling may occur. Keep your eyes closed while waiting for medical attention.

**Cuts** – Don't rub, press or wash cuts near the eye. This can cause further damage. Loosely bandage both eyes to stop any movement.

**Embedded objects** – Never try to remove objects embedded in your eye; this can cause further damage. Loosely bandage both eyes and get medical attention.

**Bumps & blows** – Apply a cold compress for 15 minutes to reduce pain.

## Take Safety Precautions

The best solution for when workers are doing any work that could result in an eye injury is to wear proper eye protection. But accidents happen and your workers should know what to do if they suffer an eye injury.

