

# Managing Insurance Costs in a Rapidly Changing Environment

By Frank Gudger, Partner, Habif, Arogeti & Wynne, LLP  
And Jeff McCart, Executive Vice President, The McCart Group

Insurance costs are one of the areas where property owners and managers have seen huge cost increases recently. To a large degree, these costs are a reflection of the loss experience of the insurance companies and not controllable by the individual property owner. However, there are some things you can do to minimize the increases. This paper will look at three of the most discussed areas – healthcare insurance, residential safety and mold and give you some money-saving suggestions.

Healthcare costs, and consequently health insurance premiums, have been increasing at an alarming rate for the past four years. Can you avoid it? Probably not. But, there are ways you can minimize its impact on your organization and your employees.

## Residential Safety

Providing for the safety and security of the residents and general public at residential leased properties is a major concern for property managers. The actions, or inactions of the property management team in these areas can directly affect its ability to attract and retain residents and employees, find affordable insurance coverage, prevent unnecessary and costly damage to the physical property and mitigate and defend actions brought against the property, all which affect the bottom-line profit of the property.

While OSHA and other safety-focused groups concentrate on industrial and construction clients, little time has been taken to develop and implement standard safety programs for residential properties.

However, the primary steps in implementing effective risk-control programs remain the same.

- ✍ First, develop a clear statement indicating the importance of safety in all aspects of the operation of the property and make it a part of the operating strategy and mission of the firm.
- ✍ Accountability of managers and employees in implementing the strategy is critical and should be made a part of all job descriptions.
- ✍ Written guides and procedures should be developed addressing the specific issues for each property and documentation maintained of the implementation of the guides.
- ✍ Training should be conducted with managers and employees at orientation and at periodic intervals and documented so that a consistent approach to safety and implementation of guidelines is established.
- ✍ Residents should receive initial information at time of occupancy and periodic updates concerning issues relating to the safety of the individual residence and the overall property. This should include alerts of issues in the area or the property that might affect the safety and security of the residents.

Each property has common and unique issues that must be addressed by the property management team. Periodic inspections and documentation are critical in prevention and mitigation of losses. Some of the more important items include:

- ☞ **Lighting:** Common areas such as parking areas, walkways and entrances must be adequately illuminated for safety.
- ☞ **Steps and Handrails:** All steps must be kept in good condition and free of movement or damage to treads and risers or pitch forward. Likewise handrails must be provided and kept in sound condition. Slips and falls are a primary cause of injury.
- ☞ **Snow and Ice Removal:** Outside entrance steps and walkways must be free of ice and snow to reduce slip and fall exposures to residents and the public.
- ☞ **Parking Lots:** The surface of parking lots and walkways must be smooth and free of potholes or other hazards that may result in trips and falls.
- ☞ **Pools:** Pools should be fenced with a self-closing and self-latching gate. They should be well lighted. Rules concerning the use of the pool and safety at the pool should be clearly posted. A “Shepard’s hook” and life preserver must be provided and emergency phone numbers posted.
- ☞ **Move-in, Move-out:** Inspections, with written documentation, should be maintained at time of move-in and move-out. This should include general condition, electrical inspection, inspection of heating and AC units, doors, locks, patio rails, smoke alarms, fire extinguishers etc. All deficiencies should be documented and repairs scheduled and documented when complete. This is also a good time to inspect and document the condition of stairs, handrails, walkways lighting and parking areas leading to the apartment unit.
- ☞ **Incident Log:** An “incident log” should be maintained of all incidents reported or observed by residents, the public or employees. A periodic review should be conducted to look for trends or other actions/corrections that need to be made. All incidents should be investigated and

actions taken where appropriate with feedback documentation to the reporting party.

While this list is not “inclusive” of all the exposures and controls needed to address safety and security at residential properties, it does reinforce the need for an on-going and effective Risk Management program to analyze, develop and implement controls to reduce loss.

## The Problems with Mold

More and more frequently, mold is a topic of discussion when reviewing coverages. As of now, there is not enough science to fully explain origins and health effects of the various types of mold, not even to set a national standard.

Investigating a mold complaint can be a challenge in itself. Sometimes the landlord or builder can overlook serious problems such as drainage and building design. Other times, the occupants ignore water damage from leaky pipes and subsequently wait too long to take action. There are other times where the public and public officials alike might overreact to potential threats, making scientific analysis more difficult and complicated. The result of these dismissals and highly emotional concerns can lead to inflated costs to mitigate complicated or even routine mold problems.

### Is it That Big of a Concern?

With regard to health concerns, small amounts of mold growth indoors, such as mildew on a shower curtain, generally are not of a serious concern, however, left unchecked, mold will multiply inside a residential or occupational building and could present itself as a daunting problem down the road. Most people have no reaction when exposed to molds. Higher levels of mold growth may cause nuisance odors and health problems to some sensitive people. Allergic reactions, similar to common pollen or animal allergies, and

irritation are the most common health effects for individuals sensitive to molds.

