

# ***PROTECTING PEOPLE***

## **Workers' Compensation & Employers Liability**

**What is it?** Workers' Compensation (Work Comp) pays for medical bills, lost wages, physical rehabilitation, and disability payments if an employee is injured on the job. Work Comp will also pay life insurance benefits to dependents of an employee who is killed in the course of employment. Work Comp pays regardless of fault. Even if the employee's own negligence contributes to the accident, Work Comp will still pay benefits.

**Example:** Your avionics technician employee is careless and doesn't wear safety glasses while working. If material gets in the employee's eye, Work Comp will still pay benefits even though the claim could have been avoided had he or she simply wore eye protection.

Workers' Compensation also pays defense costs in the form of Employer's Liability coverage. It pays the cost to defend lawsuits filed against the employer by an employee or his or her family.

**Example:** In the same scenario, if your employee decides to sue you for having a hazardous working environment, even if the claim is groundless, Employers' Liability coverage will pay the cost to defend you in court.

### **Why you need Worker Compensation insurance:**

- It is required by law in all fifty states.
- If you don't carry Work Comp coverage and have a claim, you are subject to paying benefits out of pocket and being fined by the Department of Labor.
- The liability sections of aircraft and airport liability policies universally exclude protection for injuries to an insured's employees occurring during the course of employment.
- Employer's Liability pays to defend lawsuits brought against your company by employees or their families.

Workers' Compensation is often thought of by those responsible for making payroll as a "necessary evil." In the aviation world, many will categorize their employees as independent contractors or contract pilots in an attempt to avoid buying Work Comp coverage. In reality, Work Comp is one of the least expensive insurance coverage a business owner can buy. One of the most vulnerable areas of business is the injury to a worker. In most cases, a small annual premium can give the employer a significant level of protection.

**Limited market:** Aviation Work Comp exposures can be difficult to insure, with only a handful of aviation insurance carriers offering quotes. Since the insurance market is so restricted, the carriers are allowed to be selective, per the law of supply and demand. If

your business is tagged as a high-risk profession, has an excessive claims history, or has too few employees, you may not be able to obtain Work Comp insurance through an aviation insurance carrier. What happens then?

**Assigned Risk:** All states have a means to provide Work Comp coverage for companies that cannot find insurance elsewhere. In most cases, this is the assigned risk pool (also known as the state fund in some states), which is the “last resort” in Work Comp coverage. You want to take measures to stay out of the assigned risk pool since premiums can be higher and customer service may be poor.

**Note:** Workers’ Compensation benefits are statutory by state, and coverage issued is standard within each state. Job positions are classified and coded, and a rate is assigned for each code. In plain English, this means that you can’t “shop” Work Comp quotes – rates are not negotiable. Since you’re on a level playing field premium-wise, you should select an insurance agent who has experience in placing Work Comp coverage and is familiar with the additional peculiarities of Aviation Work Comp.

### **How Can I Control the cost of Workers Compensation Insurance?**

Your experience modification factor, or “mod,” is an important component used in calculating your workers’ compensation premium. If you can control your mod, you can control your price — so we’ve gathered some top tips designed to positively impact your bottom line.

1. Investigate accidents immediately and thoroughly. Take corrective action to eliminate hazards. Be aware of fraud.
2. Report all claims to carrier immediately. Alert carrier to any serious, potentially serious, or suspect claims. Frequently monitor the status of the claim and communicate with the adjuster to resolve as quickly as possible.
3. Take an aggressive approach to providing light duty to all injured employees upon their release from treatment. Supervise light duty employees to assure their conformance with restrictions
4. In serious cases that involve lost time, communicate with the claims adjuster so that they recognize your interest in returning the injured employee back to gainful employment.
5. Set safety performance goals for persons with supervisory responsibility. Success in achieving safety goals should be used as one measure during performance appraisals.
6. Develop preventative measures through a written safety program and train employees in their responsibilities for safety. Incorporate a disciplinary policy

- into the program, one that holds employees accountable for breaking the rules or rewards them for correctly following safety procedures.
7. Frequently communicate with employees, on a formal and informal basis, regarding the importance of safety.
  8. Make safety a priority. Senior management must be visible in the safety effort and must support improvement.
  9. Evaluate accident history and near-misses at least monthly. Look for trends in experience and take corrective action on worst problems first, as soon as the problems manifest themselves.
  10. Hire an Aviation Insurance Agent who is familiar with your business risk.

