

SPRING 2010

QUARTERLY EXPRESS

A publication of **The Builders Group**, protecting our Members with safety awareness.



Welding: Danger in the Air

Protect Yourself from
Toxic Health Effects

plus

Electrical Arc Flash
Exposure – Not Just an
Issue for Electricians

The Positive Effects of SIG's
Meet Your Board



**BUILT BY THE INDUSTRY
FOR THE INDUSTRY**

The QUARTERLY EXPRESS is published quarterly by The Builders Group of Minnesota as a free service provided for our Members and contracted agents.

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QUARTERLY EXPRESS

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CEO REPORT

THE 2010 YEAR is starting much better than 2009. This year we wrote just over \$1.1 million of new business on January 1st with over 95% renewal retention! Thank you for your continued confidence in our program and we will continue to strive to earn it.

Our commitment to safety training continues to be a high priority in 2010. The trench training area was completed at the end of 2009 with a number of classes already scheduled in 2010. This feature is unique to Minnesota and we are very excited to be able to offer this training to our members. Additionally, we will continue to look for ways to further develop and improve all of our safety programs and materials.

Looking back at 2009, the year ended better than anticipated. In January of last year payrolls decreased 26% over the previous year so we did not know what to expect for the remainder of the year. This decrease continued throughout 2009. Losses however improved dramatically, finishing the year at a 34% incurred loss ratio. We have survived one of the worst years ever to hit the construction industry.

I have been asked many times recently about dividends and when one will be paid again. First, dividends are not guaranteed. Under the current policy, the TBG Board will decide on dividend payment each year at the July Board meeting. Since the Board is made up of Members of TBG, I can say they would like to receive a dividend like everyone else. However they have a fiduciary responsibility as a Board Member to pay a dividend when it is fiscally responsible to do so. During these uncertain times, the Board believes it is better to be conservative to ensure the long term stability of the fund.

As a member of TBG you are receiving the best claims management and loss control services available in Minnesota. It is these services that will help keep your losses lower than other programs that are available. Lower losses will potentially generate additional dividends payable for the Fund and lower experience mods for our Members.

Looking ahead, the economy is slowly improving and together we will survive these times. TBG will continue to do everything possible to provide our Members with the best workers' compensation program for their business.

*"Together we can have
a profitable 2010."*



STU THOMPSON, CEO

The Third Annual Builders Convention Rocked!

Builders Association of Minnesota (BAM) members gathered together January 8-10 for the third annual Minnesota Builders Convention in St. Cloud, Minnesota and had a rockin' good time!

Friday started off with some education classes, association business, speakers and networking and then the band Jonah and Whales played rock 'n' roll all night long until the hospitality suites opened up for some great networking. It was a great way to start out the weekend of the convention.

Saturday began with an awards brunch and speaker, **Joe Pusateri**, an associate member, builder. He delivered an educational talk about how to thrive in this economy and he left the members inspired with new ideas.

During the awards brunch a couple of TBG members were honored. **Diane Willenbring** of Willenbring Construction received the 2009 Citizenship Award. **Quentin Johnson** of Quentin Johnson Construction received the 2009 Builders Employing Association Members (BEAM) Award.

Later that night at the evenings awards and Installation banquet more awards were handed out and what a day it had become for more TBG members. **Greg Theis** of Greg E. Theis Remodeling won the 2009 Remodeler of the year and **Mark and Gary Miller** of Miller Contracting of Grand Rapids won the 2009 Builder of the Year Award.

The Builders Group was also honored with an award that night receiving the 2009 Legacy Award. We were so very proud and excited to have been honored for the award of our contributions to the Builders Association of Minnesota.

Following the awards presentation we said farewell to the 2009 BAM President **Monte Mraz** and welcomed 2010 BAM President, **Mike Gohman** as he was installed.

Congratulations to all the 2009 award winners and the new association president!

MEMBER ANNOUNCEMENTS

It Pays to Pay with EZ-Pay!

Thank you to our members who report payroll and pay online.

FOURTH QUARTER WINNERS

Congratulations to our fourth quarter 2009 EZ-Pay monthly prize winners:

OCTOBER

Sawhorse, Inc., Robbinsdale

NOVEMBER

Kelly Stucco Systems, Elko

DECEMBER

Westerlund Custom Builders, Aitkin

GRAND PRIZE WINNER

The EZ-Pay grand prize winner is **Allied Blacktop Company** of Maple Grove. Congratulations on winning a weekend getaway for two at Grand View Lodge in Brainerd, Minnesota, including a \$25 gas card and dinner for two!

FREE MEMBER BENEFIT

Congratulations to all of our EZ-Pay winners throughout this promotion and to all of you who benefit every month by using EZ-Pay to calculate, report and pay your monthly premiums!

Thanks for taking advantage of this free member benefit!

