

- How to Control Workers Compensation Insurance Costs - **Page 1**
- How to Proactively Manage Employee Termination/ Employment Practices Liability - **Page 2**
- Insuring Employees That Drive Personal Vehicles for Business Purposes - **Page 3**
- HEALTH CARE REFORM FOR BUSINESS SEMINAR! - **Page 4**

# MAY 2013 Risk Monitor

A NEWSLETTER FOR CLIENTS AND FRIENDS OF FIRST INSURANCE AGENCY INC.

## How to Control Workers Compensation insurance Costs

In many businesses, workers' compensation insurance is one of the largest expenses. A firm's experience modification, which is a numeric factor that applies to the workers' compensation premium, is a major influence on that cost. It is designed to reward firms that have below average loss activity and penalize those with above average activity.

see their experience mod increase when they expected a decrease due to low claim activity.

In each state, the bureau uses a formula that considers the type of operation, the payroll over the previous three policy periods (not including the current one), the losses with values of less than \$10,000 each, and the losses valued at more than \$10,000. The insurance company's claims department establishes the incurred loss for all open claims and reports the actual loss of open and closed claims to NCCI. Based on work classifications and insured payrolls NCCI develops an expected loss for the insured. The ratio of actual losses to expected losses is the experience modification factor. The factor is then applied to the standard premium. It is important to monitor the open claim incurred losses to achieve the most favorable experience modification factor.

In 2013 National Council on Compensation Insurance (N.C.C.I.) changed the way Iowa's experience mods were calculated. Previous methods placed more emphasis on frequency of loss and limited claims effect by utilizing a primary stop loss of \$5,000. Several small claims could have a greater impact on the experience mod than one or two large claims involving medical and indemnity payments. NCCI has now implemented in Iowa new split points of primary stop losses increasing the 2013 split point to \$10,000, in 2014 to \$13,500 with further increases in the future. In addition NCCI has applied a factor of 30% to medical only claims. Two things are at work, increasing the impact of larger claims by raising the split point and diluting them with the 30% factor for medical only claims. It is all very confusing to businesses because many will

Fortunately, we can help with monitoring claims and controlling losses and the experience modification factor. We will analyze the experience modification worksheet and verify its accuracy. We will also assist you in making important decisions regarding your risk management and various options that can help reduce your experience modification.

**We will analyze the experience modification worksheet and verify its accuracy.**



**First Insurance Agency Inc.**  
 25 West State St. Upper Level  
 Mason City, IA 50401  
[www.1stinsurance.com](http://www.1stinsurance.com)  
 Phone: (641) 423-8184  
 (641) 421-8000  
 Toll Free (Iowa)  
 (800) 247-0713  
 Toll Free (out of Iowa)  
 (800) 367-6907  
 Fax: (641) 421-1940



# How to Proactively Manage Employee Termination/ Employment Practices Liability

Employee terminations and layoffs are stressful, sometimes complicated, and certainly an action that no employer looks forward to taking. The repercussions and disruptions from an employee being fired, laid off, or opting to leave of their own free will can be far reaching. It not only impacts the employee leaving, but also their co-workers and you, the employer.

You can decrease the impact employee termination have on your business and remaining employees, as well as the potential resulting legal issues, by taking the time to carefully manage the situation. Having an employee termination strategy is a good starting point. As you develop your strategy, you should remember that most terminations will fall under one of these categories.

- Employment that's terminated by the employer due to the employee's behavior or performance issues.
- Employment that's terminated by the employer solely due to economic reasons.
- Employment that's voluntarily ended by the employee.

You will find that there are some one-size-fits all guidelines on how to respond to terminations in general. However, each termination category may also call for a response that's more tailored to the circumstances of the termination. Here are some general tips for all of the above.

## Any Type of Termination

- Set up a process to follow. Following the same set procedure, including a checklist for each termination step, will help ensure that you treat all your employees equally.
- Consult an attorney to ensure you understand how the employee-employer relationship is legally regulated and all the applicable guidelines.
- Communicate effectively with your employees so that they understand exactly what's expected of them and all possible disciplinary actions. This will help you avoid misunderstandings.