Molds also produce toxic substances called mycotoxins. The health effects of breathing mycotoxins are not well understood but are under continuing study. People who may be affected by mold more severely and quickly than others include: Infants and children; elderly people; pregnant women; and individuals with respiratory conditions, allergies, asthma or compromised immunity are very susceptible to the damaging affects which may be caused by molds.

### **If Mold Appears**

The most important step is to fix the moisture source causing the mold growth. The key to preventing and stopping indoor mold growth is to control excess moisture. Keeping susceptible areas clean and dry is very important. Ventilate or use exhaust fans (vented to the outdoors) to remove moisture where it accumulates, particularly in bathrooms, kitchens and laundry areas.

Repair water leaks promptly, and either dry out and clean or replace water-damaged materials. Materials that stay wet for more than 48 hours are likely to produce mold growth. Lowering humidity indoors helps prevent condensation problems. To lower humidity during humid weather, use air conditioners and dehumidifiers. Proper exterior wall insulation helps prevent condensation from forming inside during cold weather. For small mold problems, wash mold off hard surfaces, dry them completely, and replace porous or absorbent materials, such as ceiling tiles, wallboard and carpeting.

If you do not see mold growth but notice a musty odor, mold may be growing behind water-damaged materials such as walls, carpeting or wallpaper. Persons cleaning mold should wear personal protective equipment such as gloves, eye protection and a dust mask or respirator to protect against breathing airborne spores (an N95

dust mask or respirator may be purchased in most hardware stores).

Testing by a qualified professional can be expensive, and there are no common standards for “acceptable” levels of mold in the indoor environment. When testing is done, routinely comparisons are made with the levels and types of mold spores found inside the home or office with those found out of doors in the same general proximity in order to determine whether or not the contamination is being enhanced by conditions within the structure, or if the conditions are stable. With this information, specific treatments might be determined.

For more significant problems, a professional experienced in mold evaluation and remediation, such as an industrial hygienist or Certified Industrial Hygienist (CIH), may be needed to assess mold growth in a building. It is important to correct large mold problems as soon as possible by first fixing the source of the moisture problem and removing contaminated materials, then cleaning the surfaces and, finally, drying the area completely.

If you are the owner of an affected property, once you have selected your consultant, it is up to you to ensure all affected parties are kept informed of the progress of the matter. Occupant involvement can enhance credibility and promote success.

### **Do I Have Mold Coverage?**

The state of Georgia currently requires insurance companies to cover property owners for liability that results from mold on their property. However, that may change. A number of states have allowed insurance companies to exclude mold in their policies. To find out if you have a mold exclusion, you should review your policy or contact your broker or insurance agent.

## National Healthcare Cost and Renewal Premium Projections

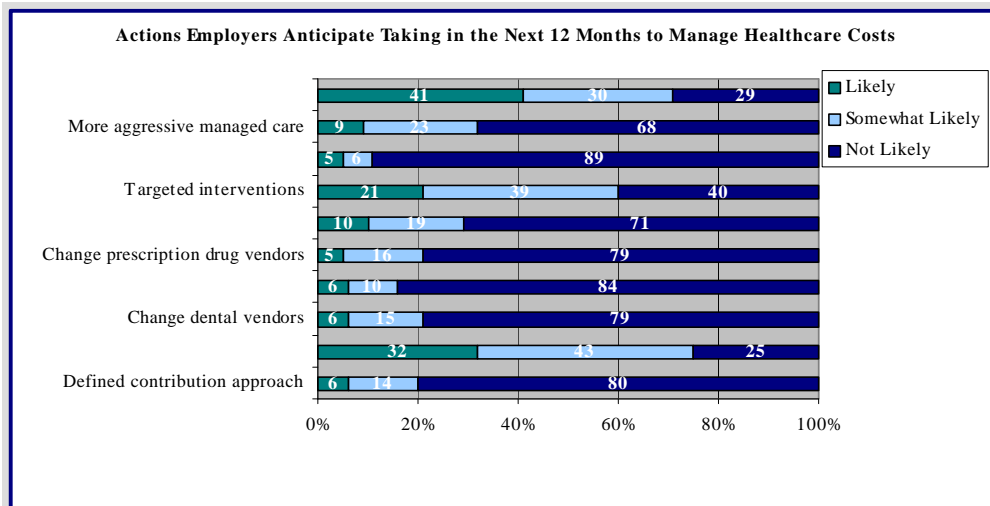
Health benefits remain one of the most valuable components of any employee compensation package. Nonetheless, unpredictable and uncontrollable rate increases every year make it difficult for employers to balance employee needs with their own capabilities and bottom lines.