Sign up for EZ-Pay by going to www.tbgnm.com and logging onto your account. If you do not have an account, click on "Register" to get your username and password. Or you may contact Bethany Nelson at bnelson@tbgnm.com.

STILL HAVE QUESTIONS?

Contact our Director of Finance, **Jennifer Noble**
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SAFETY TRAINING OPPORTUNITIES

TBG Loss Control has many upcoming training opportunities. Please view the dates below for topics that may interest your company and employees. We are continuously seeking feedback from our Members for additional courses to offer. Visit our website often to check for newly posted courses. For complete details and registration go to www.tbgnm.com and log-in, or contact Sandy Wilson at 651-389-1047 or swilson@tbgnm.com.

March 29	Safety Management Workshop
March 30	AHA CPR/First Aid
April 7	Seminar on Independent Contractor Status, Construction Defect Insurance, Mechanic Lien Law
April 12/13	Lead Certification Course
April 28	AHA CPR/First Aid

Corporate Connection Credit Program

Corporate Connection is a work apparel and safety company. They have an extensive product offering, excellent customer service, and competitive pricing through direct sourcing and negotiating with the industries top manufacturers. Corporate Connection will credit a maximum of 5% of qualifying sales from the previous year on all purchases made by TBG of MN members.

TO QUALIFY:

- You must be a current TBG of MN member
- You must be a Corporate Connection customer
- Rebate credits are available to customers whose accounts are up to date and whose average days to pay the prior year did not exceed 30 days.
- Previous Year's purchases:
Exceed **\$10,000** = 5%, less than = 2.5%.
- All rebates will be available on Feb. 1, 2011.
The credit can be used toward future purchases.

QUALIFYING PURCHASES:

Everything you purchased during 2010 is eligible, excluding sales tax, special priced items, shipping and handling, any set-up charges.

HAVE QUESTIONS? Call Donna Werner at 763-263-7151 or email dwerner@izoom.net.



MUCA

MINNESOTA UTILITY CONTRACTORS ASSOCIATION

As a contractor member of MUCA, you will automatically be part of the National Utility Contractors Association team. This network of over 2,000 contractors, suppliers, and manufacturers nationwide, including 40 state and local chapters, maintains a wide range of benefits, educational opportunities, and services designed with you in mind.

OUR MISSION is to promote and serve the underground utility contracting community including suppliers and support industries by providing safety training, certification, continuing education, scholarships, and community service. In addition, we provide a range of advocacy work including State and Federal lobbying and regulatory work. This makes MUCA your front line of defense on issues affecting your business.

MUCA has a full-time State Lobbyist providing our industry with the access and knowledge it needs to stay on the cutting edge of changes in regulations and laws. MUCA has an aggressive legislative program to bring more infrastructure dollars to Minnesota through both federal and state funding. MUCA's Political Action Committee also gives you a voice in the political arena by helping to elect key decision-makers who are out there to help you in your business.

Our Association is on the forefront of your safety and training needs. We offer tailored training to your company as well as our core programming providing pipelayers certification, confined space, and other required course work for the industry. In addition to this core safety training, MUCA is expanding

our training profile to provide utility construction focused business training this year. Check our website for additional information on our new programming.

MUCA is working to expand our workforce in many ways. In addition to providing scholarship opportunities for our Members' children, we are working with state-wide institutions to expand the visibility of pursuing careers in the construction field. MUCA recently won a national grant to continue to work on this very important investment in the future.

As a member of MUCA, you will have access to *The Underground Press* – our award winning quarterly magazine. You will enjoy our annual directory of industry contacts, regular email alerts on key topics of importance to the industry, MUCA's Safety Library, Annual Conference, and key events that provide networking as well as up-to-date information you need to know. The list is long, and the benefits are measurable. Our membership provides you with the ability to grow your exposure in the industry, save money with safety, access business and management training, and increase profits.

**Consider joining the MUCA team. Your membership dollars will show on your bottom line.
Check us out at www.muca.org or give us a call at 651-735-3908 to learn more!**

ELECTRICAL ARC FLASH EXPOSURES

Not just an issue for electricians

BY WAYNE PETERSON,
LOSS CONTROL REPRESENTATIVE CSP

WHAT IS AN ARC FLASH?

According to the National Fire Protection Association (NFPA), an arc-flash is an electric current that passes through air when insulation or isolation between electrified conductors is no longer sufficient to withstand the applied voltage. The arcing fault can release tremendous amounts of radiant energy where an arcing in a fraction of a second can result in extremely high temperatures of 35,000o F, a tremendous pressure blast of 2,000 PSF, shrapnel hurling at high velocity (in excess of 700 miles per hour) at a noise level over 165db.

WHAT CAUSES AN ELECTRICAL ARC?

There are many causes, most commonly when:

- ▶ Workers incorrectly think the equipment is de-energized and

begin to work on it energized. Many times they just open the electrical box.