## Employer Termination Due to An Employee's Behavior/Performance

- It's vital that all employees understand what you expect and require of them. It's equally vital to thoroughly document warnings and counseling for failures. This will not only help you protect your business should you ultimately need to terminate an employee, but it will also give you the opportunity to allow some deserving poor performers a second chance to do better.
- In certain circumstances, an immediate termination will be the most prudent course of action to protect yourself and your other employees.

For example, the immediate termination of an employee that steals or poses a danger could be warranted. However, it's still critical that you understand your legal responsibilities.

## Employer Terminates Based Solely on Economic Reasons

- Layoffs can be very difficult for you, the employees being laid off, the employees staying, and your management team. You can help



control anxiety and tension by keeping the lines of communications open and ensuring that all employees are kept in the loop about what's taking place.

- The layoff process can be somewhat less traumatic if you remember to let your employees know they're still valued, appreciated, and respected. It can also help if you're able to help them secure alternative employment and/or provide a severance package.

## Employee Voluntarily Ends Their Employment

- You'll want to clearly understand why an employee is ending their

**The repercussions and disruptions from an employee being fired, laid off, or opting to leave of their own free will can be far reaching.**

employment. An exit interview policy is a great tool to understand why an employee is leaving, how well your company is competing in areas like wages and benefits, and if you have any operational or management problems to be rectified.

- You may want to make a counter-offer if a valuable employee is leaving and you'd like to retain them after all, turnover can be very expensive for employers. Discuss the reasons your employee has decided to leave. If the departure is based on wages, then you may find that it would be cheaper to agree to a raise than it would be to recruit and train a new employee.

In closing, most employers will be faced with employee terminations at some point. If you plan ahead and have the proper procedures in place you can both minimize the effects and protect your business against any legal ramifications.

## Employer Practices Liability

- In the event a terminated employee makes an allegation that they were unfairly treated, discriminated against or harassed, insurance is available to provide defense and indemnity

coverage. Contact us for more information.



# Insuring Employees That Drive Personal Vehicles for Business Purposes



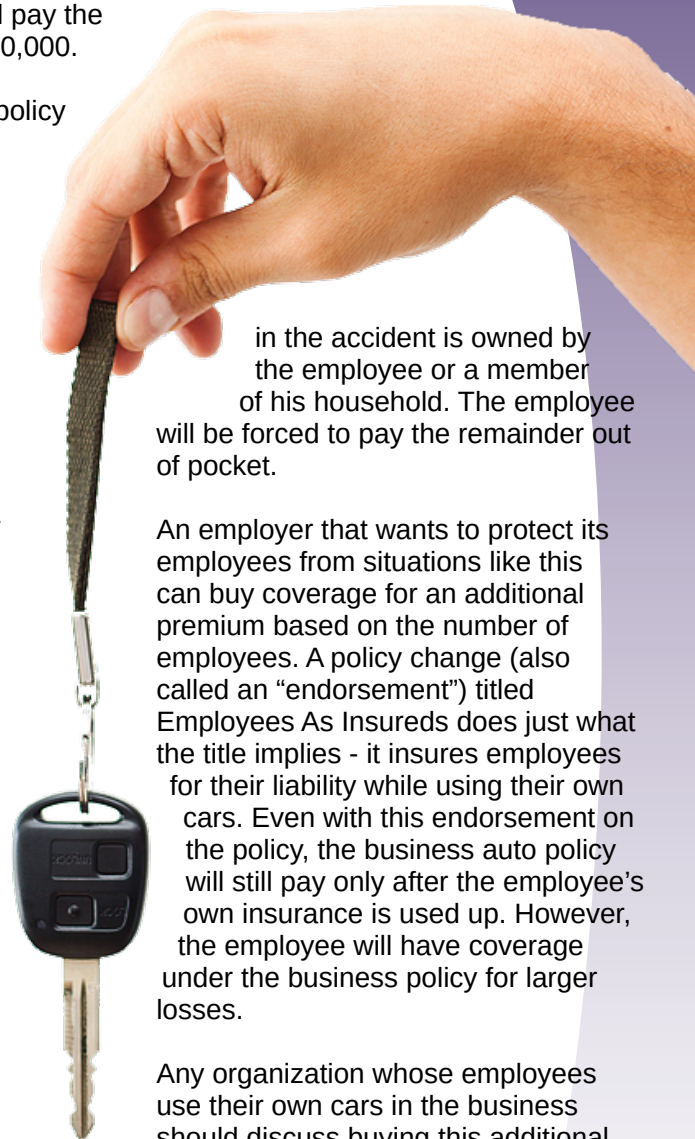
until its insurance limits are exceeded. For example, if the amount of the loss is \$500,000 and the personal auto policy provides liability insurance for bodily injuries of up to \$250,000 per person, the personal policy will pay all of its \$250,000. The business auto policy will pay the remaining \$250,000.

