

# THE REPORT

December 2021  
Volume 9  
Issue 6

## WORKERS' COMPENSATION

### Proposal: X-Mods to Include COVID-19 Claims

**C**ALIFORNIA'S WORKERS' Compensation Insurance Rating Bureau has proposed plans to start requiring COVID-19 claims to be included when calculating employer X-Mods, according to a report by an industry trade publication.

The proposal, which would have to be approved by the state insurance commissioner, would bring to an end current rules that exclude the impact of COVID-19 workers' compensation claims on X-Mods, the *Workers' Comp Executive* reports.

The current measure was put in place after Gov. Gavin Newsom in April 2020 issued an order that any workers who were reporting physically to work and who contracted COVID-19 would automatically be presumed to have contracted it in the workplace.

That in turn meant that those cases would be treated as workers' comp claims, which entitled the workers to having their medical expenses covered as well as being paid temporary disability benefits for time they missed from work due to the coronavirus.

In response, the Rating Bureau issued the temporary rule excluding COVID-19 claims from X-Mod calculations. At the time, it said that those claims did not reflect effectiveness of employers' workplace safety efforts as they likely had not contemplated the pandemic.

#### Rationale behind proposed rule change

According to the *Executive*, Rating Bureau staff wrote in the rule proposal: "The COVID-19 workers' compensation claim environment has changed significantly since the experience rating exclusion of COVID-19 claims was first recommended and ultimately adopted.

"In the early months of the pandemic, relatively little was known about how COVID-19 was transmitted, there was little in the way of widely accepted workplace safety protocols and tens of thousands of COVID-19 workers' compensation claims were being filed."

The Rating Bureau reasons that now that we have a better understanding about how to reduce the spread of coronavirus through mitigation measures, in widespread COVID-19 vaccinations in the state, it's time to no longer exclude these claims from X-Mod calculations.

It said one role of experience rating is to provide an incentive to keep workers safe, according to the *Executive*.

#### Claims Snapshot\*

Total COVID-19 claims	<b>164,320</b>
COVID-19 death claims	<b>1,163</b>

\*2020-Oct. 8, 2021

#### The takeaway

The proposal will still need to be adopted by California's insurance commissioner. If adopted, it will take effect Sept. 1, 2022.

Any employer with workers on-site should have protocols in place to protect their workers against COVID-19 transmission in the workplace.

The rule change will provide an additional incentive to protect your employees, as any claims that require medical treatment and/or time away from work will count against your workers' compensation claims experience. ❖

#### CONTACT US

**Pleasant Hill Office**  
363 Civic Drive, 100  
Pleasant Hill, CA 94523  
Phone: 925-686-2860

**Morgan Hill Office**  
15005 Concord Circle  
Morgan Hill CA 95037  
Phone: 408-842-2131

**Elk Grove Office**  
2775 Cottage Way, Suite 21  
Sacramento CA 95825  
Phone: 916-970-2745

**San Diego Office**  
5330 Carroll Canyon Rd., Suite 110  
San Diego, CA 92121  
Phone: 858-345-5787

License No. 0K07568

**Pacific Diversified Insurance Services**  
**Wishes You a Happy Holiday**

BUSINESS INTERRUPTION

# Supply Chain Disruptions Keep Growing

**A**S THE COVID-19 pandemic drags on globally, supply chain disruptions continue to worsen. Most main U.S. ports are logjammed with vessels waiting more than two weeks to load and unload, while a shortage of truckers means containers are piling up at port facilities.

On top of that, each new wave of coronavirus infections results in more factories suspending operations, particularly in Asia. In addition, material shortages are forcing U.S. factories to stop production as they are missing much-needed parts and materials.

Most notably, the shortage of microchips has forced makers of cars, appliances and industrial machinery to halt operations.

All of these factors have upended supply chains, leaving many companies without materials and products.

Prudent companies address these challenges by building safeguards and contingencies into their supply chains ahead of time.

They enhance those risk management efforts by purchasing contingent business interruption insurance, which will cover lost profits if an event shuts down critical suppliers or major customers.