- ▶ Rust, dust, water or other contamination accumulate and cause insulation breakdown.
- ▶ Drop or improperly use tools or equipment components in energized equipment.
- ▶ Connections loosen, overheat, reach thermal runaway and fail

HOW OFTEN DOES AN ARC FLASH OCCUR?

We know electrical arc flash explosions are occurring on an average of 5 to 10 incidents in electric equipment every day in the United States, according to statistics compiled by CapSchell, Inc., a Chicago-based research and consulting firm that specializes in preventing workplace injuries and deaths. Each year

more than 2,000 people are treated in burn centers with severe burns from arc flashes. Arc faults generally are limited to systems where the voltage is in excess of 120 volts. Lower voltage levels normally will not sustain an arc.

WHAT ARE THE SAFETY STANDARDS?

The new 2009 National Fire Protection Association (NFPA) 70e® is designed to fulfill OSHA's responsibilities while still being fully consistent with the Nation Electrical Code, NEC. For the 2009 edition of NFPA 70e®, more than 1300 proposals and comments were reviewed by the committee to upgrade requirements throughout the document.

The National Electric Code (NEC) is intended for use primarily by those who design, install

and inspect electrical installations.

OSHA enforces the safety practices in the workplace. For general industry the electrical rules are in 1910 subpart S and for Construction in 1926 subpart K. OSHA mandates that all services to electrical equipment be done in a de-energized state. Working with live voltage can only be under special circumstances. In addition OSHA 1910.132(d), and 1926.28(a) states that the employer is responsible to assess the hazards in the work place, select, have, and use the correct PPE, and document the assessment.

In summary it affects industrial shops, stores and construction operations. NFPA 70e® tells us **how** we need to address arc flash exposures and OSHA tells us we **shall** do it.

SO WHAT'S NEW?

Some of the new 70e® requirements are:

- ▶ Shock hazard analysis, 130.2: Determines the voltage to which personnel will be exposed, boundary requirements, and PPE necessary
- ▶ Arc Flash hazard analysis 130.3: Determines the flash protection boundary and PPE needed within that boundary
- ▶ Electrical panel labeling, 130.3(c) requires arc flash labels to include incident energy and the required level of PPE.
- ▶ Protective clothing is determined by using tables 130.7(C)(9)(a), 130.7(C)(10), and 130.7(C)(11). When an employee is

working within the Arc Flash Protection Boundary he or she shall wear protective clothing. All parts of the body inside the Arc Flash Protection Boundary shall be protected.

- ▶ Protective clothing Category 1 now requires “fire rated -FR” clothing including FR pants. Table 130.7(c) (11) No Blue jeans!
- ▶ Face shield with 4cal/cm² rating which attaches to a hard hat starting at Category 2.
- ▶ Employees shall be trained in rescue procedures and CPR 110.6 and certified by the employer annually.
- ▶ Documentation of training to show proficiency and be kept for the duration of an employee's employment. Paragraph 100.6(d)(3)
- ▶ Electrical safety program audit, paragraph 110.7 on your written electrical safety program.
- ▶ Contractor relationships, 110.5 require host employers inform contractors of known hazards covered by NFPA 70e®.

Arc flash explosions can be deadly and are critical exposures which require specific safety controls. It is a technical issue which affects nearly every shop and industrial facility. Please contact your TBG Loss Control Representative for more information and assistance.

THIS ARTICLE is not a complete or comprehensive summary. Please refer to the NFPA 70e® 2009 edition for the full information.

LEAD-SAFE WORK PRACTICES

EPA Requirements for Renovation, Repair, and Painting

BY JOHN PRIMOZICH, CSP, ARM
TBG LOSS CONTROL MANAGER

As a contractor, you play an important role in helping to prevent lead exposure to those working for you, around you, and those living in places you are working. Ordinary renovation and maintenance activities can create dust that contains lead. By following the lead-safe work practices, you can prevent lead hazards.

To protect against this risk, on April 22, 2008, EPA issued a rule requiring the use of lead-safe practices and other actions aimed at preventing lead poisoning. Under the rule, beginning in April 2010, contractors performing renovation, repair and painting projects that disturb lead-based paint in homes, child care facilities, and schools built before 1978 must be certified and must follow specific work practices to prevent lead contamination.

Until that time, EPA recommends that anyone performing renovation, repair, and painting projects that disturb lead-based paint in pre-1978 homes, child care facilities and schools follow lead-safe work practices.

All contractors should follow these three simple procedures:

- › Contain the work area
- › Minimize dust
- › Clean up thoroughly

Detailed information specific to EPA requirements and training can be found at www.epa.gov/lead/pubs/renovation.htm#contractors.

WELDING: DANGER IN THE AIR

Protect yourself, as well as your employees, from the toxicity and health effects of welding.

