It is not unusual for an employee to be subject to the direction and control of an entity other than his employer during the work day. This is especially common in construction situations. In such cases, many states employ the borrowed servant doctrine which states that an employee can become a "borrowed servant" of an entity other than his employer, for a limited period of time, while that employee is subject to the "special employer's" right to control the details of the employee's work. Just as each state has its own criteria for determining whether an employee is subject to the right of another to control the details of his work, some states provide that a borrowed servant becomes the employee of the "special employer," which allows him to then sue his previous employer (general employer) as a "third party." Other states employ something known as the "dual employment doctrine," which states that the employee can be employed by two employers at the same time, both of which are protected by the workers' compensation bar.

Most claims handlers are familiar with the borrowed servant doctrine because of its application to the everyday adjusting and handling of workers' compensation claims. In determining whether or not a carrier is responsible for workers' compensation benefits, the claims handler must look at whose employee the injured claimant was at the time of the injury. However, the borrowed servant doctrine can also be used as a defense to third party lawsuits. Where the injured worker and the carrier sue a third party based on negligence, they will not be able to recover anything where the third party shows that the claimant was, in fact, their borrowed servant. In essence, they can then take advantage of the workers' compensation bar.

Where an employee of one employer (general employer) is placed under the control of another company (special employer) for performing certain services, the employee may become the special employer's "borrowed servant." The central inquiry is whether the special employer had the right to control both the details of the employee's work and the manner in which the employee performed this work. When there is no written agreement between the employers regarding right of control, it is determined from the facts surrounding the employee's work at the time of his injury. These facts include:

1. the nature of the project;
2. the nature of the work to be performed by the employees furnished;
3. the length of special employment;
4. the type of machinery furnished;
5. the acts representing an exercise of actual control;
6. the right to substitute another employee; and
7. whether the employee is doing something within the normal scope of the general or special employer's business.

The right to direct the end result to be accomplished or the mere fact that the employee was carried on the payroll of one party and not the other is not alone sufficient to make the employee a borrowed servant. Likewise, the right of the general employer to fire or reassign the employee will not preclude a finding that the employee was the borrowed servant of the special employer, if it also had the right to fire the employee. The employee of an employer in the business of supplying temporary workers to other companies will almost always, with a few exceptions, be the borrowed servant of the other company.

To make matters more complicated, the advent of employee leasing companies, temporary employment agencies, and staff leasing services, have complicated the borrowed servant issue. Special legislation has been enacted in many states that declare both the leasing company and leasing company's client joint employers of the employee, under certain circumstances. If things weren't complicated enough for the subrogation professional, virtually every state has enacted special legislation in construction settings involving contractors and subcontractors, requiring general contractors to pick up the provision of workers' compensation coverage where subcontractors fail to do so - thereby making "statutory employers" of the general contractors or other parties in the contractual food chain. While the subject of "statutory employers" and its application in all 50 states was discussed at length in the article Workers' Compensation Subrogation In Construction Settings (see "Published Articles" at www.mmilaw.com), this article focuses on the challenges workers' compensation subrogation professionals face when dealing with traditional borrowed servant/loaned employee issues involving employee leasing companies and professional temporary employment agencies, in all 50 states.

One of the golden maxims of workers' compensation subrogation is the exclusive remedy protection an employer is "gifted" by virtue of having to absorb limitless liability for injuries and disabilities, which, through no fault of its own, befall its employees in the course of a work day. Assume that an employee is working for Company A (general employer) and is "borrowed" by Company B (special employer) for a specific and limited task, during which Company B has the right to control the details of the employee's work. If the employee is injured while under the direction and control of Company B, Company B will be able to avail itself of the exclusive remedy protection, and cannot be sued as a third party by the employee. But does Company A then become "fair game?" Or, what about a situation where Company A is a professional employee leasing company or a temporary employment agency? Under the same >>
scenario above, under what circumstances can the employee sue Company A – its general employer or both? Some states focus on whether the cost of workers' compensation insurance is picked up by the special employer in the hourly rate or fee they pay to the employee leasing company (general employer). Other states apply traditional borrowed servant criteria and factors to determine whether an entity has the right to exercise or has actually exercised enough control over the details of the employee’s work in order to qualify as an employer for exclusive remedy purposes.