It's important that you create a solid plan for dealing with disruptions to your supply chain.

## Understanding your supply chain

You'll be best able to reduce the effects of supply chain disruptions on your business by identifying the risks within your supply chain and developing ways to mitigate them.

You should document this process in your risk management plan, which is part of your overall business continuity plan.

## External supply chain risks

- **Flow interruptions.** Problems caused by interruptions to the movement of finished goods, raw materials or parts.
- **Environmental risks.** Economic, social, political, terrorism threat and climate factors that can affect the supply chain.
- **Business risks.** Problems caused by a supplier's poor financial stability, or the purchase or sale of suppliers by other entities.
- **Physical plant risks.** Problems caused by issues at a supplier's facility. For example, a supplier could suffer a machinery breakdown or regulators may shut the facility down.

## Developing a plan

The best way to manage a supply chain disruption is to prepare for it. Start by undertaking a business impact analysis to prepare your company.

Form a team of key personnel that should include shipping and receiving, and management and supervisors involved in your key processes. The team should:

- Identify alternatives to key suppliers in advance. You don't want to be scrambling in the midst of a crisis. One option is to contract with an alternative supplier in advance, so you can certify them and ensure they can ramp up if you lose a critical supplier.
- Model the impact of disruptions on your sourcing and inventory strategies for the four supply chain risks above. Under each of the scenarios, think about how non-delivery of a key part or material would affect your operations. ❖



**JAM-PACKED:** Busy container traffic at the Port of Los Angeles.

Credit: Port of Los Angeles

# Managing an Inheritance

AN INHERITANCE in the form of cash, real property, jewelry or stocks can enrich your life in many ways.

Oftentimes, bequests from an estate are intended to help move the heir forward financially, or to keep a prized possession within the family. To fully realize the value of an inheritance, consider how the assets affect your overall financial plan.



The key to successfully managing any inheritance is to plan before you act. Certain types of inheritances may require you to make some decisions right away, but it's crucial to be conservative in your actions and allow yourself some time to grieve.

Then, work with financial professionals to maximize the value of your inheritance and decide whether to keep it, share it, invest it or liquidate it. Your options depend on your personal and financial circumstances, long-term goals and the type of inheritance involved.

## Fast Money

Cash inheritances are the simplest assets. Your financial professional can help you determine the impact the money could have on your short- and long-term goals. This will help you refine your financial objectives, such as your approach to retirement income, college funding or real estate.

If you receive a cash inheritance, keep in mind that probate information is publicly available, so you may receive unwanted solicitations for investment schemes. Seek counsel from a qualified and financial professional before risking any money. You may want to place the funds in a certificate of deposit or money market account until you can first meet with your advisors.

In addition, consider placing investments where your exposure to personal or professional liability claims is limited. You should consider consulting a tax attorney if the inheritance substantially increases the size of your estate.

## Family or Company Stocks

Many people leave their favorite stocks as a birthright to an heir. Perhaps the stocks are emotionally valued because grandpa worked for the company or they supported grandma's lifestyle.

But when deciding whether to keep stocks, it's crucial to determine if they're an appropriate asset for you relative to your personal investment philosophy.

Consider how the stock affects your investment portfolio's diversification profile, risk exposure and tax bracket. If you inherit stocks, most capital gains can be lessened by re-valuing the stock to the date of the grantor's death.

For example, if your grandmother purchased stock for a \$10 base and the stock is worth \$150 today, the capital gain would be assessed on the difference of \$140 if the stock were sold.

But if she passed away and left the stock to you, the base value of the stock is \$150, adjusted to the day of her death.

This decreases capital-gains liability by the time you receive the stock.

## Property Values

If you inherit real property, its value as an asset or liability is largely determined by whether you plan to live in, rent or sell it. To understand the cost factors involved, review the property and tax laws pertaining to the asset, along with any maintenance fees or out-of-state property management costs.

Then, balance that against any rental income, if applicable. If you want to sell the property, consider the capital-gains implications and the time and cost of waiting to liquidate it at the best price.