BY KATIE SCHOFIELD, CSP,
ARM, CHST – LOSS CONTROL
REPRESENTATIVE

WELDING IS A DANGEROUS activity. Hazards include intense heat, light, and the risk of burns and fire. These are commonly recognized hazards and proper precautions and procedures are usually put into place. However, far fewer people recognize the toxicity and health effects of welding activities and how to protect themselves and their employees. Welding can create a large variety of toxic fumes, depending on the material being fused or cut, paints or coatings on the material, or the method that is being used to make the bonds. Fumes are a particulate that is created when metal is heated to a very high temperature, and then cooled and dispersed into the air. These particles are easily inhaled by both those who are welding, and

those who may be working in close proximity to them. Some of the most common materials that cause exposure are listed below.

Stainless steel is made of a combination of metals that will create dangerous fumes when welded. One ingredient, **nickel** is used extensively in the production of many metal alloys. Another ingredient, **chromium** and **chromates** are used in a wide variety of metal alloys, including zinc chromate, as well as electroplating operations and anti-corrosive paints, primers, and surface coatings. Both nickel and chromium can have severe health effects when heated during welding including potent sensitization of the nose cavities and mucous membranes, asthma causing or aggravating, chemical pneumonia, and pulmonary edema. Nickel and the hexavalent form of chromium are also known human carcinogens and cause nose, pharyngeal, and lung cancers. **Hexavalent chromium (Cr 6+)** is a hot topic in the health and safety world, and new focus on its effects has created a new OSHA standard. The standard has both an action limit of 2.5 micrograms/meter³ for hex-chrome and a much lower permissible exposure limit of 5 micrograms/meter³. Please see the OSHA standard CFR

1910.1026 for complete details.

Galvanized steel is made when a coating of **zinc** is put over steel to provide protection from rusting and the environment. The zinc coating on the steel has a very low vaporization temperature, so when it is exposed to the heat of welding, it creates a large amount of smoke and fumes. Breathing in these fumes can create a condition known as *metal fume fever*. Employees that are exposed will experience flu-like symptoms, usually starting about 4 hours after exposure, which can be very severe and may last for days after they are exposed. They should be removed from the exposure immediately.

Welding rods are commonly composed of metal called **manganese**, which is also a key ingredient in making steel, and is used in certain aluminum alloys. It also comprises a large percentage of **carbon steel**. Manganese fumes are created when using the welding rods and these fumes appear to produce toxic effects to the brain and nervous system for those who have overexposures, which can occur anywhere from months to multiple years in the welding industry. These toxic effects are most notably linked to a Parkinson disease-like syndrome and

symptoms that include shaking/tremors, leg cramps at night, loss of coordination/balance, slurred speech, short term memory loss, and twitches all over the body. Behavioral and emotional changes are also common. The symptoms are also known as “welding disease” or “welding rod disease”. Welding without proper ventilation was the single most notable risk factor that was shared by all welders displaying these manganese poisoning symptoms in a Mayo Clinic study.

In addition to thinking about the task of welding, think about what is on, in, or what is covering what you are welding on. Make sure all **paints, coatings, solvents, and residues** are removed from the item you are working on. Examples include:

- ▶ Lead paint-lead poisoning, kidney and nervous system damage, dust on work cloths exposes family and children
- ▶ Cadmium (coatings and fillers) kidney problems and cancer
- ▶ Degreasing solvents-phosgene gas can be produced, causes fluid in the lungs which you may not notice until hours later but can kill you
- ▶ Rust inhibitors-phosphine gas can be produced, irritate respiratory system, damage kidneys



- ▶ Carbon monoxide-forms when carbon dioxide is used for shield or in oxyacetylene welding
- ▶ Ozone-fumes irritate eyes, ears, nose, throat, and can cause lung damage.

Proper ventilation is the name of the game when it comes to welding. Use local ventilation hoses to immediately remove fumes at the source. When using a ventilation hood, keep the



Proper ventilation is the name of the game when it comes to welding.

hood opening between 4 and 6 feet from the source. Ventilation hoods often fail to protect welders because they are poorly designed and located. Ensure that the hood, building, shop, or facility ventilation system is adequate for welding areas. Frequent airflow checks must be done. Use extra ventilation, blowers, or fans when necessary. Remember that welding, or doing any kind of work, in a confined space can quickly affect your fume concentration and create an atmosphere that is unsuitable or dangerous to be working in. Follow all confined space regulations and requirements, including air monitoring.

Know your materials and methods. The health risks and effects are determined by length of exposure, type of welding being done, the work environment, and the protection that is used. Make sure you read all material data safety sheets (MSDS). Understand the hazards of the metals you are working with, along with the information on the electrodes or rods you are welding with. Metal should be clean and free of coatings. There are methods of welding that are safer than others. Stick, flux, and core welding are the biggest

offenders. Up to 90% of welding fumes can potentially come from the rod. Using low fume rods or welding guns that extract fumes can reduce exposure.

