

## Hidden Costs of Illegal Workers

From our friend Lee Burke at **Burke, Bogart and Brownwell**

**The Florida First District Court of Appeals has recently ruled that illegal workers are entitled to full Workers Compensation benefits.** This is a critical ruling because the payment of Workers Compensation benefits to illegal workers may significantly increase Workers Compensation expenses.

Many businesses engage [Never say employ] illegal workers for economic reasons. Reality requires us to deal with this issue without moralizing or sermonizing. The purpose of this article is to identify some of the *REAL* hidden costs of engaging illegals. These costs are important Risk Management factors that employers ignore out of choice or ignorance. Ignored or not these costs exist.

Why is a claim involving an illegal worker different than a legal employee? Consider the following:

- An injured alien is often permanently unemployable because of legal status, lack of education limited skills or language issues.
- Medical management, including treatment protocols, is more difficult due to language, culture and communications issues.
- Injured aliens often return to their home countries making rehabilitation virtually impossible.
- Workers Compensation disability benefits are often sufficient to provide a comfortable lifestyle in an alien's home country. This creates a moral hazard which increases claim costs.
- Illegal workers are more likely to engage the services of a Workers Compensation attorney.
- Workers Compensation claim fraud is a cottage industry within some foreign communities.

*All of the above reasons increase the costs of Workers Compensation claims for illegal workers.*

Now consider these associated costs resulting from accidents or claims involving illegal workers.

- Increased premium expense from higher Workers Compensation Experience Modification.
- Reduction or loss of Workers Compensation dividend refunds.
- Ineligibility for preferred WC programs due to claim experience or underwriting concerns related to work force issues.
- Ability to secure WC from a quality carrier. Top flight carriers do not want to insure companies engaging illegal workers.
- Increased liability exposure to employees, customers and the public resulting from foreign workers.
- Difficulty in defending liability claims when illegal workers return to home countries.
- Insurance underwriting issues related to claims involving illegal workers.
- Fines, penalties and public relations costs.
- Loss of corporate goodwill and reputation.
- Potential loss of business opportunities.

80% of an iceberg lies beneath the waterline. A large portion of the cost of engaging illegal workers is also below the 'waterline'. This additional cost must be added to the low wage rate they are paid. The Risks and Costs of using illegal workers are real.

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## FROM THE PRESIDENT

### BIG COMPANIES ARE SAFE (?)

About a decade ago, I broke one of my golden rules and tried to hire a great salesman who was burnt out at one of my national competitors. He was a wonderful guy whose spirit was broken working under the relentless pressure of having to meet quotas that were continually raised each year as gratitude for his success and never building up a residual income he could count on. If you have encountered these salespeople, you know why they are so high pressure. Their companies force it on them.

After some serious consideration, he confided in me that he just could not bring himself to work for a small company like Payday Payroll. He was raised believing that big companies are safe, big companies will provide benefits and pension and cars and all the wonderful things that big companies can afford.

So he went to work for Reuben Donnelly, The Yellow Pages. After multiple name changes and transmutations, that whole print yellow book industry has pretty much gone down the path of buggy whips (use one lately?) Many of the Verizon yellow pages spin offs are in bankruptcy. A decade later, I still think of his decision sadly, as he did not have the vision to see the future and I liked him. He would have been earning top sales income here by now, with the pension, benefits and car stuff he treasured. Instead, many of the employees of those firms are in class action lawsuits to recover what was promised them.

Big Companies? After Esther and I got burnt a few years ago twice in 6 months by companies taking our money and going out of business before they delivered the goods, I rethought my position on down payments and deposits for goods and services. Storehouse Furniture, a division of venerable Rowe Furniture, went bankrupt after taking my deposit money. They knew they were heading that way when they took our money.

What brings this up now? Two years ago, Kodak, the household name Kodak, got very offended and arrogant with me when I asked them if there was any other way to pay for our Florida check folding machine service contracts other than full payment a year in advance. "We're Kodak!!" they screamed at me. "How dare you ask for quarterly payments?" We're 90 years old!!" I told them that in today's climes; I am uncomfortable paying anyone a year in advance for anything no matter how big your name is.

Needless to say, they had me over a barrel and I have paid the full year service in advance. As I write this, Kodak is possibly heading towards bankruptcy. How much money we will lose on those service contracts will be dictated by when the date they just give up caring occurs. Just another "Big Company" succumbing to what I call "Dinosaurism" mentality. Some companies see the future and adapt or even make the future with their exceptional vision. Unfortunately, many cling to their ways and get stepped over in the new economy. Their Directors are only interested in the next two months, their employees are no longer considered assets, being demoted to expense line items on a report, and they cannot dodge and weave the future when it blows in.

