

## Research

# US hotel payroll costs down, but insurance costs remain

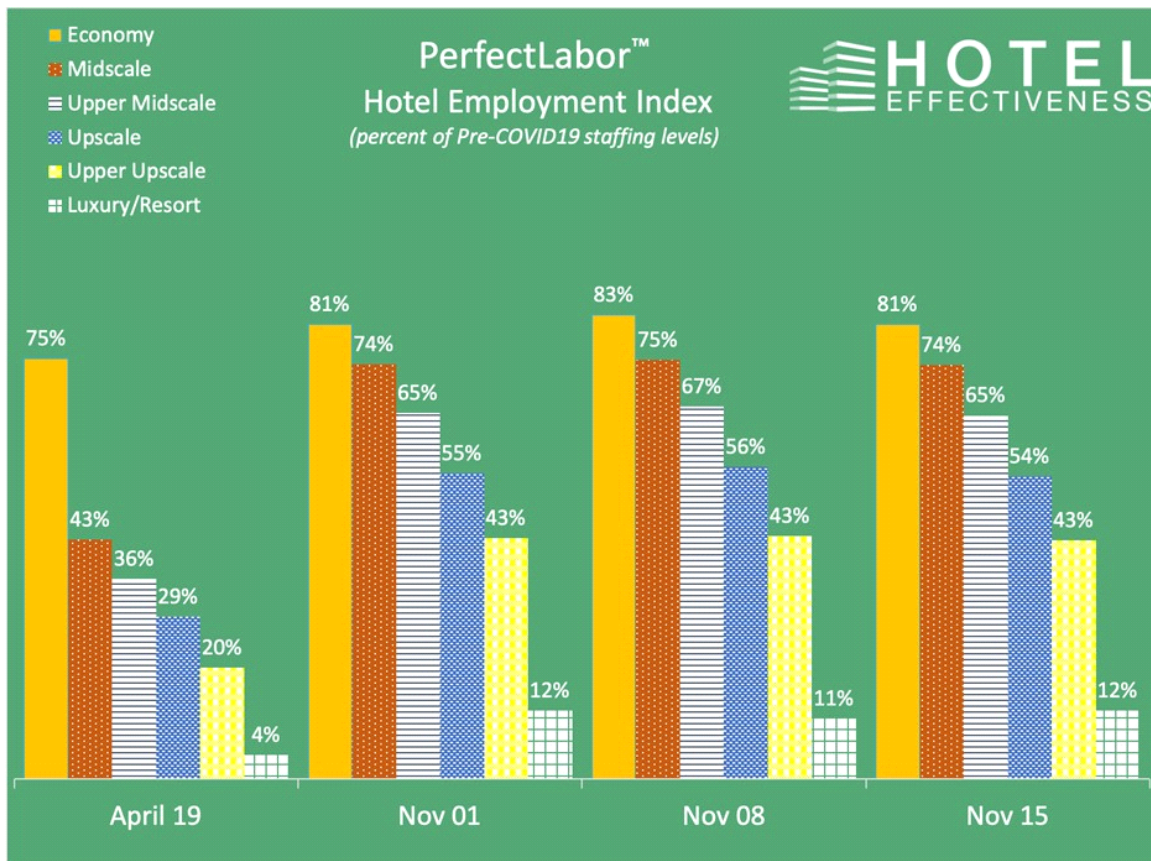
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With the reduction in hotel labor, in line with lower demand during the pandemic, payroll is down 40% to 60% from 2019 levels, but workers' comp insurance costs continue to be a strain on cash flow.



By Del Ross

REPORT FROM THE U.S.—Nearly half of all pre-pandemic hotel jobs are still lost, resulting in payroll costs in 2020 that are 40% to 60% below 2019, according to labor-management data from Hotel Effectiveness.



The slow recovery will mean that labor expenses will remain abnormally low through 2021. Despite this, most hotels are not experiencing similar reductions in their workers' compensation insurance costs. Most insurance providers require premiums to be paid up front, at the start of each year, and this aggravates the cash flow difficulties experienced by most hoteliers in the current economy.

"This is especially problematic for hotel portfolios experiencing significant growth or dispositions throughout the year as either the insurance carrier is holding premium on exposures that were sold, or in growth situations there is a large bill coming at audit that needs to be estimated for accounting," Marsha Bonner, risk management advisor and former chief risk officer for RLJ Lodging Trust and FelCor Lodging Trust, said.

"Cash is king," she added. "Hoteliers which can optimize cash flow while reducing risk will not only survive the current crisis but will likely become the dominant players in the post-COVID-19 economy."

Insurance companies typically rely on prior year payroll costs to determine premium amounts, but for 2021 they are using a combination of 2019 and 2020 full-year expenses. This difference will increase the cost of workers' compensation coverage by several thousand dollars for a typical 100-room select service hotel in the U.S.

The data and chart above represent a sample of more than 4,000 same-store hotels and excludes hotels that have been closed during the analyzed period.

Del Ross is Chief Revenue Officer for Hotel Effectiveness.

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