

Business Interruption Insurance: Should You Insure Ordinary Payroll?



Among the many decisions an employer makes when buying business interruption insurance is whether to insure ordinary payroll, and if so, for what length of time. It is important to consider and revisit this question periodically, because your business needs can change from year to year based on type of operations, plant or office locations and the economy.

Ordinary payroll is defined as payroll, employee benefits (if directly related to payroll), Federal Insurance Contributions Act (FICA) tax, Medicare payments, union dues and workers' compensation premiums for employees other than professionals, officers, executives, department managers and employees under contract, all of whose payroll is covered as a necessary expense in the event of a catastrophic loss under a business interruption policy.

In most policies, payroll costs are treated like any other cost incurred after the incident—if costs are necessary, they are reimbursed. Therefore, fundamental employees and labor costs associated with property damage repairs should be reimbursed. However, when employees are wholly idled as a result of the incident, their payroll is not considered a necessary expense and can only be reimbursed under the ordinary payroll endorsement, which goes into effect for a specified number of days (typically 30, 60 or 90 days) after the business interruption. This type of endorsement may be necessary to avoid difficulties with union contracts. In other words,

an ordinary payroll endorsement is a wise investment for those businesses that have employees considered unnecessary by policy terms but that they would like to keep on staff until after the business is back up and running.

When the ordinary payroll endorsement goes into effect after an incident, it does not affect the business interruption policy's coverage of necessary employees' payroll. Therefore, after the number of days specified in the endorsement has passed, payroll of necessary employees continues to be covered. Of course, your insurer will require proper documentation of why employees are necessary for the continuation of the business.

An ordinary payroll exclusion endorsement can also eliminate altogether coverage for payroll expense of employees other than those necessary to the function of the business, which limits your insurance premium but could present a serious risk to your business in the event of a loss. If you choose not to insure ordinary payroll, be sure to review union contracts or other labor issues that could arise as a result of a catastrophic loss. Your TPG Insurance Services representative can help you understand what combination of business interruption insurance coverage is right for your current needs. Contact us at 909-466-7876 today.

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