

Employees vs. Independent Contractors – Insurance Concerns

Churches should be extremely careful when contracting with individuals in lieu of hiring them as employees, for many reasons. One of these reasons is the impact on your insurance coverage and premium costs. Both Employment-Related Liability (part of your Directors & Officers Liability) and Workers' Compensation coverage can be adversely impacted.

With Workers' Compensation, it is a question of both premium and coverage. The coverage provided through the Conference program is for anyone who becomes injured or sick while working for you, unless they have their own Workers' Compensation insurance as evidenced by a certificate of insurance (e.g. a painting company or cleaning service that does work for the church). To you as a church, an individual may be categorized as an independent contractor, but the Workers' Compensation criteria are much like the IRS's – very strict. If you treat an individual as a contractor when Workers' Compensation considers them an employee, you may be subject to a costly audit for additional premium – and you could be jeopardizing your coverage in the event of a claim.

With your Employment-Related Liability insurance, there is not a premium impact but the coverage is an even more serious issue. The current policy through the Conference provides high limit, low deductible and very broad coverage for lawsuits from *employees* alleging things like wrongful termination, sexual harassment or discrimination. You as leaders of the church – individuals such as trustees, committee members or the pastor – as well as the church itself, are fully covered by this policy if sued by an *employee*. If a third-party non-employed, independent contractor sues you, there is no coverage. This could leave a well-meaning trustee or pastor open to personal liability and personal financial responsibility.

Please consider these very important issues as part of your hiring and employment procedures. The short term cost and time savings of “hiring” independent contractors may in the long term prove very expensive – for your church as well as you personally. As always, feel free to call Patty Smith or Chris Duble at Fred C. Church Insurance if you would like to discuss these issues.