The last twenty years have witnessed the advent of staff leasing services and temporary employment agencies. When the company who borrows or leases employees is covered by a worker’s compensation insurance policy and one of its borrowed or loaned employees are injured while on the job at the business location of the client, there are complex and confusing subrogation issues that raise their ugly heads involving the borrowed servant doctrine. In most staff leasing and temporary employment service situations, there is a contract between the employer and the client company which frequently references who is considered the employer. Generally, a contract between employers is conclusive as to who is the employer, unless the contract is shown to be a sham. In such situations, it is the borrowed servant principle which generally applies to determine which carrier is responsible for workers’ compensation benefits, and which carrier will be given the benefit of the workers’ compensation bar.

Some states, such as Texas, have actually enacted specific statutes to deal with this issue. Texas enacted the Texas Staff Leasing Services Act, which addresses the use of leased employees and their employers in Texas. This Act codified the dual employment theory in Texas and held that in staff leasing situations, both the leasing company and the client company may be deemed employers, worthy of the workers’ compensation bar. Texas also enacted the Temporary Common Worker Employer’s Act in 1991, covering temporary employment services that loan employees for a short period of time or even for a single day or task. The Temporary Common Worker Employer’s Act, unlike the Staff Leasing Services Act, does not specifically provide for dual employment in temporary employee leasing situations. Therefore, the law of each state should be examined carefully to determine how borrowed servant scenarios are handled and what effect they have on the right of defendant to claim the benefit of the workers’ compensation bar. In some states, subrogation against the client of a staff leasing service is all but neutered, while in other states, such efforts can be successful. Equitable subrogation/equitable contribution actions between workers’ compensation carriers for the leasing company and client company are still possible, depending on the state involved.

Each state varies with its application of the exclusive remedy rule to situations involving employee leasing companies and temporary employees. Some states set forth the respective rights of a worker and/or potential third party tortfeasor in the workers’ compensation subrogation statute or other statutes, while other states make declarations in established case law. Thirty-three states have statutes or regulations which address employee leasing and its effect on which entity is the actual employer, while 17 states and the District of Columbia make such determinations via court decisions. Below is an exposition of the laws in all 50 states.

Alabama: An employee of temporary services agency was held to be an employee of the client company to which she was assigned to work for purposes of workers’ compensation, where the client company supervised her work and paid a fee to the temporary services agency which included an amount to obtain workers’ compensation insurance for the worker. Markow v. Mid South Tool Co., Inc., 535 So.2d 120 (Ala. 1988).

Alaska: There is very little precedent or statutory guidance given to us in Alaska. However, one case leads us to believe that the general employer and the special employer will both be afforded protection under the exclusive remedy rule. Ruble v. Arctic General, Inc., 598 P.2d 95 (Alaska 1979).

Arizona: Arizona’s statute dictates that a professional leasing organization is not treated as the exclusive employer under the exclusive remedy rule of a co-employer of the worker. A.R.S. § 23-901.08. However, in order to be granted immunity under the exclusive remedy rule, the parties must be in compliance with various regulations and rules regarding employee leasing.

Arkansas: In Arkansas, a specific statute governs “Professional Employer Organizations” (“PEO”). It provides that the PEO and its client company are both considered co-employers, and may avail themselves of immunity provided under the exclusive remedy rule. A.C.A. § 23-92-409.

California: In California, the employee leasing firm and its client company are both considered to have made workers’ compensation insurance premium payments, and both are immune from third party suits, provided an employee leasing agreement has been executed and insurance coverage for the worker remained in effect throughout the length of the worker’s employment. Cal. Labor Code § 3602(d).

Colorado: By statute, Colorado allows the leasing company to be considered a “co-employer” of a worksite employee’s employer, provided the leasing company actually instructs the employee at the work site, sets and actually pays the employee’s compensation and retains the right to control the details of the employee’s work. C.R.S. § 8-70-114(2).

