

Small contractor has solution to workers' comp crisis

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Fed up with rising workers' comp premiums, contractor Gene Magre figured there had to be a better way.

That was 18 months ago, when he decided he wasn't going to allow his business to be destroyed by the workers' compensation insurance crisis. Now, Magre thinks he can share his solution with other small contractors.

He started an organization in Solana Beach called Contractors Asset Protection Group Inc. For a fee, Magre helps contractors incorporate their businesses, turn some employees into shareholders and save money on insurance coverage.

State law exempts shareholders who have a say in how a business is run from being covered by workers' comp.

"We're not trying to circumvent the workers' comp system," he says, "but we are trying to give people better services that cost less."

Sounds almost too good to be true. That's exactly what insurance broker Michael Ehrenfeld thought when he met Magre and his partner Ross Provenzano.

"I have to say I was skeptical," Ehrenfeld says. "I recognized that what they were trying to do was somewhat novel, but I wanted to make sure it was legal. I had a lot of questions and every time I brought up a concern, they seemed to go away for a few days and come back with a solution."

Ehrenfeld believes that any concept as radical as this was certain to get a close audit from state regulators, lawyers and insurance companies.

"They'll have to have answers for everyone," he says. "And, they seem to have covered their bases."

Contractors are forced to pay some of the highest workers' comp premiums in California.

Workers' comp rates in the state are based on industry, claims history of the company and the age of workers. It might cost \$2,040 per month for workers' comp on a 25-year-old carpenter earning \$20 per hour, according to the State Fund, a workers' comp carrier. Magre estimates that he can provide insurance for \$274 per month.

"We not only can cut expenses, but we can give them around-the-clock insurance coverage," Provenzano says. "There are a lot of contractors that don't give their employees health care coverage now because workers' comp is so expensive."

There are nearly 1 million contractors in California and Magre estimates that as many as 90 percent of those have fewer than 10 employees. He believes up to

30,000 contractors in San Diego County could take advantage of his program.

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Magre requires participating employers to incorporate, hold shareholder meetings four times a year and keep detailed minutes to show that the individuals are involved in business decisions. His organization

guides contractors through the incorporation process, links them to insurance carriers and monitors them for legal compliance.

He charges an initial fee of \$950, which includes the legal work, and then an annual charge of \$975.

Participating employers pay health and life insurance premiums into a nonprofit trust, which administers funds for insurance companies.

"This isn't for everyone," he says. "But a contractor with four or five employees might want to make two of his long-time workers shareholders, which allows them to participate in this plan."

And, Provenzano thinks workers who become shareholders will have an entirely new attitude on the job. They won't take as much sick time, they'll be more motivated to get the job done faster and more efficiently and that will build profits for the company, he says.

Magre says most contractors don't realize the risks they are running as sole proprietors.

"Most contractors work all day and then sit at the kitchen table at night and try to figure out how they can be more profitable," he says. "Some don't know that their personal assets are at risk. If we can get them to incorporate, we can help them protect their assets if their business goes bad."

That's one of the reasons North County contractor Marvin Hjalmarson has begun the incorporation process.

"I've been a licensed contractor since 1990, and I have absolutely no protection for my family and assets," he says. "Contractors are being driven out of business because workers' comp costs keep going up, up, up. I think making a couple of my foremen shareholders will help my company. And, if I have to share profits with them, that's fine. We'll all be making more money."

Does this solve California's workers' comp problems?

No, of course not. But it does represent ingenuity that a small contractor would spend the time and energy to find an alternative. Magre understands that he probably doesn't have all the answers and his program may be challenged again and again.

Still, he thinks it's worth it.

"All I'm trying to do is help guys like me," he says. "I know what they're going through and I want to help them."

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