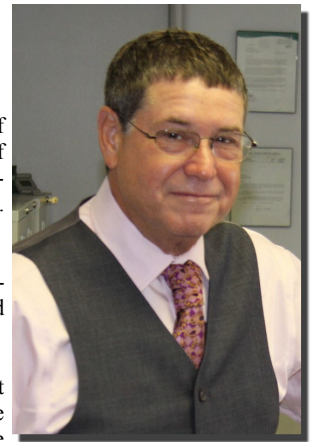
This company was started in 1985 as a tax service to accounting firms. We processed tax returns on computers and laser printers when CPA's and accountants were using carbon paper and adding machines. I had seven national competitors who all made fun of my little company and constantly chided my clients for going with an "unsafe, unstable, local-yoke!" tax service company. One by one, from 1985 to 1992, they all left the state of Virginia, driven out by the local yokel, and were pretty much done completely nationally by 1993. I forced them out of Virginia by offering far superior customer service and pricing. I answered our phone until midnight during tax season. Reality forced them out of the business when tax software and technology was available to the accountants that made their service obsolete. They never saw the future coming up to the tax season they crashed and burnt. I saw it years prior in the late 80's and started doing payrolls. Two of my first clients were Dr. Bob Lehman and Esprit Décor Furniture. Both of them are still clients. Thanks go out to both.

We try as best as we can here to fend our way through the onslaught of available technology and services to bring you the best. You have no idea how much technology is in the underbelly of this company that you never see. You also don't know that nationally, we are considered innovators in our industry and highly respected all over the country by our peers. If there is something out there you think we should be looking at, our phone and email are on everything you get from us. Let us know.

This payroll service is poised to be around another 26 years. We have young management and owners in place, top notch staff and a commitment to this community to never sell to the same national companies that give us an excuse to exist in the first place. We know there are massive changes in government coming and they are coming at a faster rate than ever before. We have never failed to adapt to change before and will don't plan to start now.

If we ever fail to let you know how much we appreciate your faith in us, please let me know that as well.

Andy



Andy Kline—President

## GREATER RAISE IN SOCIAL SECURITY WAGE BASE ON THE WAY (While the President proposes a 3.1% reduction on the employer share???)

Policymakers are considering an increase in the maximum amount of earnings subject to Social Security taxes as a way to sustain the program (*while simultaneously having to consider gutting 3.1% of the employer share out on a temporary basis*) In 2011, the payroll taxes apply to the first **\$106,800** in earnings and the wage base is projected to rise to **\$110,700** in 2012. The Office of Retirement and Disability Policy said a review of the taxable maximum shows the percentage of covered wages subject to the payroll tax was 86% in 2009, up from a historical average of 83%. The percentage of workers earning more than the maximum is 6%, compared with 15% in 1975. Officials suggest raising the maximum so 90% of all wages are taxable. (*Might as well just go for 100% while you're at it*)

## TOP GRADES FOR CUSTOMER SERVICE AND THE BIGGEST LOSERS- Press 1, Press 2.

The July issue of Consumer Reports surveyed retailers and every type of company that deals with customers including cable companies, phone companies, hotels and more.

Sixty four percent of respondents said that in the past year they had left a store and sixty seven percent had bailed out on the phone. The biggest gripe is NOT BEING ABLE TO REACH A HUMAN ON THE PHONE, with 71% of respondents saying they are TREMENDOUSLY ANNOYED when that happens.

While there is still a number of locally owned stores where knowledgeable sales staff actually wait on customers, there are many exceptions. Consumer Reports crunched the number from its recent study of 21 industries and identified the companies that were the best and worst for customer service. The survey found a couple of discount retailers to be among the worst for customer service, with one or both ranked “worst” in eight categories from appliances to cellphones. Among those ranking “best” in customer service in their categories were Dillard’s, U.S. Cellular, and Ritz Carlton.

### Below are the surveys top 12 aspects of annoying customer service:

- Can’t get a person on the phone
- Salesperson is rude
- Many phone steps needed to reach anyone
- Long wait on hold
- Unhelpful Solution available
- Salesperson is pushy
- Extras are pitched
- No apology for unsolved problem
- Can’t find store salesperson
- Boring hold music or messages
- Wait at counter or checkout
- Wait for scheduled service or repairer.

In the past, we have asked everyone to take the “Andy Pledge”:

*“Sometimes we have to deal with Press 1, Press 2, lousy customer service. BUT, when there is another option, (Payday Payroll) a local business offering knowledge and service, (Payday Payroll) make a statement and break free from the shackles of rude, Press 1, Press 2, talking to India or just employees that don’t care, and keep your business in the community. We all will benefit.”*

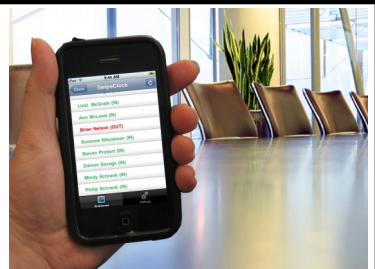
## PAYDAY NETCLOCK TIMEKEEPING IPHONE-IPAD APP

ESU App for iPhone Puts Supervisors in the Cloud

Supervisors can now check an employee’s IN/OUT status through the “EMPLOYEE STATUS UTILITY” for iPhone. The new app allows you instant access to the status of your employee’s time.