Personal protective equipment is a last resort. All other means of ventilation, material, and equipment controls should be extensively examined before relying on respiratory protection. If respiratory protection is used, all of the OSHA requirements for a respiratory protection program must be in place. A huge variety of respiratory protection is available, depending on the **levels** and **types** of fumes employees are exposed to. Depending on the level of protection needed, common options include a filtering face piece respirators (sometimes called a dust mask), half and full face respirators, and powered air purifying respirators (PAPR). Ideally, employee comfort should be a major consideration when selecting respiratory protection, because if it is not comfortable, employees will not wear it. PAPRs are a great option because they are positive pressure respirators, meaning that cool, comfortable air is blown into the headpiece, and the battery pack can be attached as a belt offering

maximum mobility. The correct headpiece, when used as a PAPR system, can provide protection for contaminant levels over 1000 times allowed levels, plus headpieces can incorporate welding and grinding eye protection, since welders often need to move from one activity to the other throughout the course of the day.

Recognizing that welding and grinding activities produce dangerous fumes and air contaminants is the first step. Next, you need to evaluate the level of workplace and employee risk. Do not hesitate to ask for assistance from TBG Loss Control during this evaluation. We can guide you through the process, as well and give you information and resources. Additionally, OSHA Grants can be used for offsetting any costs that come with reducing welding hazards to your employees. Besides just purchasing respiratory protection equipment with the grant, think about redesigning ventilation systems or purchasing ventilation equipment to eliminate the need for protection in the first place! Start out the new year by taking steps to improve workplace and employee health and safety.

LOSS CONTROL

Take Advantage of TBG Loss Control Member Safety Services and Training!

BY JOHN PRIMOZICH, CSP, ARM – LOSS CONTROL MANAGER

TBG's Loss Control professionals are Construction Specialists and only work with contractors and construction-related businesses. They are dedicated to assisting TBG Members with their Safety and Loss Control efforts and know and understand that safety is a core element when it comes to increasing productivity and controlling costs in a competitive market, with the ultimate end result being employee safety.

As a TBG Member, you will work with a Loss Control Representative that is dedicated to supporting your Safety and Loss Control efforts.

VALUE ADDED SERVICES FOR MEMBERS

Customized Safety & Loss Control Programs

- ▶ Employment Practices (Applications, Job Descriptions, Conditional Job Offers, Drug Testing, Physicals, etc.)
- ▶ AWAIR/Safety Programs
- ▶ OSHA Compliance Programs
- ▶ Claims Management/Return-to-Work Programs
- ▶ Site Specific Safety Programs

Website Resources

- ▶ Written Safety Resources to download and customize
- ▶ TBG Member Safety Seminar information
- ▶ Safety Video Lending Library with over 60 titles available in DVD/VHS
- ▶ VIVID Online Learning Systems with over 50 available titles for computer based safety training
- ▶ Safety Vendor/Resource links
- ▶ Safety Recalls/Announcements
- ▶ Loss Control/Member service summary

Hazard Identification & Control

- ▶ Jobsite Safety Surveys
- ▶ Safety and Risk Assessments
- ▶ Mock OSHA Audits

Industrial Hygiene Services

- ▶ Employee Noise Exposure testing
- ▶ Carbon Monoxide (CO) monitoring
- ▶ 4 Gas monitoring
- ▶ Respirator Fit Testing
- ▶ Relationship with MN OSHA Consultation for additional services

Assistance with OSHA Safety Grants

Training Topics include but are not limited to:

- OSHA 10 Hour Construction Safety
- OSHA 30 Hour Construction Safety
- American Heart Association CPR & First Aid
- MN OSHA AWAIR
- Safety Management seminars
- Supervisory Training
- Employment Practices
- Drug Testing
- Return-to-Work Programs
- Fall Protection
- Personal Fall Arrest Systems
- Scaffolding
- Personal Protective Equipment
- Hand and Power Tools
- Machine Guarding
- Excavation/Trenching
- Confined Space
- Electrical Safety
- NFPA 70E – Arc Flash
- Material Handling
- Heavy Equipment
- Hazard Communication/Employee Right-to-Know
- Ladder Safety
- Walking/Working Surfaces
- Forklift Safety
- Driving/Defensive Driving

NEW TRAINING OPPORTUNITIES

TBG Expands Safety Training/ Demonstration Center

TBG recently completed the construction of a truly one of a kind, trenching, excavating, and confined space training facility at our building in Eagan. This new in-house training room is an expansion of the existing training/demonstration facility already available free to TBG Members.

Currently, hands-on and technical excavation, trenching, and protective system training options are limited industry wide. The hands-on component of excavation safety is noticeably missing from training classes, as compared to most other safety and health topics. Excavation incidents continue to be a major cause of injuries and fatalities nationwide.

The new facility will offer the ability to provide realistic, hands-on, climate controlled trenching, excavating, and confined space training. From simple hazard awareness training to complex Competent Person classes and beyond, this facility will allow participants the freedom to design training to meet their specific needs. Contact your TBG Loss Control Representative for more information about what services are available to you, the new training facility or sign in and look at the TBG Loss Control Training Calendar for upcoming classes at www.tbgm.com.

