Are they worth the risk?

As insurance companies become more aware of the risks bulls pose, dairy owners can expect Worker's Comp and liability costs to climb.

by Hoard's Dairyman staff

THEY'RE enormously powerful, deceptively fast, and, sooner or later, dangerously unpredictable. So it should come as no surprise that, as insurance companies become more aware of the risks posed by bulls, dairy owners can expect to pay more for both Workers' Compensation and liability coverage.

It's a process that has already started in the trendsetting West. Insurance brokers and underwriters say recent multi-million dollar injury claims caused by bulls have greatly accelerated insurance companies' learning curve about them. And the more they learn, the less they like them.

"Any time there are potential hazards associated with something the size of a small pickup, we have to take the issue of risk very seriously," says Steve Albers, a senior vice-president for Zenith Insurance, the largest underwriter of dairy Workers' Comp policies in California.

"We're still refining the criteria we use in assessing hazards," he continues, "But bulls are something we are specifically looking at more. They are a constant hazard for employees, and they are definitely a liability risk for anyone who goes onto a dairy. Due to the extreme risk that exists for dairies using all-natural service, it would be our position not to write coverage on them."

Any time there are potential hazards associated with something the size of a small pickup, we have to take the issue of risk very seriously.

Jim Jesser, executive vice-president of Talbot Insurance in Riverside, Calif., has dairy clients in five Western states. He notes that many producers follow a strict policy of getting rid of a bull at the very first sign of trouble.

"And that's fine," he says. "But the problem is sometimes the first sign of trouble is when someone gets hurt or killed. That kind of policy doesn't do much good then."

Time is running out . . .

At the moment, bulls play little or no role in determining a dairy's insurance premium cost, but this is likely to change. Brokers' advice to producers is to plan ahead now by reassessing their use of bulls versus other alternatives and carefully reconsider the risks they pose.

The least experienced guy on a dairy always gets to be a cow pusher. But stop and think about that: Isn't he actually the last guy you want in a pen with bulls?

"Right now, the simple fact that someone does or does not have bulls is not having an impact on his insurance rates to any real extent," admits Jesser. "But that trend is changing."

"One of the few black and white statements I can make about bulls is: "Not having them is better than having them." It isn't happening yet, but insurers offering lower rates for non-bull dairies is a very plausible scenario in the near future," he adds.

It's a scenario for which a precedent has already been set: dogs. It is now common in the insurance industry to charge more for personal home liability coverage if a dog is part of the household. Because of the risk they pose for bites, dogs are often categorized as a hazard. Some companies won't even write policies on homes that have dogs or have certain breeds of dogs.

Bulls are already regarded as a hazard by dairy insurance companies, so extending the dog precedent to bulls is hardly a stretch.

The question of how much more bulls cost in insurance premiums becomes much easier to answer after a dairy has a claim, and the range of possible impacts is enormous. Higher renewal rates are the best-case possibility, while cancellation of the policy is the worst-case.

Injuries and Workers Comp claims come from many sources on dairies, but the point insurance brokers and underwriters stress is: Unlike other hazards, bulls are a frequent and ongoing cause of injuries that dairy owners **do** have the ability to control. Namely, they can eliminate bulls as a cause of injuries by eliminating them from the dairy.

Worse than tractor rollovers . . .

"In the insurance industry, very large injury claims are called 'shock losses'," explains Pierre Bachoc, owner of AgPro Insurance in Hanford, Calif., and a member of the Preferred Dairymen Insurance Group which has 660 dairy clients in 10 states, including Minnesota and Iowa. "In our experience, bulls rank even higher than tractor rollovers as the leading cause of shock losses.

"Obviously, if a dairy is 100 percent A.I., it has less hazard risk than a dairy

Estimated effect of experience modification (mod) factors on annual Workers' Comp. insurance premium for a 1,000-cow dairy in California having a total payroll cost of $285,000 per year (see sidebar):

mod factor	Workers' Comp Cost
0.70	$29,925
0.80	$34,200
0.90	$38,475
1.00	$42,750
1.10	$47,025
1.20	$51,300
2.00	$85,500

with bulls," he adds. "In my opinion, A.I. is by far the best way to go."

Chuck Brown, president of Brown, Seligman & Thomas Insurance in Albuquerque, N.M., agrees. "I can't think of a single scenario where, after weighing the benefits against the risks, having bulls makes any sense."