If you are waiting outside an empty conference room wondering where everyone is for a meeting, you can quickly check the color coded employee list to clearly see who is IN and who is OUT, allowing you to better manage employee behaviors.

Supervisors can also view time cards or see scheduled times even when they are away from their desks.



## Jeff Marbach- Florida Regional Manager

I wanted to thank all of our clients who supported our efforts on behalf of Broward Partnership for the Homeless. The event raised \$72,000 and over the last three years since its inception the participants in the Golfathon have raised over a quarter million dollars for this very worthy cause. Last year I encouraged Dr Gary Kodish, a client and friend, to participate and he is now a permanent fixture at the Golfathon, and will also be providing dental services for the organization in the future. Now is the time to consider possibly participating in next year’s event. I strongly encourage anyone interested to contact Kevin Picard at [KPickard@sunrisefl.gov](mailto:KPickard@sunrisefl.gov) who is the director of the event.





## PAYDAY PAYROLL MAKES MOVE TO MONARCH BANK

After a couple of years of preparation, Payday Payroll Services opened the spigot and moved its payroll operations accounts to Monarch Bank on Monday, Oct 3<sup>rd</sup>. We had previously been with Suntrust Bank for many years, but ill thought out decisions from their corporate headquarters, who don't know us, were making it unfeasible to continue with them. Think Big Banks, think clueless. Decisions were made by executives four states away that astounded both us and the great local Suntrust people we worked with the past seven years.

*"But Andy, you always tell us to use a local business, why were you with a big chain in the first place?"* you ask. At a certain point at the turn of the century, we outgrew the technology capabilities of our local banks. Monarch stepped to the plate a couple of years ago with a commitment to get us all the "big boy toys" that we need to process some two billion dollars a year of payrolls smoothly. After two years of testing and preparation, we completed our due diligence and went live at the first of the month. Monarch Bank is now providing us with both the ACH transmittal tools and the Treasury Management services that all the big banks can offer, with the added bonus of custom, personalized service.

Monarch Bank is also a wonderful client of Payday Payroll, allowing us the past two years to be their payroll service provider.

We suffered a few glitches the first week from unexpected places. Remember that even though all our banking gets done from our corporate center in Virginia Beach, we pay employees in 41 states. A glitch in the Walmart check system prevented many employees who rely on their stores for check cashing to get rejected at the service counter. Walmart executives in Benton AR were so responsive to our pleas for help and worked all day resolving the problem. They "got it!" They did not want thousands of Walmart customers walking out of their stores unhappy. Our Monarch Treasury Manager, Terri Ruby, stayed by us all day as well, tirelessly working the phones on our behalf with Walmart and its affiliates.

All payroll checks on our NetPay system are designated "Official Payroll Checks" with an 800 number on them to verify funds.

Now we can say that we keep accounts at three local banks in our home headquarters, Monarch, Townebank and Heritage Bank. We are happy to have all of them.

## HOW DID YOU GET READY FOR HURRICANE IRENE?

Yes, it was mostly a bust in terms of major horrific hurricanes, but here at Payday Payroll, we take the stance that shutting down is never an option. Nailing up some plywood is not an option for us.

So, how did we spend the days before the hurricane preparing for the worst?

### Wednesday, 3 days before Impact

On Wednesday, 3 days prior to local impact, our I.T. Department stayed that night and did one more dress rehearsal of switching our operation over to our servers located in the Cox Cable Co-location site where we are connected directly to their backbone.

While they were setting up the switchover, Jeff in Florida was sitting in the Boca Raton office ready to test payroll processing with his office re-routed to the Cox site. Boca would become our "hot site" if there was to be major damage up here that would prevent us from getting into our building. A successful switchover is performed and tested. We are done by midnight.

### Thursday, 2 days before impact

All client payrolls for the week done and delivered. Big thanks to everyone for their cooperation in moving their schedules up if needed.

Eric goes out and rents a huge van and we make arrangements to drive a skeleton crew to either Charlotte NC or Richmond VA (whoever fared better) where we have friendly partners in our industry offering us working space, computers and print capability.

### Friday, due to hit tonight

After all processing is done, we load the entire Virtualized company data, encrypt it, and ship it overnight on two drives to our cloud server location in Las Vegas. We want the most current data in two time zones JUST IN CASE

All equipment is turned off in our Virginia Beach building and a manual test is made on our office generator.

### Saturday, the hurricane hits

Andy and Esther Kline make their way to the office and sit out the worst of the storm watching over the office for any damages.

### The outcome?

Hurricane Irene ends up flooding central Virginia the same week that they had their earthquake. Here in Virginia Beach, a lot of residential power outages, Virginia Beach processing center never went down, never lost connectivity, no damage. ON Monday morning, full staff is in and processing payrolls.

We have spent over \$200,000 to ensure that we have virtualized our data and operating systems in multiple locations, with full generator back-up at both data centers, dual internet connections and two separate phone systems at both centers. We thought you might enjoy seeing the machinations that we go through for just the smallest possible chance of a disruption in power or internet due to a weather event.



EVERYBODY LOVES PAYDAY