

COMMERCIAL PROPERTY

Factors That Are Pushing Insurance Rates Higher

COMMERCIAL PROPERTY insurance rates are continuing to climb, as the segment faces a number of headwinds that have pushed claims costs to new heights.

A number of factors are affecting rates, including the frequency and severity of extreme weather claims, the cost of rebuilding, rates for commercial properties not keeping pace with claims costs, and more.

The end result has been a steady increase in property rates across the board, but businesses with operations in areas that are more susceptible to natural disasters are seeing the highest increases.

As a business owner with commercial property, you've probably already seen rates increase, and you should be prepared for further rate hikes in the coming year. Here are the main drivers of these increases.

Mounting natural catastrophes

The number of natural catastrophes hitting the U.S. continues increasing as does the cost of those disasters, which are affecting more properties around the country.

Depending on the part of the nation a property is located it can be exposed to hurricanes, wildfires, tornadoes, hail, flooding and more. There has also been an increase in civil unrest, which often results in property damage to businesses.

Insured property losses in the U.S. hit \$74.4 billion in 2020, the second-most expensive year on record. Also, last year set the record for the most major natural catastrophe events to hit the U.S. in a single year (22 of them).

Five of the 10 most expensive catastrophe years for the insurance industry have occurred since 2011.

Reconstruction costs

Reconstruction costs have skyrocketed during the past five years, averaging 5% a year, according to the Associated Builders and Contractors analysis of Bureau of Labor Statistics data.

Lumber prices rose by 73% between April 2020 and July 2021, greatly increasing rebuilding costs. On top of that, iron and steel products jumped 15% in price during the same period, and steel mill products by nearly 7%.

Construction labor shortage

The construction industry faces a serious labor crunch. And many have backlogs that stretch out more than six months. According to the U.S. Chamber of Commerce Commercial Construction Index, this shortage is leading to real-world setbacks

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CIVIL UNREST: During the last few years, there have been more public disturbances, resulting in significant property damage.

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WORKPLACE SAFETY

Permanent COVID-19 Standard Coming Soon

CAL/OSHA has taken the first step towards creating a semi-permanent COVID-19 standard to replace the emergency temporary standard that currently governs workplace coronavirus prevention measures in the state.

On Sept. 17, Cal/OSHA released a discussion draft for permanent COVID-19 regulations to give stakeholders the chance to comment on it before it starts work on writing the regs.

Even though they are “permanent,” the rules would be subject to renewal after two years from the effective date or they would expire if the threat has receded by that time.

Elements of the draft standard

Here’s what the draft standard would do:

Follow CDPH rules – Require that employers follow California Department of Public Health COVID-19 prevention orders.

Masks for unvaxxed staff – Unvaccinated staff must wear masks. Employers must provide masks when the CDPH requires them.

Outbreak rules – During an outbreak in the workplace, all staff would be required to wear face coverings regardless of vaccination status. Employers would need to provide respirators during major outbreaks to all employees.

No COVID-19 Prevention Plan – Employers would not need to have a COVID-19 Prevention Plan, as required in the temporary emergency standard. Instead, they would be required to address COVID-19 prevention strategies in their Injury and Illness Prevention Plan.

Masks for at-risk staff – Require employers to provide N95 respirators to employees who have been identified by a doctor as being at increased risk of severe illness from COVID-19, regardless of their vaccination status.

‘Fully vaccinated’ defined – Define a “fully vaccinated employee” to mean that the employer has a copy of their vaccination record that includes the vaccine maker and date of the last dose.

Retaining records – Require employers to keep COVID-19 vaccination records for two years after the period requiring them to keep the records ends. That means if the rule sunsets in a few years, employers would be required to keep those records for another two years.

Testing rules – Require that employers provide COVID-19 testing to all employees who have come into close contact with another team member who has tested positive for the virus. Testing must be provided at no cost to the employee.

No paid leave for infected staff – Eliminate the provision for paid leave for workers who contract the coronavirus.

Handwashing and cleaning – Eliminate rules regarding handwashing and cleaning and disinfecting procedures in the workplace.

The takeaway

If you have been following Cal/OSHA’s emergency temporary standard, you should continue to follow the current requirements.

The new rules simplify the emergency standard, particularly concerning the requirement that COVID-19 prevention plans can be included in your IIPP rather than in a separate document. ❖



NO MORE DEEP CLEANING: The permanent standard eliminates rules regarding cleaning and disinfecting procedures in the workplace.

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Insurers Struggling to Keep Up with Rising Claims Costs

for contractors:

- 68% of contractors say they are asking workers to do more work.
- 56% report a challenge in meeting project schedules.
- 50% of contractors are putting in higher bids.
- Over a third (35%) report turning down work due to skilled labor shortages.

Property rates are inadequate

Despite the fact that rates have been increasing for the last five years, insurers are still struggling to keep up with the rapidly rising cost of claims as well as the number of claims they are seeing.

Those factors have made it difficult for the industry to peg pricing at the right level, resulting in a string of losses in property insurance for most carriers.

As the industry struggles to get back to profitability, insurers will have to continue boosting rates.

Reinsurance rates

A portion of the property insurance rate gains can be attributed to insurance companies dealing with higher reinsurance costs. Insurers buy reinsurance to pass on claims costs from catastrophic events, in order to reduce their overall risk.

The takeaway

There are some steps that businesses can take to try to affect their premiums. If you have an older building, you can replace your mechanical, electrical and plumbing systems with newer, code-compliant variants.

Safeguard your building against location-specific hazards (for example, creating a defensible space and using fire-resistant roofing in wildfire areas and upgraded cladding in hurricane areas).