Connecticut: Connecticut’s statute provides that the employer who originates a contract by which an employee is loaned to another employer is ultimately responsible to the worker for all benefits. C.G.S.A. § 31-292. Section 31-294 provides:

“...all rights and claims between an employer who complies with the requirements of Subsection (b) of this section and employees, or any representatives or dependents of such employees, arising out of personal injury or death sustained in the course of employment are abolished other than rights in claims given by this chapter ...” C.G.S.A. § 31-284.

Delaware: While there are no statutes or cases which directly determine respective subrogation rights against an employee leasing company or its client company, most likely, both are going to be afforded protection under the exclusive remedy rule. Porter v. Pathfinder Services, Inc., 683 A.2d 40 (Del. 1996).

District of Columbia: The special employer is entitled to protection under the exclusive remedy provisions of the Workers’ Compensation Act, just as is the general employer. Thomas v. Hycon, Inc., 244 F. Supp. 151 (D.C. 1965).

Florida: Any employer who utilizes the services of an employee leasing service is entitled to immunity under the exclusive remedy rule. F.S.A. § 440.112(2).

However, such immunity will only extend to an employer and to each employee of the employer who utilizes the services of the employees of a help supply services company as set forth in Standard Industry Code Number 7363.

Georgia: Employers are immune from suit under the exclusive remedy rule when utilizing employee leasing companies or temporary help agencies, provided that workers’ compensation benefits are provided to the worker by either the leasing employer or employee leasing company, O.C.G.A. § 34-9-11(c).

Hawaii: Hawaii’s statutes do not address this issue. Although there are no cases directly interpreting employee leasing situations, the Hawaii Supreme Court has held that a temporary employer utilizing an employee from a temporary agency is entitled to the exclusive remedy protection because it paid a fee to the temporary agency, which the court construed to include the cost of workers’ compensation insurance premiums. Frank v. Hawaii Planning Mill Foundation, 963 P.2d 349 (Haw. 1998).

Idaho: Similar to Georgia, if the employee leasing company or its client company provide workers’ compensation coverage to the employee, both entities are protected under the exclusive remedy rule. Idaho Code § 72-103.

Illinois: Illinois’ statute provides that unless the employee leasing contract specifies otherwise, both the employee leasing company and client company will be protected under the exclusive remedy rule. 215 I.L.C.S. 113/45.

Indiana: Indiana’s statute dictates that the employee leasing company is considered the employer of any employee leased to the client company, I.C. § 27-16-9.1. The employee leasing company is known as a Professional Employer Organization (PEO). A professional employer agreement must specify the >>
allocation of the responsibility for obtaining workers' compensation coverage to
either the client or the PEO. I.C. § 27-16-7. If this duty is met, a client and
PEO are both considered the employer of the covered employee for purposes of

Iowa: Unless there is a contract of hire between the temporary employee
company and client company, the client company is not considered an employer
and is subject to a third party action brought by the worker. However, when a
contract of hire exists, the client company is considered the worker's employer
and is immune under the exclusive remedy rule. Fletcher v. Apache Hose &
Belting Co., Inc., 519 N.W.2d 839 (Iowa App. 1994); Parsons v. Procter & Gamble
Mfg. Co., 514 N.W.2d 891 (Iowa 1994); Swanson v. White Consolidated Indus.,
Inc., 77 F.3d 223 (8th Cir. 1996).

Kansas: Neither statute nor case law have determined whether or not an
employee leasing company and client company are considered employers for
purposes of the exclusive remedy rule. However, if an employee becomes a
borrowed servant, the special employer is immune to any third party actions.
Hollingsworth v. Fohs Equip. Co., 729 P.2d 1214 (Kan. 1986). Furthermore, an
employee of a temporary employment agency who has contracted with a
general contractor to provide labor, may not bring a third party action against the
contractor for injuries sustained in an accident while on the job. The employee's
acceptance of the contractor's control and direction over all aspects of work
performed at the job site forms an implied contract of hire, and therefore, third
party liability is barred under the exclusive remedy provision of the Workers' Compensiation Act. Scott v. Altman, Inc., 38 P.3d 673 (Kan. 2002).

