

Risk Manager

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Protect the MVP from a disability disaster

While you may be your business's most valuable player (MVP) and owner, if you suffer a disability it could be financially devastating to you, your family, and your business. To qualify for Social Security disability benefits, you must be severely disabled and, even then, you will have to wait at least six months for payments to begin. Social Security disability was not intended to be an individual's sole source of disability income, thus benefits are often less than what you might need to cover your regular living expenses.

Disability income insurance offers protection against an accident or health crisis that limits your ability to earn income. Depending on your income, the maximum coverage you can buy may replace 45% to 75% of your pre-disability earnings. The policy's cost generally depends on such factors as the risk level of your occupation, your age, health, and the scope of coverage. Following are some important policy features.

- **Definition of Disability.** Carefully review the definition of disability in your policy. Some policies cover you if you are unable to work in the occupation in which you were employed or for which you were trained, or if you can no longer earn as much as you once did in that field. In contrast, other policies cover you only if you are unable to work in *any* occupation. This distinction can make a big difference if you become disabled.
- **Residual Benefits or Partial Disability Coverage.** Under certain specified circumstances, if you become disabled and are only able to earn a *portion* of your previous income, residual benefits or partial disability coverage pays a portion of your benefits.
- **Guaranteed Renewable.** With this feature, the insurer cannot refuse to renew your policy or change any terms, except for premium cost, as long as you continue to pay your premiums on time.
- **Guaranteed Insurability.** This provision allows you to increase your monthly benefit, even if you experience health changes that would otherwise prevent you from obtaining additional disability coverage.
- **Cost-of-Living Adjustment (COLA).** This feature helps protect your benefits against the effects of inflation during a long-term disability.

Also, consider a **business overhead expense policy** that can help cover lost profits and continuing fixed costs, such as salaries and ongoing business expenses, in the event you suffer a disability. In general, benefits are: paid monthly after a predetermined waiting period; limited to a maximum amount; and restricted to a specified length of time (often from one to two years). A thorough disability plan that includes *both* disability income and business overhead expense insurance can help protect your livelihood and ensure your business stays up and running.





Did You Know

Basics of employee benefits

In order to remain competitive, as well as attract and retain top employees, employers are faced with the task of creating a winning compensation strategy that will not only accomplish these objectives, but will also stay in line with corporate budgeting constraints. It's a fact that employee compensation is much more than just a salary. It can encompass all the "perks," such as vacation and sick time, company vehicles, corporate memberships, and a variety of benefit options designed to provide employees and their families with, at a minimum, health insurance and retirement income. While employers are legally obligated to provide certain state and federally sponsored benefits, the majority of employers also offer, and often contribute to, additional employee benefits.

State and Federally Mandated Benefits. Employers are required by law to participate in certain programs, either through paying taxes or making contributions. These benefits include: workers compensation coverage; unemployment insurance taxes; Social Security taxes; Medicare contributions; and state disability laws, where applicable.

Group Benefits. The majority of employers voluntarily offer health-related benefits to employees. In most instances, the employer and the employee share the cost for employee health-related insurance. There is a wide range of group benefits available to employers, including:

- **Group Term Life Insurance**—Group term life insurance is generally offered as either a fixed amount, or based on a multiple of salary. For example, an employer might offer employees a fixed benefit of

\$50,000, or perhaps two times their annual salaries.

- **Medical Insurance**—Medical insurance is an important part of an employee's overall compensation package. Premiums for medical insurance have historically been very costly, and it is almost prohibitively expensive for someone to purchase outside of an employer-sponsored plan. Thus, an employer-sponsored health plan is an excellent way to attract and retain employees.

There are a number of different types of health insurance plans, including **Fee-for-Service Plans, Preferred Provider Organizations (PPOs), Point of Service (POS) Plans, and Health Maintenance Organizations (HMOs)**. One main difference in each of these plans is the number of participating doctors. In a Fee-for-Service plan, an employee may go to any doctor for treatment, and pay a deductible and coinsurance. In a PPO plan, employees may either go to any doctor of their choosing and pay a deductible and coinsurance, or visit one of the participating doctors in the plan and pay a lower co-payment. POS plans offer some of the flexibility of a PPO plan, but the employee must choose a primary care physician within the plan. HMOs allow the employee to see doctors only within their plan, sometimes at an HMO facility.

Whichever plan you choose to offer your employees, you should know that there will be those who insist on seeing their own doctors, and are willing to pay extra premiums and deductibles and coinsurance; for them, a Fee-for-Service or PPO plan may be a good fit. Other employees may not have that need, and will appreciate a less expensive, more restrictive plan, such as a POS or HMO.

Defining Danger

While keeping your employees safe from hazards is a top priority, it may seem that the possible dangers are endless. The Occupational Safety and Health Administration (OSHA, 2002) defines an "imminent danger" as a "workplace hazard that puts you at immediate serious risk of death or serious physical harm." If you feel you or your employees may be faced with such dangers, you might want to contact OSHA online at www.osha.gov for assistance with dangerous situations.

A Pirate's Life...

It may seem harmless, but software piracy, "copying, distributing, or downloading unauthorized copies of software" is a crime. According to the Business Software Alliance (BSA, 2001), 25% of *all* software, for individuals and businesses, was pirated. For the software industry, this meant a loss in profits of over \$2.5 billion and over 100,000 lost jobs. Similarly, software piracy for 2001 cost the Internal Revenue Service \$1.5 billion in tax revenue.

Buying Online

Many small business owners are concerned that with the increased use of the Internet, crowds in stores may become a thing of the past. But, where are people spending their money on the Internet? According to the United States Chamber of Commerce Statistics and Research Center (2001), almost 30% of Internet e-commerce originates from online auctions, followed closely by book purchases and clothing.