To understand why premiums are rising so dramatically, one must understand that overall national healthcare costs are skyrocketing — reflecting the biggest surge in medical inflation since the early 1990s.

they will have to pass portions of the costs on to their employees in the form of increased contributions or out-of-pocket expenses. Small businesses in particular are facing the critical decision to raise employee contributions or discontinue offering the coverage altogether.

### What Can You Do?

Firms around the U.S. are undertaking a variety of measures to help minimize the effect of premium increases on their organizations. According to the Watson Wyatt Worldwide *Healthcare Costs 2002* survey, almost three-quarters of responding employers are considering benefit



From 1994 to 1998, average annual healthcare cost increases hovered around 2%. From 1999 to 2000, however, costs leapt 9.4%, and the annual percent change has entered and stayed in the double digits since.

Managed care plans, including HMOs, have not managed to keep costs down. The average costs of closed-panel HMOs rose just as significantly as PPO plans in 2002, despite the greater cost-control measures embedded in HMOs. For all employers, HMO costs increased an average of 13.3% in 2002.

Many firms have been trying to absorb most of the costs because of attraction and retention issues, but are now realizing that

reductions or an increase in co-pays “likely” or “somewhat likely” within the next twelve months. Changing to more or less aggressive managed care tactics is not seen as a viable solution, while targeted interventions are more likely to be undertaken. The chart below shows results from the Watson Wyatt survey regarding actions employers anticipate taking to manage healthcare costs.

Most employers responded that they would not be changing medical, prescription drug, behavioral health, or dental vendors to help manage healthcare costs.

One potential trend to note is the increasingly popular move toward using the Internet to help employees become more

educated healthcare consumers. This survey shows that more employers consider this type of strategy “likely” or “somewhat likely” than those who consider it “not likely”. Another Watson Wyatt survey, *2001 Purchasing Value Report*, indicates that 83% of employers report moving toward using the Internet to administer and communicate health plans, while 53% said they would help employees find healthcare information on the Web.

Should you pass costs on to employees, at the risk of losing some of them? Or, should you try to manage costs in some of the other ways discussed above. Ultimately, it is a decision that you need to come to through thoughtful and detailed analysis of your plans.

Below are some additional cost management options you may want to consider when working with your broker:

✍ **Change your prescription drug plan design.** Prescription drug costs are one of the primary drivers of healthcare cost increases. In response, employers are moving towards three- and even four-drug co-payment models. These tiered plan designs feature, for example, three different levels of co-payments, rather than the more traditional set-up of one or two levels. Most of these plan designs consist of one co-payment for generic drugs, another higher co-payment for brand-name drugs that are on the plan’s formulary, and the third and highest co-payment for brand-name drugs that are not on the plan’s formulary. This third-tier co-payment may be as much as \$30 to \$50, while the generic co-payment may be only \$10. The co-pay structure and use of the formulary are believed to decrease use of more expensive brand-name drugs by strongly encouraging generic drug use. The patient becomes more involved in the choice of brand or generic drugs.

✍ **Strengthen your managed care plan and increase employee out-of-pocket expenses.** Introduce larger co-payments and deductibles for services such as office visits, and make penalties for out-of-network services more meaningful.

✍ **Regularly review and analyze the cost efficiency of your plan, and make adjustments to improve efficiency.** This may mean either changing plan designs or changing plans altogether.

✍ **Offer a PPO plan to your employees.** PPOs are quickly becoming the managed care model of choice for many companies, replacing POS plans. PPOs generally offer lower administrative fees, competitive discounts, and greater freedom for employees. They also tend to be cost-effective.

✍ **Offer a wellness program to your employees.** These programs usually entail offering discounts for fitness and nutrition programs and products, and other means of encouraging employees to live healthy lifestyles and focus on preventive care.

### **What Should I Tell My Employees?**

Educate your employees about the reasons for any plan or contribution changes you may have to make. If your employees understand current trends in the healthcare industry, they will be more supportive of any such changes and will appreciate the resources required to provide them with their healthcare benefits.

### **Conclusion**

The bad news is that the cost of insurance is rising and increasing premiums can have a major negative impact on the profitability of residential properties. The good news is that, with proper planning, you and your insurance agent can develop a strategy to proactively mitigate your costs increases.

## For More Information

To find out more about issues related to insurance, accounting, taxes or management, contact:



Certified Public Accountants and Business Advisors

Frank Gudger – 404-898-8244  
frank.gudger@hawcpa.com  
5565 Glenridge Connector  
Suite 200  
Atlanta, GA 30342



Jeff McCart – 678-475-5700  
jeff.mccart@mccart.com  
2405 Satellite Blvd.  
Suite 200  
Duluth, GA 30096

© Copyright 2003 Habif, Arogeti & Wynne, LLP