The personal policy covers the business as well as the employee.

The standard personal policy covers any person or organization with respect to their legal responsibility for the employee's acts or omissions. Suppose an employee, while driving on business, gets in an accident and severely injures the other driver. The court awards the other driver \$500,000 and decides that the employee and the employer share responsibility, 50 percent each. The employee's liability insurance has a limit of \$250,000 for injuries to one person. It will pay the full \$250,000 -- \$125,000 each for the employee and the business.

Now coverage shifts to the business auto policy. Assume that this policy's liability insurance has a limit of \$1,000,000 for all injuries and damages from any one accident. It will pay \$125,000 to cover the business's liability for the accident (the business's \$250,000 share of the verdict minus the \$125,000 paid by the employee's policy). However, it will not pay the remaining \$125,000 the employee owes. The policy's terms state that it does not cover an employee if the auto involved

**If an employee causes injuries or damage to someone else while driving on company business, his own personal auto insurance policy will actually be first in line to pay the bills.**



in the accident is owned by the employee or a member of his household. The employee will be forced to pay the remainder out of pocket.

An employer that wants to protect its employees from situations like this can buy coverage for an additional premium based on the number of employees. A policy change (also called an "endorsement") titled Employees As Insureds does just what the title implies - it insures employees for their liability while using their own cars. Even with this endorsement on the policy, the business auto policy will still pay only after the employee's own insurance is used up. However, the employee will have coverage under the business policy for larger losses.

Any organization whose employees use their own cars in the business should discuss buying this additional coverage with an insurance agent. Buying the endorsement will protect employees but may also hurt the organization's loss record, which may result in higher premiums in the long run. Each organization must decide whether the benefits outweigh the risks. Regardless of the decision, this is coverage every organization should consider.

Businesses have their employees travel on company business every day. A sales manager spends three days on the road visiting key customers. A hardware store employee drives to a wholesaler's warehouse to pick up parts on order. An architect drives to a client's location to review drawings for a proposed building renovation. Often, the employees drive their own vehicles on these trips. The business probably has its own auto insurance to cover it should an employee have an accident while traveling on company business. What coverage does the policy provide for the employee?

If an employee causes injuries or damage to someone else while driving on company business, his own personal auto insurance policy will actually be first in line to pay the bills. A standard personal auto policy covers on a "primary" basis liability for accidents involving vehicles owned by the policyholder. This means that, if two or more policies cover the same loss (for example, a personal auto policy and a business auto policy), the personal policy pays for the loss

# HEALTH CARE REFORM FOR BUSINESS SEMINAR!

*Mark your calendar!*

Please join First Insurance Agency for our upcoming seminar, Health Care Reform for Businesses. Noted health insurance speaker, Jesse A. Patton, LUTCF, HIA, MHP, FAHM, HIPAAA, EHBA, PHIAS will lead this important and timely discussion on the Affordable Care Act – how you are affected, how to prepare and what you need to know NOW. The seminar will be held in Mason City, IA at the Prime and Wine Restaurant Conference Room on Thursday, May 9th. Address is 3000 4th St. S.W. We will begin at 10:30 a.m. and lunch will follow the seminar at 12:00 p.m. Please RSVP to Ann Harty -641-421-8000 or aharty@1stinsurance.com. See you there!



Information contained in this newsletter about product offerings, services, or benefits is illustrative and general in description, and is not intended to be relied on as complete information. While every attempt is made to ensure the accuracy of the information provided, we do not warranty the accuracy of the information. Therefore, information should be relied upon only when coordinated with professional tax and legal advice.



**First Insurance Agency Inc.**

25 West State St. Upper Level • Mason City, IA 50401  
[www.1stinsurance.com](http://www.1stinsurance.com)

Phone: (641) 423-8184  
(641) 421-8000  
Fax: (641) 421-1940

Toll Free (out of Iowa)  
(800) 367-6907

Toll Free (Iowa)  
(800) 247-0713

# Risk Monitor