Also, electrical fires are the number-one cause of property damage, so you should consider installing fire-protection systems such as sprinklers and fire hose cabinets. ❖

Creating an Estate Preservation Strategy

ANYBODY WHO has worked hard, saved, and invested needs an estate preservation strategy. A good one can help ensure that your assets are protected and loved ones cared for in the future.

Estate preservation strategies vary greatly and can be complex. Each must address the unique financial situation of the individual.

Your financial professional can help to address the issues and is a valuable part of the team in creating an estate plan – a formal roadmap to safeguarding your finances and possessions.

There is no “right” age to develop an estate preservation strategy. It’s best to start early; but few people do. For example, 70 percent of Americans don’t have a will.

Reasons for delay vary; hectic lives, uncomfortable discussing a time when they won’t be here, and they want to avoid dealing with complex financial and legal issues.

While these factors are understandable, they’re outweighed by the benefits of having a sound estate preservation strategy. These include reducing estate taxes, allowing for a timely resolution of your estate, and ensuring assets are distributed and protected according to your wishes. In addition, a strategy guarantees that, if you’re unable to make them, financial and health care decisions reflect your desires.

The first step in developing an estate plan is to find expert assistance. A good team of advisors – including your attorney, financial professional, accountant, insurance agent and investment advisor – is essential.

Once a team is assembled, start setting goals. Answering two questions will help:

How much money will you need for your lifetime?

It’s most important when goal setting to ensure you have enough to live on (i.e., “necessary estate”).

Without determining how much you will need for the rest of your life, and knowing that you are comfortable, you can’t move on to preparing an estate plan. Pinpointing your necessary estate and thus your “excess estate” – the money you won’t need – is more likely to lead to good decisions.

Where do you want your assets to go?

There are typically only three places: heirs, charity, or estate taxes. So, think carefully about the first two categories and, if this meets your objectives, do all possible to reduce the effect of the third.

After establishing goals, work with advisors to create a formal estate which typically includes the following.

- **Will** – a legal document that indicates how a person wants his or her estate to be distributed after death.
- **Health Care Power of Attorney** – who will make health care decisions for you if you cannot.
- **Financial Power of Attorney** – who will make financial decisions if you cannot.
- **Trust** – one of the primary functions is to protect assets. They also can avoid the delays and costs associated with probate. Trusts can serve the needs of a wide range of people.

Once an estate plan is completed, be sure that all assets are properly titled. If they aren’t, the plan could be ineffective, confusing, and counterproductive.



Remember that estate plans are not static. Tax laws are revised. Property is bought and sold. Marital and family statuses change. Objectives change. These events and others can affect a plan. So, monitoring is important and annual reviews are appropriate.

While estate strategies often focus on personal assets, business owners also should safeguard their commercial interests. Without a plan, all or part of a business may have to be sold to pay estate taxes.

Address business needs while you deal with your estate. Consider drafting a succession plan that speaks to long-term management and ownership.

Finally, leave a paper trail. Write a list that covers all your assets and liabilities. Put that in a safe place with all your important documents, especially those related to your estate plan. Make sure that people you trust know where the list and papers are located. ❖

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WORKPLACE SAFETY

OSHA to Issue Large-Employer Vaccine Mandate

THE BIDEN administration has announced plans to mandate businesses with 100 or more employees to require their workers to be vaccinated for COVID-19 or be tested for the coronavirus on a weekly basis.

The order is part of a sweeping six-part “Path Out of the Pandemic” plan, which focuses on expanding vaccinations, opening schools safely, improving care for coronavirus patients and protecting the economic recovery.

‘Path Out of the Pandemic’ Plan

- Requires federal workers and federal contractors to be vaccinated.
- Requires health care workers in hospital settings that see Medicare and Medicaid patients to be vaccinated.
- Requires employers to give staff time off to get vaccinated.
- Calls on large entertainment venues to require proof of vaccination or a negative COVID-19 test for entry.

Employers are obviously concerned about the impending rules, particularly how they will be enforced and how to handle employees that opt for weekly testing or who refuse to be vaccinated based on religious or health reasons.

Since the order will be an emergency temporary standard (ETS), expect OSHA to issue the new rules within 30 to 60 days after President Biden’s Sept. 9 announcement.

What to expect

An ETS can only remain in effect for six months, after which it has to be replaced by a permanent standard or sunset.

OSHA has already started work on the rule that the administration says “will require all employers with 100 or more employees to ensure their workforce is fully vaccinated or require any workers who remain unvaccinated to produce a negative test result on at least a weekly basis before coming to work.”

Employment law attorneys say that depending on how the new rules are written, it may be a burden on many employers to collect and track weekly test results for those workers who choose not to be vaccinated. The added bookkeeping headache may prompt some employers to abandon it and impose a mandatory vaccine policy.

Weekly testing also costs money. California has a law that has been on the books long before the pandemic that require employers to pay for mandatory medical tests or reimburse employees who pay for those tests themselves.

Also, the Fair Labor Standards Act requires employers to pay employees for time spent undergoing testing during the workday or for time used on their days off to get tested.

Also, it’s expected that the ETS will require employers to accommodate workers who won’t get vaccinated based on medical issues or due to a “sincerely held religious belief.”

There are still many questions that employers have:

- How will the 100-employee threshold be counted?
- How will employers collect proof of vaccination?
- What type of COVID-19 tests will be acceptable?

What you can do now

If you employ 100 or more people, you can get an early start by encouraging your staff to get inoculated against coronavirus. That way, when the rule comes into effect, you’ll have a good start.

You should also decide if you want to allow employees to forgo vaccination and instead be tested.

Larger employers should regularly check for new guidance on unsettled issues such as:

- Whether the employee count will include part-time, full-time and temporary workers,
- Who will bear the financial costs for weekly testing, and
- Whether time spent obtaining a test and awaiting results is compensable time. ❖



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