

*“They’re suing me for HOW much??”*

## Starting a business? The right policies literally *insure* your success.

By Douglas B. Megill, President & CEO, McLean Insurance Agency

You’re finally starting your own business. Whether you’ll have 10 employees or run things on your own, putting the right insurance policies in place will protect company people, property, profits and your own *personal* assets as well. Unfortunately, many entrepreneurs don’t understand the fundamental role insurance plays. With the economy making dissatisfied customers, vendors, landlords and employees increasingly likely to take businesses to court, that lack of understanding can cost you everything.

**Common scenarios can create million-dollar losses.** Suppose your company has just one employee. You aren’t required to buy workers’ comp. All you need is the basic property insurance policy required by your landlord and you’re good to go, right? Wrong! Taking this same scenario, now suppose you ask your one employee to stop on the way back from lunch and buy a few office supplies. In the process, the employee causes a car accident. The medical costs of the employee and other driver quickly eat up the employee’s personal insurance coverage. Who must cover the balance of those costs? Who must pay for lost wages while the employee recovers? The answer is *you*. And unless you have good insurance in place, covering those expenses could cost you your business – and even your future retirement. Why do so many employers risk such a situation when insurance can be had at such affordable rates? For example, for a clerical employee, workers’ compensation costs about 18¢ per \$100 of payroll. That’s just \$54 a year for an employee with an annual salary of \$30,000, yet it could literally protect you from million-dollar liability.

So, what insurance *does* a new business need? It depends on what type of business you have.

Here’s a quick overview . . .

**Protect your  
business's  
FINANCIAL ASSETS**

*This category of insurance protects your business or personal assets in the event you are held responsible for claims arising from harm to other people's property or bodily injury to anyone who doesn't work for you.*

**Every company:** **General Liability Insurance** covers property damage and bodily injury that may occur at a client's place of business. A basic policy is usually required in order for a business to lease space or perform contract work.

**Consulting company:** If you provide advice, counseling or otherwise get paid for your knowledge, you need **General Liability Insurance plus Professional Liability Insurance**. General liability coverage applies to bodily injury and property damage. But what if you crash a client's IT system or give advice that causes a financial loss and your client sues? That's where professional liability protects you and your business assets.

**Manufacturer, building owner or contractor:** Many contractors believe that once work is performed and accepted, their liability is at an end. Not necessarily. Down the road, if your product or some aspect of construction causes injury or damage, the injured parties could sue the owner of the structure *and* the person who built it or supplied the products. In such a scenario, it pays to have both **General Liability Insurance plus Product and Completed Operations Exposure Insurance**.

**Service company:** Service companies — like restaurants — need **General Liability Insurance** to help protect against basic “slip and fall” claims. But what if someone gets sick from eating spoiled food? The general policy won't cover what is product-related liability. For protection, *every* service business should also have **Product Liability Insurance**.

**Advertising agency, Web specialist, or media specialist** In terms of liability, a Web site is viewed as a form of advertising. If you're sued for copyright infringement, slander or other issues, your General Liability Insurance will protect you — *unless* you are in the business of creating Web sites or advertising. Then, you can be held liable for the media you create for yourself *and* for third parties. **Media Professional Liability Insurance** will mean you can sleep better at night!

**Any company with people who drive on company business** Most employers who own a fleet of vehicles know they need **Fleet Liability Insurance**. But what if your employees drive their own cars on business? What if you or your employees rent cars? Picture this scenario: your employee is on a sales or service call using his own vehicle. He causes a major accident. The liability coverage on his auto policy fails to cover the medical, property and lost income claims of the other drivers and passengers involved. If they come after you to make up the difference, **Non-owned Auto Liability Insurance** will help protect your assets.

Now suppose you're a company — such as a government contractor — with people who travel and often rent cars. The insurance you can buy from the rental car company is strictly for damages to the vehicle, not for liability incurred while driving it. **Hired Auto Liability Insurance** is an effective way to help minimize your exposure in the event of an accident that causes bodily injury or damage to other cars or property.

**Any company where grievances might arise** Did the delivery guy “stalk” your receptionist? Did you tell one-too-many off color jokes in the office? Does a disgruntled employee think she's been wrongfully terminated? **Employment Practices Liability Insurance (EPLI)** helps provide protection for your business assets in the event of a workplace lawsuit such as harassment, wrongful termination or discrimination

**Protect your  
business's  
FIXED ASSETS**

*This category of insurance protects the value of your business property in the event of damage, theft or loss.*

**Every company using  
computers/electronics**

Your property policy will cover fixed assets like desks and file cabinets, but it will *not* cover anything electronic *unless* you have an **Enhancement Endorsement**. This covers the value of assets like computers and servers and the media stored on or used by these devices. Often times, you can get a policy — a **Business Owner's Policy** — that packages your enhancement endorsement with your basic property and general liability coverage.

**Any company that  
handles valuable  
documents or lacks  
off-premises backup**

If you keep hard-copy records of accounts receivable, or if you don't use off-premises file back-up, a flood, fire, theft or other loss could leave you not knowing who owes you money. Trying to reconstruct records disrupts cash flow. You could also be in serious trouble if valuable documents were damaged, destroyed, lost or stolen. **Valuable Papers and Records Coverage** plus **Accounts Receivable Insurance** will help.

**Any company whose  
employees might  
steal**

Employee dishonesty is the #1 reason small businesses fail. You never want to discover that a long-trusted bookkeeper has embezzled thousands and there's no cash to keep your business open. But if it does happen, **Employee Dishonesty Liability Insurance** can restore the amount the employee has stolen. Buy a big enough policy: Losses can occur gradually. By the time you notice, you want a policy amount big enough to cover you.