Apart from Workers Compensation Insurance a common business practice to protect people in your business may include preventive measures such as recurrent education, training, drug testing and wellness programs. The insurance industry offers risk transfer through workers compensation, health, disability, and life insurance programs. Common methods used to help you retain key employees may include profit sharing through stock options, retirement programs including 401K among others. Essential for any business as you grow would include Employee Policy Manuals, Voluntary Protection Programs and Employee Standardization Manuals.

Regardless of the size of your business, there is much that can be done to assist you with human resource management apart from insurance that should be considered.

### **Life & Health**

Most organizations employ at least one individual who is essential to the company's success. This person may be a partner, owner, majority stockholder or another individual who is crucial to the business. If this person unexpectedly leaves the organization – due to a death, disabling accident or an immediate resignation – it may be hard for the organization to survive without the person who makes the business run smoothly.

If your organization employs individuals who are vital to its success, key-person life insurance or key-person disability insurance can help protect your KEY-PERSON. These insurance solutions can give your organization options other than immediate bankruptcy should you lose the key person or people without warning.

### **Who Needs Key-Person Life or Disability Coverage?**

Many organizations can benefit from key-person life or disability coverage, including those that:

- Have employees who would be extremely difficult, time-consuming or expensive to replace, such as central decision makers, chief executives, vital sales managers or employees whose ideas have critical commercial impact
- Employ highly skilled individuals with unique training
- Employ people with exclusive ties to key clients, such as sports stars
- Employ leaders with irreplaceable knowledge
- Would lose considerable business and profit without a certain employee
- Have narrow profit margins and would be financially distressed in the event of a key staff loss
- Need to protect their revenue stream from loss, such as hospitals protecting against the loss of a high-earning, respected surgeon
- Would be devastated if a high revenue-producing client (ex: actor, writer or other entertainer) died or became disabled and unable to perform

In the event a vital employee becomes disabled or deceased, these types of insurance provide the company with income checks to make up for financial loss or use for temporary or permanent replacement costs. Business owners purchase separate policies for each key employee at the company.

### **How Does Key-Person Disability or Life Insurance Work?**

- Employer purchases life or disability insurance on the key individual(s)
- Employer is the beneficiary of the insurance policy and applies for and owns the policy. If the key employee dies prematurely, the policy pays out to the employer.
- Tax-free dollars from the policy can be put towards finding, hiring and training a replacement employee, compensation for lost business during the transition and/or financing timely business transactions
- Policy can be transferred to a departing key employee as a retirement benefit or to a different key individual, upon the retirement of the original key employee
- Can be used to buy out the key employee's shares or interest in the company
- Premiums are based on several factors, including the key employee's age, physical conditions and health history. The amount of coverage also affects the premium.

### **Key-Person Disability Insurance vs. Key-Person Life Insurance**

When most business leaders think of purchasing key-person coverage, they turn to life insurance. However, industry leaders point out that the chance of losing a key person to disability is 17 times greater than losing a key person to death, and the costs of hiring a recruiter to replace the key person and training him or her for a short period of time could be much more higher than finding a permanent replacement.

### **Considerations before Purchasing Key-Person Life or Disability Insurance**

- Estimate the value of your key employees. Think about the projects that would be lost without these people, the amount of sales generated by these people and costs associated with replacing them.
- Determine if this coverage is necessary, as credit insurance will cover outstanding loans and debts.
- Create a business continuation plan that outlines how your business will function if you lose key employees.

This plan is vital, in addition to proper coverage.

### **Requirements and Coverage Options**

To obtain key-person disability or life coverage, the individual must be a consenting employee and you must illustrate that your KEY-PERSON would incur substantial financial loss without him or her. To qualify as a key person, most insurers require that the employee's salary be in the top 20 percent of the company and that he or she makes at least \$110,000 in 2010. All key person policies are written specifically for the employee in question. →