TO LEARN MORE, contact your TBG Loss Control Representative, or go to tbgm.com.

THE POSITIVE EFFECTS OF SIG'S

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BY STEVEN LINK

MY NAME IS STEVEN LINK. I am a founder and Executive Vice President of Midwest Employers Casualty Company. MECC is the market leader in providing excess workers compensation coverage for self insured groups (SIGs) nationwide. As such, I am not an unbiased observer. A significant portion of our revenues and profits are generated from our SIG clients. We share risk with our clients, thus we have a vested interest that the SIG risk, assumed by MECC is well managed.

Over the past few years I have become more active with a national organization called SIIA... Self Insured Institute of

America, Inc. I've found SIIAs membership is diverse, knowledgeable and action oriented. I have attended various meetings and SIIA sponsored educational forums where I have met many SIG Administrators, Trustees and Service Providers who are wrestling with the industry issues of today and working to ensure the long term viability of Group Self Insurance. It was at one of those recent meetings a few months ago that we discussed the negative fallout healthy SIGs were forced to address, as a result of recent SIG failures in the state of New York. Clearly MECCs interest and those of SIIA are aligned in this regard.

NEGATIVE PRESS FOR SIG'S

There is negative press currently circulating targeting the SIG industry related to recent SIG failures. Periodically, usually during prolonged, soft insurance cycles, scary articles begin appearing in the insurance industry press regarding the instability of SIGs, the lack of state regulation and oversight, the fear mongering regarding the "joint and several liability" issue (this simply means that each member of a SIG agrees to be responsible for each others potential liabilities related to the WC program, a fair trade given the "equity position" each member receives in the program) and the implication that SIGs are on the verge of imploding. The specific articles in question refer to recent insolvencies involving NY and Kentucky SIGs. Some insurance agents, SIG critics and competitors push "the agenda" that if some SIGs have failed then all SIGs must be suspect. They push for greater, expanded regulatory oversight to curb "abuses" and rescue employers from unstable programs. The argument infers that primary insurance companies are regulated to a much higher standard and consequently offer a safer place to purchase insurance.

It's not surprising that these articles have a common origin... participants in the primary



insurance industry. The primary insurance industry competes against SIGs. The market is finite. In soft markets insurance premiums decline for all participants, SIGs and insurers alike. The pressure for new premium intensifies and the insurance industry starts targeting the members of SIGs. When they can't win on service or price, what's left? Scare tactics.

SIG'S HISTORICAL PERSPECTIVE AND MY PERSONAL EXPERIENCE WITH SIG'S

First, let me point out that MECC has been providing coverage to SIGs consistently since shortly after our founding in 1986. Most of the SIGs we reinsure were formed at the height of various hard insurance markets when traditional primary companies abandoned their policyholders and left entire state markets or raised prices to the point that employers had no other option but to band together and form SIGs. Had the insurance industry been a fair, consistent, stable, disciplined provider of risk transfer products and designed services to help clients reduce premium costs, the SIG industry would not exist today.

SIGs have become very important to the US economy as a whole. You will find stable, well run SIGs providing cost effective Workers Compensation coverage in over 30 states. It is estimated that SIGs collectively insure approximately 10 % of the nation's workforce. [MECC SIG Clients alone insure employers with over 40 Billion in covered payroll and over 2,500,000 employees]. The premiums charged by SIGs

are generally less than the rates charged by primary companies leaving more money for the employer to invest in their core business.

SIGs generally offer better services. It has been my experience that the tailored safety programs employed by our SIG clients are superior to those offered by traditional insurance companies. SIGs do a far better job of keeping employees safe from harm as they typically invest more money on safety initiatives than the insurance industry. SIGs are, for the most part, homogenous. They focus on just one industry. [MECC reinsures SIGs that support the manufacturing, construction, retail, hospitality, hospital, nursing home, school districts (k-12), universities, timber, agricultural, trucking, and utilities industries.] Focusing on just one industry is an advantage for SIGs. As a specialist, the SIG develops piercing insights into managing its members' risk that generalists (the insurance companies) can not afford to mimic. Preventing injury and closely managing claim costs are keys to SIG success. Unlike insurers, SIGs are not in the business of maximizing profits. They are in the business of minimizing costs to their members. SIGs are regulated by the state in which they operate and these regulations are generally conservative. Regulations limit the SIG membership to the designated industry and class codes, defines what conservative investments the SIG can make, (no CDO's, credit swaps, risky investments etc allowed), greatly influences the premiums the SIG can charge members and controls when dividends can be

paid. SIGs can only operate in their home state. [The insurance industry has no such restrictions]. Regulatory financial reviews are conducted periodically and actuarially determined reserves are generally required annually.

