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AuditRate - Alper Services' INSURANCE Cost Watch

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To: Executives Seeking to Reduce Their Insurance Costs by 20% to 40%


New Subcontractor Requirements

Illinois and other states are putting teeth in a measure to stop businesses from outsourcing work to persons or groups who masquerade as a legitimate independent contractor business. Accordingly, the days of an insurance company going no further than simply asking for a workers' compensation insurance certificate of insurance to decide whether to charge workers' comp premiums on outsourced work, may be over. Until now, it was easy to create the illusion that an independent contractor business had covered its workers' compensation insurance obligation. Subsequently issued Certificates of Insurance typically stopped insurers from further investigating whether the named insured independent contractor was in fact covering its workers' comp obligation, or merely outsourcing its work to people or persons who also held themselves out to be independent contractors. What this means is that, after 1-1-08, insurance companies could go so far as requiring the hiring businesses to secure copies of the independent contractor's IRS tax returns, financial statements, and even copies of the independent contractor's workers' comp insurance premium audits proving that the independent contractor qualifies. The consequence of the qualifications not being met is the inclusion of all subcontractor payrolls in the general contractor's, or business' audit by the insurance company.


Here are those qualifications:

- (1) The sole proprietor or partnership is performing the service free from the direction or control over the means and manner of providing the service, subject only to the right of the contractor for whom the service are provided to specify the desired result;
 - (2) The sole proprietor or partnership in not subject to cancellation or destruction upon severance of the relationship with the contractor;
 - (3) The sole proprietor or partnership has a substantial investment of capital in the sole proprietorship or partnership beyond ordinary tools and equipment and a personal vehicle;
 - (4) The sole proprietor or partnership own the capital goods and gains the profits and bear the losses of the sole proprietorship or partnership;
- (over)

Incorrect Audit causes \$47,000 Overcharge

We recently corrected the audit of a Client that said their growth was far beyond belief. After analysis, we found that there were many errors made while performing the payroll audit. First, the insurance company auditor picked up an insured subcontractor. How does this happen? The auditor doesn't ask probing questions to fully explain the situation. This error accounted for the lion's share" of the overcharge. Second, the auditor picked up payments to others as payroll to individuals who were not this firm's employees. And finally, the insurance company auditor misclassified employees into a higher rated code. While this business did grow at a faster than anticipated rate during the policy period, it was not even close to what the insurance company contemplated. In fact, we were able to correct the additional premium bill from \$56,000 to less than \$9,000. 

Sales Double Counted

We recently were looking into a firm's general liability audit. As is common with many businesses today, this entity was made up of several different companies that bought and sold product from each other. During our discussion we learned about the interrelationships of their company through in-depth discussions. This prompted us to dig deeper into their insurance program. As we suspected, inter-company sales are to be excluded from sales when performing the general liability audit. The insurance company auditor simply didn't ask the right questions, and took the bottom line sales number. This error correction refunded \$13,000 to the Client. 




New Subcontractor Requirements
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- (5) The sole proprietor or partnership makes its services available to the general public or the business community on a continuing basis;
- (6) The sole proprietor or partnership includes services rendered on a federal income tax schedule as an independent business or profession;
- (7) The sole proprietor or partnership performs services for the contractor under the sole proprietorship's or partnership's name;
- (8) When the services being provided require a license or permit, the sole proprietor or partnership obtains and pays for the required licenses or permits in the sole proprietorship's or partnership's name;
- (9) The sole proprietor or partnership furnishes the tools and equipment necessary to provide the service;
- (10) If necessary, the sole proprietor or partnership hires its own employees without contractor approval, pay the employees without reimbursement from the contractor and report the employees' income to the Internal Revenue Service;
- (11) The contractor does not represent the sole proprietor or partnership as an employee of the contractor to its customers; And
- (12) The sole proprietor or partnership has the right to perform similar services for others on whatever basis and whenever it chooses.

Employee Classification Act. 

2008 Rates Available

Below is a chart of some of the more common workers' compensation class codes. As evidenced by the comparison, on average rates are going up 6%. This does not mean that premium will necessarily increase, but the payroll and loss data support that rates need to go up. 

CLASS CODE	ADVISORY		2008 RATE / 2007 RATE	
	2007 RATE PER \$100	2008 RATE PER \$100		
ELECTRICAL APPR	3179	4.39	4.75	1.08
MACHINE SHOP	3632	6.54	6.99	1.07
FIREPROOF EQ.	3076	6.87	7.68	1.12
METAL GOODS	3400	7.12	7.61	1.07
PRINTING	4299	4.31	4.58	1.06
PLASTICS	4484	4.50	4.56	1.01
PLUMBING	5183	9.74	11.07	1.14
ELECTRICAL WIRING	5190	9.40	9.62	1.02
ROOFING	5551	30.89	31.06	1.01
WHOLESALE DIST.	8018	5.31	5.53	1.04
CLERICAL	8810	0.34	0.34	1.00
O/S SALES	8742	0.59	0.62	1.05
				12.67
			CLASS CODES	12
			2007 TO 2008 AVERAGE INCREASE	1.06

**What is AuditRate
And How Can We Help You!**

AuditRate is a premium sleuth and uncovers and recovers insurance premium overcharges. We search for, and find, recoverable premium overcharges for 40% of our Clients. Businesses are frequently overcharged by their insurance company (workers' compensation, liability, etc.) and do not realize it.



For over 40 years we have been reporting actual situations like those found in this newsletter. Policy overcharges are an on-going business problem that won't go away. Buying an insurance policy is not like buying a finished product. It's a work in process, with countless pitfalls all along its route. AuditRate's Clients didn't realize they were overcharged until we identified where, when, and how they were overcharged.

Because we work on a contingency fee basis, You Have Everything to Gain and Nothing to Lose.

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