

INSURANCE FOR YOUR SMALL BUSINESS

Risk is the chance that loss will occur. As a business owner, you can handle risk in several ways. You can:

- **Retain** the risk. This means that you will pay for any loss or damage that occurs; in effect, you are *self-insuring*. "
- **Transfer** the risk. When you buy an insurance policy, you transfer your risk of loss to an insurance company
- **Share** the risk with an insurance company by agreeing to retain the risk up to a certain dollar amount, (the *deductible*), then letting the insurer take on anything beyond that figure. The higher the deductible you choose, the more you are self-insuring and the lower the cost of the policy. Deductibles range from \$250 to \$10,000.

Assessing Your Insurance Needs

Like most business owners, you'll probably want to transfer a large portion of your risk to an insurer. Factors to consider as you assess your insurance needs include the types of products or services you sell, the level of inventory you carry, the type of equipment you have, and whether or not you have employees. Also consider whether you want the insurer to assume *all* potential risks or just certain ones; the cost of the policy will vary with the risks you choose to insure against.

Property Coverage

Property insurance protects your building and its contents from risks that range anywhere from fire to vandalism. In the event of a loss, property insurance can provide the funds to rebuild your business. That's one reason why *replacement cost insurance* can be good idea. This type of coverage will replace your property at current prices regardless of what you paid for the property. Although replacement insurance will cost more than other types, it protects you from inflation.

To determine the amount of property coverage your business requires, take into account the value of inventory, equipment, furniture and fixtures. Don't forget to think about valuable papers, business contents in transit, personal effects, and property you may be holding which belong to someone else. If you lease equipment, the lessor usually requires that you maintain coverage on it to protect his interest. Lenders may impose requirements related to the financing of equipment, inventory, and other assets.

Business Interruption

Though an event like a fire may make it impossible for you to manufacture your products or deliver your services, your business expenses won't go away. A *business interruption policy* covers expenses like payroll and rent; some policies even reimburse you for lost profits. This coverage can preserve your business financially until you resume normal operations.

Liability Coverage

A business owner can be sued by almost anyone with whom his or her business comes into contact including customers, delivery people and vendors. Liability claims can result from falls, auto accidents, defective products, and a variety of other causes. Liability insurance can protect your business from financial ruin caused by damage claims. If your company manufactures, designs or sells products, you'll

also need *product liability insurance*. In determining an adequate amount of product liability coverage to maintain, consider the nature of the products and the potential for someone to be harmed or injured while using them. Keep in mind that product liability claims may not be filed immediately; in some instances, manufacturers have been held responsible for defective products as long as 20 years after they were made or sold.

Life Insurance

Business owners often have to borrow funds, sign leases, and make other financial obligations that their business or family may be responsible for in the event of the owner's death. It is important to understand the financial impact your business can have on your family. Determine if you have adequate insurance coverage to payoff the company debt and still provide the financial support your family will need to continue without you.

Disability Coverage

Many business owners fail to think about getting disability insurance protection for themselves until a time of crisis. Disability insurance is based on individual earnings, and provides benefits in the event of temporary or permanent disability. These benefits may be used to meet current obligations of the business or to pay for personal living expenses. When the coverage is properly structured, benefits provided under the policy may be income tax free.

Workers' Compensation

Workers' compensation insurance provides income, medical and rehabilitation benefits to your employees who are injured or contract an illness while doing their jobs. This type of insurance is administered by the state in which the work is performed, and the business owner is responsible for complying with state laws. In Illinois, Workers' compensation coverage is required by all employers regardless of the number of employees.

Costs of coverage depend on the industry and classification of job duties; duties resulting in higher accident risks will translate into higher premiums. Many industries and trade associations have self-insurance funds that pool premiums of participating employers to obtain better coverage rates for their members. Costs are also directly affected by the employer's loss history, so it's ethically *and* financially wise to take precautions to prevent employee injuries.

Employee Health

Health insurance coverage contributes to the well-being of your work force. It is an important employee benefit that can help you to recruit and retain quality staff. This coverage is usually provided on a group basis, and must include full-time employees without discrimination. Employers can select from a variety of health care plans. *Private indemnity plans* give employees access to any facility and provider they choose, but usually result in higher premiums. For that reason, popular selections for group health insurance today include *health maintenance organizations* (HMOs) and *preferred provider organizations* (PPOs). These options provide affordable alternatives to employers, with a limited reduction in benefits.

Other Types of Coverage Available

The coverages described above will apply to most small businesses, but they may not address all of the risks that you face. Many additional coverage's are available, including flood coverage, earthquake coverage, burglary and robbery coverage; automobile liability coverage; non-owned auto coverage; hired car coverage, surety bonds, fidelity insurance, and coverage for money and securities.

More information is available at the following Internet sites:

www.insurance.wa.gov/industry/smallbusiness/homebusiness.asp
www.10.americanexpress.com/sif/cda/page/0,1641,15728,00.asp (select search and then Small Business Insurance primer)
www.iii.org (select business)

You need adequate insurance coverage of many types to operate a successful company in today's business environment. SCORE recommend you work directly with an insurance agent to determine exactly what insurance you need and can afford. After assessing your needs and purchasing appropriate insurance, be sure to review your policies periodically to make sure that the coverage is still adequate and appropriate.