Kentucky: Under Kentucky law, the employee leasing company is considered the
statutory employer of any leased employee. K.R.S. § 342.615.

Louisiana: The employee leasing company and its client company are both
considered employers and are protected under the exclusive remedy rule. La.
R.S. § 22:1210.56(C).

Maine: Maine has a special statute addressing employee leasing companies,
located in Title 32, Chapter 125: Employee Leasing Companies. Provided the
employee leasing company or client company secures workers' compensation
coverage, both entities are considered employers and immune from third party

Maryland: Maryland case law holds that where there is an implied contract of hire
between an employee provided by a temporary employment agency and client
company, the client company is considered the employee's special employer and
is afforded protection under the exclusive remedy rule, Travelers Indemn. Co. v.
Insurance Co. of N. Am., 519 A.2d 760 (Md. App. 1987). The employee is
considered jointly employed by the temporary employment company and
client company.

Massachusetts: It appears that Massachusetts allows an employee to sue a client
2005).

Michigan: The employee leasing company and its client company are both
considered employers and immune from third party actions under the exclusive

Minnesota: Minnesota addresses employee leasing situations in its Workers' Compensation Statute. It provides that when an employee leasing company and
client company are engaged in a common enterprise, the injured worker may
proceed only against the employer for benefits or the responsible third party for
damages. M.S.A. § 176.061.

Mississippi: The temporary employment agency and client company are both
considered employers and immune from third party actions under the exclusive

Missouri: When work is performed under a contract involving leasing or borrowing
of an employee, if the injury occurred on or about the premises of the alleged
statutory employer, and the alleged statutory employer was doing work which was
in the usual course of the alleged statutory employer's business, the worker is a
statutory employee of the special employer and cannot be sued under the exclusive
remedy rule. Wilson v. Attkr Freight Sys., Inc., 820 S.W.2d 717 (Mo. App. 1991). Employee leasing companies are not specifically addressed in the
Workers' Compensation Act or in case law.

Montana: An employee leasing company and its client company are both
considered employers and immune from third party actions under the exclusive

Nebraska: An employee leasing company and its client company are both
considered employers for purposes of the exclusive remedy rule, and are
immune from third party actions. Schwartz v. Rieloch & Sons, 240 N.W.2d 581
(Neb. 1976).

Nevada: Provided there is a written agreement between the employee leasing
company and client company, an employee leasing company in compliance with
the leasing provisions set forth in the Act is considered the employer for purposes
of the Act. N.R.S. § 616B.691.

New Hampshire: An employee leasing company must be certified by the
insurance commissioner to meet certain criteria. If it does, it is considered the
employer of the leased employee under the Employee Leasing Company Act. The
employee leasing company and client company are both entitled to protection

New Jersey: An employee leasing company must register with the State under the
State's statutes. If it does, the employee leasing company and client company
are both considered employers and immune from third party actions under the
exclusive remedy rule. N.J.S.A. § 34B-8-72.

New Mexico: If certain conditions are met, the employee leasing company and
client company are both considered employers and immune from third party

New York: Neither the Workers' Compensation Act nor case law directly
address employee leasing. However, the issue is addressed by Rule 11G of the New York Workers' Compensation Act and Employers Liability Manual. New York refers to the employee leasing company as the "labor contractor," and refers to the client company as the "client." Although it does not apply to temporary workers, Rule 11G provides that both parties must provide workers' compensation coverage for the leased employee but does not specifically extend the exclusive remedy rule to the client company.

North Carolina: Neither the North Carolina Workers' Compensation Act nor case
law directly addresses the exclusive remedy rule as applied to employee leasing
situations. However, a court has held that a temporary employee could not pursue
a third party action against the employer to whom the worker was assigned.