Our SIG clients are stable. A recent survey of our SIG clients and the SIIA SIG membership shows that the overwhelming majority, approximately 80%, have been in business for over 15 years and about 30% are over 25 years old. These SIGs have operated without ever invoking "joint and several" provision to call for an assessment of members. During that time, these same SIGs have returned millions and millions of dollars to the members (employers) that participate in their programs. Those dollars saved and returned to members were, presumably reinvested in their businesses and communities creating more jobs and fueling commerce within their states of domicile.

Operationally, we find the majority of our mature SIGs have developed sophisticated insurance operations and have refined underwriting, claims and loss control models that are tailored to the unique needs of their members. Trustees, made up of members from the SIG, ensure the SIG Administrator and the various service providers that support the SIG are engaged in providing the best service and value to their members. Our SIG clients have generated consistent underwriting profits and investment income that is returned to members' year after year, and/ or reinvested in their program to generate even better results.

FAILURES DO OCCUR TO SIG'S AND INSURERS ALIKE

Yes, some SIGs have failed over the years. When a SIG fails, their liabilities exceed their assets and SIG members are assessed the difference. The assessed amounts negatively impact the SIG members as they now must fund an expense that was unanticipated and unplanned. While they have saved money over the years partaking in the SIGs lower insurance premiums and benefited from SIG dividends, that fact offers little comfort when an assessment is declared. The SIG participating employers are required to stand behind their commitment and pay the assessments as required by their membership. Temporary cash short falls (while assessments are collected) are made up from the security deposit provided by the SIG to regulators at formation and updated periodically per regulations.

Insurance companies have failed as well and when they do, due to their size and scope, the consequences are much more devastating to the economy than if a SIG fails. Take AIG for instance... the US taxpayer is on the hook now for 200 billion dollars. The top ten insurance company insolvencies (AIG has not failed as we all know) are listed below. The net cost (shortfall) of these top 10 insolvencies is over 4.9 billion dollars. Reliance alone cost over 1 Billion. [Source: national Conference of Guaranty Funds] While an argument can be offered that these insurers were backed by state Guarantee Funds making them less risky than SIGs in the event of insolvency; the Guarantee Fund's capital comes from premium assessments from healthy insurers that get the money from... their customers, just like SIGs. A major difference is that in the insurance industry, insolvencies/deficiencies are pre-funded while SIGs fund their deficiencies through assessments after the fact.

The reality that some insurance companies do indeed fail, in spite of

their supposedly "superior" regulatory environment, undermines the argument that placing SIGs under traditional insurance company regulatory structure will prevent SIG insolvency. It is simply not true. What is true is that regulating SIGs and insurers alike will eliminate SIGs as we know them which is exactly what the primary insurers would like to see happen. After all, in the competitive word we live in, which of us wouldn't want to see our most feared competitor legislated out of existence?

Are all SIGs well managed? No, but the majority are. Are all insurance companies well managed? Not hardly. I believe the majority are. Espousing that the insolvency of several NY SIGs signals all SIGs are in trouble is like saying that all insurers need to be bailed out with tax payer money because AIG went that route.

In the absence of fraud or unusually risky investment strategies, SIGs and insurers alike fail for exactly the same reason. They fail to collect adequate premium to cover losses generated by their policyholders. Agents and buyers should realize that if the deal they get from an insurer or a SIG is too good to be true, it most likely is. It may feel like a great deal to agents and buyers that the premium being charged is less than the employer's trended losses. In reality, it is a signal that the Insurer or SIG is behaving irrationally and when done on a wholesale basis to generate cash flow, a sign of trouble to come. It's my opinion that some of the employers and agents that placed their WC risk with the NY SIGs that failed do bear some responsibility for being lured by a "cheap price". The warning was there disguised as a deal to good to be true.

CALL TO ACTION

All well run SIGs suffer when a poorly managed SIG is forced into liquidation as do those of us that make our living

supporting the SIG industry. Bad news travels fast and far. We all know that a well run SIG is the most cost effective method for small to mid-sized employers to purchase their workers compensation coverage. The "equity position" the employer enjoys in the SIG creates a stakeholder mentality that aligns the member employer's interests with those of the SIG and the SIGs interests with those of the member. For insurance buyers, gaining membership in a SIG creates a strategic advantage for them long term.

All SIG stakeholders need to work together to ensure that the SIG industry is healthy and properly (not excessively) regulated. MECC and SIIA, a national organization promoting the interests of the self insured community is engaged in a specific effort to protect and enhance the business and regulatory climate for the SIG community. I encourage you to get involved in the organization and lend your support to make our collective voices heard.

ABOUT THE AUTHOR

Steven J. Link is one of the founders of Midwest Employers Casualty Company in Chesterfield, Missouri, which commenced operations in July of 1986. Since its founding, Midwest Employers has emerged as the nation's premier provider of excess workers compensation for the self insured community and is rated A+ XV by A.M.Best.