**Protect your  
HUMAN CAPITAL**

*This category of insurance protects your employees and their families — and it protects you in case they should decide to sue you or your business.*

**Every company with  
at least one employee:**

Depending on what state you're in, the law may not require **Workers' Comp Insurance** until you have a certain number of employees. In Virginia, for example, it's three employees. But think back to the scenario at the start of this whitepaper: if even *one* employee has an accident, you could be liable for medical costs, loss of income, and even long-term disability. The moment you hire one employee — even a *part-time* employee, you need Workers' Comp.

**Companies concerned  
with hiring/keeping  
good employees**

Benefits are powerful recruitment and retention tools. But for companies just starting out, premiums on group **Health Insurance** plans can be staggering. A sound way to get lower premiums is by offering plans with deductibles of \$5,000 or even \$10,000. These deductibles can then be offset by savings accounts funded either by the employer or by employees. Employers often find they can fund these accounts from the money they save on the lower premiums. There are two types of savings accounts you can put in place to bridge the gap with high deductibles: a **Health Savings Account (HSA)** or a **Health Reimbursement Account (HRA)**. The difference is that employees who leave the company can take HSA funds with them, while an HRA account stays with the employer.

**Employee Benefit Liability Insurance** is also wise. Suppose you don't properly register an employee for your health insurance plan but the mistake isn't discovered until the employee is denied coverage for cancer treatment. You would be liable for the cost of that treatment. Or, suppose you overlooked getting a new employee signed up for life insurance and he dies suddenly. His wife can sue you for the amount of the life insurance benefit he was promised. And don't bet on the judge ruling against the employee's widow!

**Companies that offer  
401(k) plans**

If you sign IRS Form 5500, you're *personally* liable for the performance of the assets in your company's 401(k) retirement plan. Suppose you've limited the choices of investments offered in the plan and an employee who's leaving or retiring is dissatisfied with his rate of return and sues you. If the judge finds against you, you'll be liable for making up the difference in the fund's performance. **Fiduciary Liability Insurance** will help pay that claim.

**Companies who rely on “key people”**

Most creditors and venture capitalists require companies to have **Life Insurance** on key people. It’s also a good idea if losing a key employee would disrupt (even temporarily) your business or cash flow. Life insurance bridges the revenue shortfall or pays the cost of recruiting and getting new personnel up to speed. Partners are often named as beneficiaries of their colleagues’ life insurance policies so proceeds of those policies can be used by them to buy out the share of the business that would be inherited by the colleagues’ heirs. Life insurance is a discretionary benefit (you can choose who gets it) and 100% tax deductible.

**Any company with employees**

If you fail to provide a safe working environment and employees are exposed to threats or physically harmed by other employees *or third parties*, you are liable. **Workplace Violence Coverage** helps protect you from having to medical costs and lost income for employees who are actually harmed *and* for employees who experience mental anguish from the incident.

**Companies with any employee (you!) who could have an accident or need long-term care**

Most entrepreneurs accept the need to provide for the possibility of their death, but *not* for the possibility that they could become disabled. Yet nursing homes have many patients in their 40s who have been disabled – often temporarily — by strokes as well as people who have been injured in car or sporting accidents. If an accident or illness should hit you, health insurance covers *medical* costs, but not loss of income. **Disability Insurance** can cover this gap while you recuperate. **Business Overhead Expense Disability Insurance** can reimburse your business for the cost of finding someone to replace you in running the company.

Disability insurance helps cover income and the overhead costs of replacing you. Health insurance can cover your medical expenses. But what if you need long-term care in a nursing facility? Health insurance does not cover this. Since nursing home and assisted living facilities can run thousands of dollars a month, even a six-month stay can wipe out your finances. Put in place *before* something happens, **Long-Term Care Insurance (LTC)** helps cover these costs for you. Like life insurance, you can choose who in your company is eligible for LTC, and the cost is 100% tax deductible.

**Companies whose employees travel or could be kidnapped**

If your employees travel on business around town or around the world – they run the risk of kidnapping, accidental injury and death. Ransom and family lawsuits could bankrupt you. **Kidnap and Ransom Coverage** plus **Travel Accident Coverage** will help protect you.

**The bottom line is that insurance is a huge factor in the success of your business** — and your ability to sleep at night. Costs for good policies don’t have to be prohibitive. A solid Business Owners policy can average about \$300-400 a year. But price shouldn’t be your starting point. Instead, you want to examine your business’ specific needs *and risks* and an insurance strategy that satisfies both.

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Please note that the explanations of insurance products in this whitepaper are very brief. Actual policy language can vary. It is therefore important to include an experienced insurance advisor on your start-up team, along with your banker, accountant and lawyer. The advantage of choosing an *independent* advisor is that he or she can consider multiple vendors and lines of insurance (liability, property and casualty, health, life, etc.) in designing your own best risk-management strategy. Independent insurance advisors do not charge a fee for their services so you benefit from the right policies without paying extra for their expert guidance.

At McLean Insurance, we’ve developed a TrueRisk Profile<sup>SM</sup> for evaluating both personal and business risk strengths and vulnerabilities. This is our first step in developing a comprehensive asset protection plan for each of our clients.

We would be happy to provide you with a free consultation. Please call Christine Cavins at (703) 637-4346 or [ccavins@mcleaninsurance.com](mailto:ccavins@mcleaninsurance.com) to set up an appointment...