Brown, who has more than 100 dairy clients in the Southwest and

"ONE OF MY CLIENTS is paying 18 percent more this year due to one bull-related injury last year, and it was the only claim he had. Hopefully, he will have no additional claims, so his rate will only be 18 percent higher for two more years," says Chuck Brown.

Texas, knows exactly how much impact a single bull-related claim can have on a dairy's Workers' Comp cost.

Comp up 18 percent . . .

"One of my clients is paying 18 percent more this year due to one bull-related injury last year, and it was the only claim he had. Hopefully, he will have no additional claims, so his rate will only be 18 percent higher for two more years," says Chuck Brown.

Brown, Bachoc, and Jesser say the biggest insurance risk that bulls pose to dairy owners is not from a Workers' Comp standpoint, but from a general business liability standpoint. Here the concern is not only for employees, but also for anyone who comes onto the dairy, including outside vendors, inspectors, friends, and visitors.

"The sky is potentially the limit with general liability claims," says Jesser. "If an attorney can show there has been a repeated pattern of negligence, the only limit is the size of the award the judge or jury decides to award. One million, five million . . . it could be almost anything."

Bachoc, who was raised on a dairy in southern California, says dairies with the greatest frequency of bull-related injuries tends to be new dairies, large dairies, and dairies that are expanding.

He believes one reason may be new or unfamiliar management routines and new employees who are not experienced with bulls and their behavior. Large facilities also mean more cows and more bulls to keep track of in each pen.

"The least experienced guy on a dairy always gets to be a cow pusher," says Bachoc. "But stop and think about that: Isn't he actually the *last* guy you want in a pen with bulls?"

Dairies with a history of bull-related injuries need to be especially careful about liability risks.

"A liability attorney would have a field day with a dairy that has had repeated problems with bulls," says Brown. "If he can document a history of injuries and show that no new safety measures have been implemented to prevent them, the dairy owner could be judged to knowingly have a hazardous workplace."

Bachoc echoes this warning. "We haven't gotten to the point yet where employees have sued dairy owners on the liability side for having bulls and creating an unsafe work environment, but it's bound to happen eventually."

"A lot can be done to prevent accidents and losses," he adds. "Safety and training are rarely made a priority at dairies, but if they're a must anywhere it's at dairies that have bulls."

Bulls do influence Workers' Comp

WORKERS' Compensation insurance is mandatory in almost all states and is paid by the employer. Base premium rates are approved by each state's Insurance Commissioner and are charged as a percentage of total employee payroll.

Base rates vary widely from state to state and between job industries and classifications. In Idaho and Arizona, for example, base premium rate is around 5 percent. In California, it is 15 percent. Workers' Comp rate on clerical workers is around 2 percent, while for some roofing workers it is nearly 100 percent.

A dairy's Workers' Comp cost is determined by multiplying its employee payroll times the base premium rate and then multiplying again by the dairy's "experience modification" (mod) factor.

Mod factors reflect each particular dairy's claim history that took place during a previous three-year period – the number, frequency, and size of claims. Every claim affects the mod factor for three years. The mod factor used in determining an individual dairy's Workers' Comp rates in 2004 will reflect claims it made in 2000, 2001, and 2002. (There is a one-year lag period between a mod rate period and the time they affect actual rates.) A Workers' Comp claim made by a dairy in 2003 will affect its mod rate – and total insurance cost – in 2005, 2006, and 2007.

A dairy with no claims during its three-year mod rate period will typically have a low mod factor – perhaps 0.80 or less. Conversely, a dairy with many claims or a few large claims can easily have a mod factor of 1.20 or more. In extreme cases, mod factors of 2.00 and more are possible.

Understanding how significantly bull-related injuries can affect total insurance costs becomes clear when looking at mod factors. The accompanying table shows the estimated impact of different mod factors on Workers' Comp costs at what would be a fairly typical dairy in California.

If the dairy had no claims during its mod rate period, a 0.80 mod factor would not be unusual. If it has a claim or two this year, or a large claim, its mod factor could jump to 1.00. With a few more claims, it might rise to 1.20.

As the table shows, the approximate difference in Workers' Comp premiums between a 0.70 mod factor and 1.20 for this theoretical dairy is $21,375. That's $21,375 more per year for three years – and that's if the dairy has no other claims during that time.