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Risk Insights

Business Interruption Insurance – Should You Insure Ordinary Payroll?

Among the many decisions an employer makes when buying business interruption insurance is whether or not to insure ordinary payroll, and if so, for how long? We at Bouchard review this specific issue with you at every renewal because each client's situation is different and can change from year to year. The skill level of employees, type of operations, plant and office locations, and the economy all need to be considered when determining whether or not to purchase ordinary payroll coverage. These same factors will also help determine the length of time the coverage will be needed.

Ordinary payroll is defined as payroll, employee benefits (if directly related to payroll), FICA, Medicare payments, union dues and workers' compensation premiums for employees other than officers, executives, department managers, and employees under contract. Payroll for officers, executives, department managers and employees under contract is automatically considered to be included for coverage as part of the overall business interruption coverage form, since without these key people, a business could not recover.

In most cases, there should be little question about whether continuation of all payroll during a brief shutdown is 'necessary.' However, without proper documentation, your insurer may contest keeping some employees on payroll during a prolonged shutdown. You can eliminate coverage for ordinary payroll completely or you can insure the cost of ordinary payroll for a limited period of time. Normal limitations for payroll would be 90 or 180 days.

If you chose to eliminate ordinary payroll coverage, you will reduce your insurance costs. However, doing so creates what may be an important uninsured exposure. Your Bouchard representative can provide you with alternatives, including and excluding ordinary payroll. More importantly, we can review this and many other critical issues concerning your business interruption insurance — contact us today!