For Your Information



Business Beginnings

Creating a business plan can be a key step in getting your small business off the ground. The Small Business Administration (SBA) offers many tools to help a prospective business owner get “up and running”—including how to create a business plan and even a marketing plan. For more information on how to start the small business you’ve always dreamed of, visit the SBA online at www.sba.gov.

Protection Abroad

Even the savviest business owner is susceptible to money scams—particularly those who conduct business outside the U.S. Identifying these scams *before* you become a victim can save you hundreds, even thousands, of dollars. To learn more about possible business scams abroad, check out the Small Business section of the Federal Citizens Information Center online at www.pueblo.gsa.gov.

Minimize Stress

In today’s fast-paced society, many Americans seem more “stressed out” than ever before. However, there may be some simple changes you can make to help minimize the negative effects stress can have on you and your family. For example, 20 to 30 minutes of regular exercise may considerably reduce that “stressed out” feeling. For more information on the causes and effects of stress, and how to help lessen its presence in your life, visit the National Mental Health Association on the web at www.nmha.org.

Managing risk through additional insured

As a business owner, from time to time you may enter into relationships with businesses, government agencies, other entities, or individuals. These relationships may expose you to risk, such as liability arising from another party’s negligence or faulty/hazardous products. Although “hold harmless” agreements—provisions where one party assumes liability by indemnifying another party—are a popular way to protect your company against potential liability, in many situations, it may be best if you are also covered as an **additional insured** by an insurance policy owned by that party.



For example, suppose you are doing business as Smith Construction Company, a *general contractor*, and you enter into a contract with Top Builders, a high-end building development company, to build 15 new homes. You hire Integrated Electric Company, a *subcontractor*, to provide the necessary wiring and other electrical work for the project. To protect you from any claims that may arise from Integrated Electric Co.’s negligence while working for you, you may want to require Integrated Electric Co., to list you as the additional insured on its insurance policy.

Remember that your original contract is with Top Builders. If Integrated

Electric Co., negligently wires a home that results in a fire, Top Builders would most likely turn to *you* for compensation. You may possibly be protected from this claim if you are the additional insured under the policy of Integrated Electric Co., the **named insured**.

Potential Concerns

As the additional insured under Integrated Electric Co.’s insurance policy, you may want to be aware of the following four potential concerns:

1. Policy Cancellation. Integrated Electric Co., or its insurance company, can cancel, adversely change, or refuse to renew the insurance policy at any time without notice to you as the additional insured. To ensure you are properly notified of these types of events, consider requesting an insurance certificate that provides a notice period—generally 30 days.

2. Inadequate Liability Coverage. Integrated Electric Co.’s liability limits may be insufficient to protect your exposure as the additional insured. Consider requesting limits that will help safeguard your interests. In addition, review your own insurance policy to ensure you have adequate liability coverage. Indeed, your status as an additional insured on another’s policy is an extra level of protection and should not be considered a substitute for the protection you have arranged with your own insurance provider.

3. Excess Policy. An insurance company may deem your coverage as the additional insured under Integrated Electric Co.’s policy to be *in excess of* the coverage under your own insurance policy. Thus, your insurance policy would be considered the primary policy for settling claims, and Integrated Electric Co.’s policy would take effect

Managing risk through additional insured

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only *after* your own policy limits have been exhausted. To limit your exposure, consider requesting an insurance certificate that specifically states Integrated Electric Co.'s policy is primary with respect to your status as the additional insured.

4. Other Exclusions. Coverage for hazards such as underground construction, landfill operations, or explosives

may be excluded from Integrated Electric Co.'s policy and could therefore negate your coverage as the additional insured. To help ensure your interests are properly safeguarded, consider reviewing Integrated Electric Co.'s policy for inclusion of this type of coverage.

Naming you or your business as the additional insured on another party's insurance policy can help shield you from

liability due to others' negligence or faulty products. However, it may not necessarily provide you with *all* the coverage you need. So, if you are listed as the additional insured on another party's insurance policy, confer with one of our insurance professionals to evaluate your risks and to help familiarize yourself with how the policy will respond under various scenarios. Please contact our office with any questions you may have.

Basics of employee benefits

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In order to satisfy the majority of their employees, many employers offer their employees a choice of a Fee-for-Service or PPO plan, as well as an HMO plan.

- **Dental Insurance**—Dental insurance plans pay for a majority of services offered by dentists, orthodontists, and endodontists. Services are classified



as preventive (routine exams and x-rays), restorative (fillings, endodontics, periodontics, crowns, and prosthetics), and orthodontia (braces). Benefits are payable as a percentage, based on the classification of the service. There is usually an annual maximum benefit per insured, and a lifetime limit on orthodontia. Riders are available for services such as adult orthodontia.

- **Disability Income**—Disability income insurance replaces a percentage of an employee's earnings in the event that he or she becomes unable to perform the regular duties of his or her job. Typical benefits range from 50%–70%, up to a monthly maximum benefit. Some disability income plans pay benefits for a number of years, or until age 65. Most plans offer additional provisions via

policy riders designed to improve coverage, as well as encourage the employee to return to work as soon as he or she is able. Some of these policy riders include residual or partial disability payments and cost-of-living adjustments.

- **Vision Insurance**—Vision plans generally provide a benefit for the purchase of eyewear or contact lenses, and may also pay for eye exams.

Offering a solid benefits plan now, may help you attract and retain employees that will assist you in maintaining your competitive edge. Keeping employees—especially quality ones—satisfied is an issue that affects all employers. An annual review of your benefits package might make benefits planning a simpler task for all parties. For further information, please contact our office for a professional consultation.