North Dakota: The employee leasing company and client company are both
considered employers and immune from third party actions when both entities
have secured the payment of compensation in accordance with North Dakota law.
N.D.C.C. § 65-01-08.

Ohio: Neither the Ohio Workers' Compensation Act nor case law addresses this
issue. However, employee leasing and temporary employee situations are
addressed in the Bureau of Workers' Compensation Rules. Ohio Admin. Code §
4123-17-15. Workers provided by an employee leasing company are considered
employees of the employee leasing company. An employee leasing company is
referred to as a "Professional Employer Organization" or "PEO." There does not
appear to be any cases clearly delineating whether or not the client company is
etitled to protection under the exclusive remedy rule.

Oklahoma: Neither the Oklahoma Workers' Compensation Statute nor case law
directly addresses the exclusive remedy rule in connection with employee leasing
situations. The Oklahoma Court of Appeals, however, held that a worker assigned
by a temporary agency to a client company is considered a loaned servant, and
both employers are responsible for the provision of workers' compensation,
and therefore cannot be sued in third party actions. Zant v. People Electric Corp.,

Oregon: The employee leasing company and client company are both
immune from third party actions under the exclusive remedy rule, provided both
entities comply with all of the provisions required under the Act. O.R.S. §
656.020; O.R.S. § 656.850.

Pennsylvania: Neither the Pennsylvania Workers' Compensation Statute nor case
law shed light on the issue of whether or not an employee leasing company and
client company are entitled to protection under the exclusive remedy rule. The
determination of who is the employer in leasing situations is addressed via
common law factors involving which entity controls and directs details of the
work being performed by the employee. American Rock Mechanics, Inc. v.

Rhode Island: Rhode Island case law has held that an employee leasing company
remains the employer of the leased employee as long as the employer remains on
the general employer's payroll, but the employee leasing company and client
company are both considered employers for purposes of the exclusive remedy
South Carolina: Employee leasing companies and staff leasing services are governed by § 40-68-70 of the South Carolina Statutes. In order to be a statutory employee under the Workers' Compensation Act, a worker must be engaged in an activity that “is a part of the client company's trade, business, or occupation.” S.C. Code Ann. § 42-1-400. This statutory requirement has been construed to include activities that: (1) are an important part of the employer's trade or business; (2) are necessary, essential, and integral part of the employer's business; or (3) have previously been performed by the employer's employees.

Glass v. Dow Chemical Co., 482 S.E.2d 49 (S.C. 1997). Only one of these requirements must be met in order for a subcontractor's employee to be considered the statutory employee of the owner and immune from suit under the exclusive remedy rule. Woodard v. Westvac Corp., 433 S.E.2d 890 (S.C. App. 1993), vacated on other grounds, 460 S.E.2d 392 (1995).

South Dakota: Neither the South Dakota Workers' Compensation Act nor case law shed any light on the issue involving the exclusive remedy rule and employee leasing companies. This issue, most likely, will be determined by applying common law factors to determine who is the employer and who is the third party subject to suit.

Tennessee: Tennessee has a specific statute dealing with employee leasing. The employee leasing company and client company are both entitled to exclusive remedy protection based on the workers’ compensation policy secured by either party. T.C.A. § 62-43-113.

Texas: Texas enacted the Texas Staff Leasing Services Act, which addresses the use of leased employees and their employers in Texas. In particular, § 91.042 reads as follows:

(a) A license holder (person licensed to provide staff leasing services) may elect to obtain workers' compensation insurance coverage for the license holder's assigned employees through an insurance company as defined under § 401.011(28) or through self insurance as provided under Chapter 407.

(b) If a license holder maintains workers' compensation insurance, the license holder shall pay workers' compensation insurance premiums based on the experience rating of the client company for the first two years the client company has a contract with the license holder and as further provided by the Texas Department of Insurance.

(c) For workers' compensation insurance purposes, a license holder and the license holder's client company shall be co-employers. If a license holder elects to obtain workers' compensation insurance, the client company and the license holder are subject to § 406.034 and § 408.001 (the workers' compensation statute provisions protecting employers from liability for tortious acts).