Mr. Link joined Midwest in 1986 as Vice President of Claims. Over the years he has served as Vice President of Group Underwriting, Senior Vice President of Underwriting and currently serves as Executive Vice President. Prior to joining Midwest Employers, Mr. Link was Vice President of Claims for Safety Mutual Insurance Company. He started his insurance career with Liberty Mutual. His degree is in Finance from the University of Illinois.

In his current role, Mr. Link is responsible for: the development of Midwest Employers Marketing and Branding initiatives, enhancement of the company's "Client Service Strategy" and internet web-based content, which includes MECC's online University. Through its University, MECC provides unique, powerful risk management services to its clients that are designed to lower the client "Total Cost of Risk."

MEET *Your* BOARD

— ARTICLE 1 OF 3 —

The Builders Group is member controlled through an experienced Board of Directors. In a series of 3 articles, we will introduce you to your TBG Board of Directors.



CAROL NELSON
CHAIRPERSON

Carol Nelson, CFO of New Spaces, has served on the TBG Board of Directors since 2000 and is currently serving her second term as Chairperson. A member of the

Executive Committee, Carol has also served 1 term as Recording Secretary and 3 terms as Treasurer. Her educational background includes a B.A. Cum Laude from the University of Minnesota in Business Administration with Minors in Economics and Geography. Carol is actively involved in industry associations including BATC, BAM, NARI, and NKBA.



TOM CORRIGAN
VICE CHAIRMAN

Tom Corrigan, Owner of Midwest Fence, joined TBG in 1997 and has served on the TBG Board of Directors as Vice Chairman since 2000. Tom attended Cretin

High School and St. Thomas College and started with Midwest Fence in 1968. He started in the yard and worked his way up to President eventually purchasing Midwest Fence in 1994. An active member in local and trade associations, Tom has been especially active in the American Fence Association (AFA) where he has held the offices of Secretary, Vice President, and President of the Upper Midwest chapter.



CRAIG JOHNSON
TREASURER

Craig Johnson, President of Rainville Carlson, has served on the TBG Board of Directors since 2003 and is currently serving his second term as Treasurer and Chairman

of the Investment Committee. In addition, he has served as the Recording Secretary and on the Agent Advisory Council. Craig received his B.S. in Business Administration from Minnesota School of Business. Over the past 20 years, Craig has been active in SMARCA, TCRCA, MRCA, and NRCA and for the past four years, he has served as the Secretary of the Minneapolis Camden Lions.



JIM GRAHAM
SECRETARY

Jim Graham, Owner of T.R. Electric, has been a TBG Member since its inception and is currently serving as Secretary. His educational background includes a B.S. Cum

Laude from Bemidji State University in Industrial Technology and a diploma from Dunwoody Institute in Electrical Construction. As one of the founding members and past President of the Headwaters Builders Association and as someone who lives and works more than 200 miles from the Twin Cities, Jim is well positioned to address the concerns of rural Minnesota contractors in The Builders Group.



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SAFETY AT WORK AWARD

Lloyd's Construction Services

BY KATIE SCHOFIELD, CSP,
ARM, CHST – LOSS CONTROL
REPRESENTATIVE

LLOYD'S CONSTRUCTION SERVICES, working towards continuous safety program improvement, has won their second Safety at Work Award. Lloyd's recently went through a focus industry

OSHA compliance audit and passed without a single citation. The auditor was impressed with their record keeping and organization.

To complement their full hearing conservation program, Lloyd's is undergoing employee noise exposure testing twice a year, for all work divisions. This is a free service provided by TBG Loss Control that Lloyd's is utilizing. Noise exposure testing will help them better understand what their employees' exposures are, where they are coming from, and how to reduce these exposures to lower and lower levels, many times even below OSHA allowable levels. Lloyd's will also be utilizing OSHA Consult to conduct semi-annual air particulate level testing to ensure that the demolition division employees are working in low exposure and acceptable conditions.

Besides noise exposure testing, Lloyd's makes use of a variety of the TBG Loss Control Services. They have called numerous times to get assistance and help evaluating jobsite safety situations, as well as advice on personal protective equipment. Lloyd's is also incorporating the TBG training center and Loss

Control fall protection training in their upcoming company-wide training meeting in February. They will also begin getting their qualitative respirator fit testing through TBG, saving them time and money.

Lloyd's has an active and well organized safety committee which represents employees from all divisions and has a process in place to rotate members and vote new, interested employees onto the committee. A new focus for the company is on increased and improved reporting of near miss incidents to help prevent actual injuries from happening. There is also safety rule enforcement and consequences for violation of safety procedures.

Lloyd's Construction Services has a company-wide, hands-on approach to safety and has continued to advance in safety since they joined TBG in the summer of 2006. Management and field employees both have a great attitude, are easy to work with, and truly realize the big picture benefits of spending time and resources on improving employee workplace health and safety. Congratulations, keep up the great work!

