

Performance News

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Employee Leasing: Understanding the Risks!

Relief from administrative costs or headache waiting to happen?

Anyone who owns or manages a business realizes that employer responsibilities to employees extend far beyond a paycheck. Employers handle tax forms, offer health and dental coverage and procure workers' compensation coverage. While many large companies may have a whole department solely devoted to those tasks many small to medium sized companies want an alternative. Say hello to Professional Employer Organizations (PEO), companies that provide services for payroll, workers' compensation, and administration of employee benefits. As is often the case with a service designed to make life convenient, it must be properly executed to avoid results that may be anything but convenient.

State statutes mandate when employers must have workers' compensation coverage. If an employer should, but does not have coverage, the employer is still responsible for payments to the injured employee along with any penalty the state imposes. This could be catastrophic to a company of any size. Thankfully, state statutes also allow for transferring the workers' comp coverage to a PEO. The employee leasing contract, required in most states, should clearly state who will be providing the coverage. Depending on which party is responsible, both the PEO's insurance policy and the company's policy must be endorsed properly to assure coverage. Additionally, the state in which a company operates dictates which endorsements are used.

If the PEO is providing the workers' comp coverage it is best to get a certificate of insurance annually to assure that your leased workers have coverage. Before signing any contract, you should consult with your attorney to be sure that provisions and coverage are in compliance with state statutes and not subject to interpretation. A properly constructed employee leasing contract and adequate workers' compensation insurance coverage will help you avoid troublesome pitfalls in the future.

For further information on proper employee leasing please contact a Scott Risk Management Advisor. Also, stay tuned for a future article discussing the distinction between an independent contractor and an employee. The conclusion may surprise you!

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