(d) If a license holder does not elect to obtain workers' compensation insurance, both the license holder and the client company are subject to §§ 405.004 and 406.033.

(e) After the expiration of the two-year period under Subsection (b), if the client company obtains a new workers' compensation insurance policy in the company's own name or adds the company's former assigned workers to an existing policy, the premium for the workers' compensation insurance policy of the company shall be based on the lower of:

(1) the experience modifier of the company before entering into the staff leasing arrangement; or

(2) the experience modifier of the license holder at the time the staff leasing arrangement terminated.

(f) On request, the Texas Department of Insurance shall provide the necessary computations to the prospective workers' compensation insurer of the client company to comply with Subsection (e).

Therefore, the Texas Staff Leasing Services Act codified the dual employment theory in Texas and held that in staff leasing situations, both the leasing company and customer will be considered employers. Most, if not all, efforts by the general employee's workers' compensation carrier to equitably subrogate or seek equitable contribution against the workers' compensation carrier for the special employer ceased with this statute. Due to the theory of contribution being equitable in nature, the court considered the fact that it was contemplated by the parties that the leased staff would have its workers' compensation premiums paid by the general employer (the staff leasing company). The Staff Leasing Services Act, however, does not cover providers of temporary workers. The term “staff leasing services” within the Act does not include temporary help or a temporary common worker employer. The Staff Leasing Services Act applies to arrangements in which the employee's assignment is intended to be long-term or continuing in nature, rather than temporary in nature, and where a majority of the workforce at a client company work site is a specialized group within that workforce consisting of assigned employees of the license holder.4

Utah: The employee leasing company and client company are both entitled to protection under the exclusive remedy provisions of the Utah Workers' Compensation Act, provided the employee leasing arrangement meets the requirements of the Employee Leasing Company Licensing Act. U.C.A. § 34A-2-102(3)(a); U.C.A. § 34A-103(7)(e).

Vermont: The leasing company and client company are both immune from third party actions under the exclusive remedy rule. Vt. Stat. Ann. Tit. 21, § 12-1037.

Virginia: The employee leasing company and client company are both afforded protection under the exclusive remedy provisions of the Virginia Workers' Compensation Act. Va. Code Ann. § 65.2-803.15.

Washington: Neither the Washington Workers' Compensation Act nor case law directly addresses employee leasing situations. Questions regarding this issue will be answered by common law under Washington case decisions.

West Virginia: Neither the West Virginia Workers' Compensation Act nor case law gives us direct answers to employee leasing situations. However, the 4th Circuit has indicated that a worker assigned by a temporary agency is a loan servant and therefore not entitled to bring third party actions against the client company, who is considered a special employer. Maynard v. Keylands Chemical Co., 626 F.2d 359 (4th Cir. 1980).

Wisconsin: Section 102.29 provides that no employee of a temporary help agency who makes a claim for compensation may make a claim or maintain an action in tort against any employer who compensates the temporary agency for the employee's services. Wis. Stat. § 102.29(6). Furthermore, no employee who is loaned by his or her employer to another employer and who makes a claim for workers' compensation may make a claim or maintain an action in tort against the employer who accepted the loaned employee's services. Wis. Stat. § 102.29(7).

Wyoming: The Wyoming Workers' Compensation Act defines a temporary service contractor as an entity that employs individuals directly for the purpose of furnishing services of the employed individuals on a temporary basis to others. Wyo. Stat. Ann. § 27-14-102(a). The Act also designates that the employer is considered the entity utilizing the services of a worker furnished by another, except in the instance of a temporary service contractor. Wyo. Stat. Ann. § 27-14-102(a). The entity considered the employer is immune from third party actions by virtue of the exclusive remedy provisions of the Act.

It is important for subrogation professionals to familiarize themselves with the lay of the land when evaluating subrogation potential in employee leasing situations, regardless of which state you are subrogating in. Knowing who can be sued and when is extremely critical in evaluating your recovery chances and performing the necessary due diligence and investigation necessary to preserve your rights to bring a third party action and recoup your claim payments.