



Expect the Best, Prepare for the Worst

**Insurance Fundamentals
for Small Business**

Executive Summary

In the excitement and occasional anxiety of starting and running a small business, owners look for certain milestones as measures of success. These essential elements cover a wide range: a completed business plan, a capital-equipment loan, a real estate agreement, the first dollar earned, the first employee hired. Each is significant, but one benchmark small-business owners initially overlook is insurance. Knowing what kind of insurance is available and the amount of protection a business needs is a crucial first step toward success. This white paper helps owners understand the basics of business insurance, the various types of policies, and the terms insurance agents use to describe coverage and benefits.

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Business Insurance: What Is Really Necessary?

Business insurance policies are available to cover nearly any circumstance: for instance, losses due to fires and floods, claims arising from mishaps in the workplace, or company motor-vehicle accidents.

To make wise decisions and get the right coverage, small-business owners first need to answer several key questions:

1. What types of insurance does the government mandate for my business?
2. What insurance does my business need to survive in case of catastrophe?
3. What insurance would be useful to have if I can afford it?
4. What insurance do I need to offer to attract and retain quality employees?

The answers to these questions can vary widely from business to business, and it can be difficult to know where to start. Fortunately, business owners can turn to reliable sources for industry-specific information on insurance, such as trade associations and experienced insurance agents.

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Protecting Business Assets – Property and Casualty Insurance.

Business owners rely on property and casualty (P&C) insurance to help recover from damage or loss caused by incidents such as fires, floods, or thefts. The following types of insurance fall under the P&C classification.

Workers' Compensation Insurance

Workers' compensation insurance is mandatory in most states. Premiums are largely determined by pre-set levels according to industry type, and benefits pay for medical care for employees who suffer injury, illness, or death on the job. In addition, workers' comp protects employers from liability and legal action. State employee minimums vary.

The most frequent claims for injuries and illness are made by three categories of employees: janitors and cleaners; nursing aides, orderlies, and attendants; and registered nurses.¹

Business Owner's Policies

A business owner's policy (BOP) combines a variety of coverage options and are often recommended for businesses that are just starting. BOP bundles can include:

- property insurance that covers buildings, equipment, and inventory;
- liability insurance that protects against damage caused to others by products or employees;
- business-interruption insurance that can help pay office expenses in cases where the operation can't produce its product or service effectively; and
- crime insurance that pays when there has been robbery, burglary, or embezzlement.

Employment Practices Liability Insurance

Employment practices liability insurance (EPLI) protects employers against claims resulting from employee lawsuits related to discrimination, sexual harassment and similar occurrences. Is there a need for this kind of coverage? Consider that in a five-year period, more than twenty-one percent of private companies experienced an EPL charge or lawsuit.² EPLI protects employers by covering their legal expenses — including covered amounts for judgments and settlements — incurred from employee lawsuits.

Business Overhead Expense Insurance

Business overhead expense (BOE) insurance offers a backup plan in case the owner can't work for a period of time. It enables small businesses to operate without their owners, covering a wide range of expenses when owners become disabled. Covered expenses may include:

- accounting and legal fees
- employee benefit costs
- employee salaries
- employment taxes
- general office supplies
- interest on business debts
- other business insurance expenses
- principal and interest on your business mortgage
- property taxes
- rental payments for property and equipment
- utilities

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Umbrella Coverage

Umbrella coverage provides extra protection that extends business insurance policies and provides broad liability coverage. Umbrella policies can be especially useful in supplementing any existing general business liability and commercial auto insurance coverage.

Commercial Auto Insurance

Commercial auto insurance is just as necessary to businesses as private-car insurance is to individuals. Businesses use it to cover their vehicles, whether it's one pizza-delivery motorcycle or a fleet of heavy-duty repair trucks. If a company vehicle is involved in an accident, depending on purchased coverage, commercial auto insurance would help pay for collision repair as well as any other property damage or injuries to individuals.

Coverage for Employees – Group Health and Life Insurance

Employees rank employer-sponsored health insurance as the most important benefit of employment.³ Given the rising cost of health care, it is reassuring to know that group insurance rates and benefits are available for firms as small as two employees. What's more, providing health insurance offers multiple tax benefits, and some plan options require little or no contribution from the employer.

Uninsured employees get fewer routine checkups and sometimes do not seek treatment for ailments, so injuries and undetected illnesses worsen and become more challenging and expensive to treat. For employers, uninsured workers pose a risk of higher absentee rates and reduced productivity.

Nearly 178 million employed Americans — about sixty percent — are covered by health insurance where they work. More than ninety-five percent of companies with fifty or more employees offer this benefit, according to a 2008 survey.⁴ Nearly half of the smallest firms — those with three to nine employees — offer health benefits.

Group Health Insurance

Group health insurance enables employers to take advantage of reduced rates for themselves and their employees. To help make health care affordable, some group health plans allow an employer to split the cost of the premiums with employees. Other plans allow the employer to offer a variety of plans, at different costs, which provides the employees various choices of coverage for costs they can afford.

It's a common assumption that "group insurance" refers to large numbers of people who are part of the same organization or community. In fact, the term refers simply to policies that are provided to employees as a benefit. They are available to employers of any size, starting with an owner and one employee, as long as employees are willing to participate.

Participation requirements vary among carriers and states. Generally, employers with two to nine employees require seventy-five to one hundred percent participation; ten to fifty employees, seventy-five percent participation; and more than fifty employees, fifty percent participation. Specific requirements depend on the state and carrier involved.

There's an alphabet soup of terms related to employee healthcare plans — from HMOs and PPOs, to POPs and HSAs. The best way to find out what's right for you is to check with a licensed agent who is well versed in the details.

Voluntary and Supplementary Insurance Policies

Voluntary and supplementary insurance policies fill the gaps in coverage for employees who want extra protection. Available coverage includes:

- accident insurance
- dental and vision insurance
- hospital indemnity and critical illness insurance
- life insurance
- short-term disability

Individual Medical Insurance

Individual medical insurance can be purchased even if a small business doesn't offer group insurance to its employees. Owners may purchase an individual policy to cover themselves and family members.

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Plan for Good Outcomes

Small businesses deserve every opportunity to thrive, and a solid insurance plan can fulfill legal requirements and offer protection for companies at all stages of growth. For small-business owners, there's no reason to overspend. Owners should turn to a trusted insurance advisor for sensible options that cover the business and its employees without breaking the bank.

Paychex Insurance Agency, Inc.

Paychex Insurance Agency is a full-service insurance agency that has taken a leadership role in transforming how businesses adapt to, and benefit from, the rapidly changing insurance industry. Whether you're looking for a business owner's policy, workers' compensation insurance, group health, or life insurance, we offer flexible, scalable insurance solutions for you, your business, and your employees. We work with 150 carriers across the nation. So, just like our nearly 100,000 insurance clients, you can feel confident in your coverage now and as your business needs change.

To view the Paychex Insurance Agency Web site, go to www.paychexinsurance.com. Licensed Paychex Insurance Agency representatives are available at 877-393-8688 to answer your questions.

Notes

¹Bureau of Labor Statistics, February 2010

²*Chubb Private Company Risk Survey*, 2010

³*MetLife Seventh Annual Study of Employee Benefits Trends*, 2009

⁴The Kaiser Foundation and Health Research & Educational Trust, *Employer Health Benefits*, 2008 Annual Survey

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