

If you are a restaurant owner then you probably have some working knowledge of the workers compensation insurance. At Clinard Insurance Group in Winston Salem, NC, we specialize in insuring restaurants and we have found time and again how many restaurant owners are seduced into the cash flow nightmare I call “the audit trap”.

The restaurant owner’s workers compensation insurance policy is rated based on payroll. Since the exact amount of payroll is unknown to the insurance company when the policy is first written, the policy holder has to give the insurance company an estimate of the total payroll for the coming policy year. Many restaurant owners are tempted to “low ball” this estimate to reduce the total premium on their policy. In some cases unscrupulous agents may quote the policy with reduced payrolls in order to make the premium appear smaller. While this strategy could work if the company plans ahead for it, just shooting in the dark with low estimates can create a cash flow disaster.

Here’s why. Let’s say your actual payroll on for your company is \$500,000 per year. And let’s also assume your workers compensation rate is \$5 per \$100 of payroll. This means your policy costs would be \$25,000. Now let’s assume you start your policy with a low ball estimate of \$250,000. This means your new policy is issued at a cost of \$12,500 instead of \$25,000. Looks pretty good so far. But now jump ahead 15 months and the insurance company has now performed an audit of your payroll and found that your actual payroll during that policy term was \$500,000. So they send you a bill for the additional premium due of \$12,500. Now that wasn’t really unexpected, but if you didn’t budget for this, it could put a crimp in your cash flow. But here’s the kicker. The insurance company will now increase the payroll on your renewal policy and send you another bill for \$12,500 due right away. Suddenly you have to come up with \$25,000 to square yourself with the insurance company. And that can make for a real cash flow problem.

Again, if you plan for the audit and reserve funds to make the payment then you can gain a cash flow “float” advantage by low balling your payroll and gross receipts estimates. But more often than not, the business owner fails to implement a plan to reserve these funds and instead faces a cash flow crunch at audit time.

Restaurant Insurance is confusing at worst and complicated at best. Keeping on top of your payroll estimates and how that relates to your actual payroll is an important part of managing your business insurance policies.

At Clinard Insurance Group in Winston Salem, NC, we specialize in helping restaurant owners with their insurance policies. We have specially designed programs for your restaurant, whether you are casual dining, fine dining, fast food, bar and grill, or even a caterer. We want all of our restaurant clients to be informed insurance consumers. If you want more help with your restaurant insurance, please call us, toll free at 877-687-7557 or visit us online at Restaurant Insurance.