## Jewelry and Collectibles

Most people inheriting jewelry or collectibles value them as family heirlooms, not as assets. These items usually hold great sentimental value. They are not liquid assets that you want to sell quickly, if at all. Keep in mind that these valuables need to be protected.

While an estate planning attorney can determine a valuation for each item, for insurance purposes you should consider getting a neutral, certified evaluation.

You may also need to obtain a separate insurance rider against loss. Jewelry and collectibles appreciate, so be sure to update your insurance every three to five years. Working with your advisory team and using strategic planning can help you preserve and enhance your inheritance.

If you expect that some assets may eventually be passed on to you, you can speak with the grantor to determine the optimal way to receive the gift or bequest to increase its value to your estate and to decrease tax liability. ❖

**Edward C. Rusnak**  
**Joseph Yang**

Sagemark Consulting  
3000 Executive Parkway, Suite 400  
P.O. Box 5154  
San Ramon, CA 94583

**Phone:** (925) 659-0372

**Fax:** (925) 804-2472

**E-mail:** Edward.Rusnak@LFG.com

*Ed Rusnak and Joseph Yang are registered representatives of Lincoln Financial Advisors.*

*CA Insurance License # 0E78894 (Edward Rusnak)*

*CA Insurance License #0H84609 (Joseph Yang)*

*Securities offered through Lincoln Financial Advisors Corp., a broker-dealer (member SIPC). Investment advisory services offered through Sagemark Consulting, a division of Lincoln Financial Advisors Corp., a registered investment advisor. Insurance offered through Lincoln Marketing and Insurance Agency, LLC and Lincoln Associates Insurance Agency, Inc. and other fine companies.*

*CRN-3942566-120221*

WORKERS' COMPENSATION

# Changes to Construction Dual Classes on Tap

**T**HERE COULD be significant changes coming for a number of construction dual-classification codes that could see the threshold for the higher-wage workers jump by as much as \$5 per hour.

Currently, 16 of the Workers' Compensation Insurance Rating Bureau's construction and erection class codes are divided into two separate classifications based on the hourly wage of the employees, and each of these classifications has a different advisory workers' comp benchmark rate. Insurers use these benchmark rates as guideposts for setting their own rates.

Because lower-wage workers in these classes have considerably more workplace injuries and more severe injuries, the pure premium rates for these workers can sometimes be twice as high as those for high-wage workers.

For each of these classification pairs, a specific hourly wage threshold is used to determine whether the payroll and claims for an employee are assigned to the "high wage" or "low wage" classification. There are currently 16 pairs of dual-wage classifications.

The Rating Bureau's Classification and Rating Committee is debating a proposal to increase the wage threshold for separating high- and low-wage workers in these codes, with three of the codes designated for increases of \$5 per hour.

It usually revisits these class codes every two years. ❖

## Proposed High-Wage Thresholds

Class Code	2022 Threshold	Change from Current
Masonry (5027/5028)	\$32	+\$4
Electrical Wiring (5190/5140)	\$34	+\$2
Heating/Plumbing/Refrigeration (5183/5187)	\$31	+\$3
Automatic Sprinkler Installation (5185/5186)	\$32	+\$3
Concrete/Cement Work (5201/5205)	\$32	+\$4
Carpentry (5403/5432)	\$39	+\$4
Wallboard Application (5446/5447)	\$38	+\$2
Glaziers (5467/5470)	\$36	+\$3
Painting/Waterproofing (5474/5482)	\$31	+\$3
Plastering/Stucco Work (5484/5485)	\$36	+\$4
Sheet Metal Work (5538/5542)	\$29	+\$2
Roofing (5552/5553)	\$29	+\$2
Steel Framing (5632/5633)	\$39	+\$4
Excavation/Grading/Land Leveling (6218/6220)	\$39	+\$5
Sewer Construction (6307/6308)	\$39	+\$5
Water/Gas Main Construction (6315/6316)	\$39	+\$5

**NOTE: If approved by WCIRB's governing committee and the state insurance commissioner, these changes would take effect Sept. 1, 2022.**

