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Insuring Your Home Business





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If you have recently started your own business and work out of your home, you'll probably need to upgrade your insurance program. At-home business owners often make the mistake of assuming that their homeowners policy covers their business equipment. In fact, your homeowners policy may include little or no coverage for your business property and business liability exposure. You also should consider the need for business interruption insurance, workers' compensation coverage, and business automobile coverage. Finally, you should examine your need for life, health, and disability insurance.

Homeowners policy

Homeowners policies generally cover business property on your premises only to a certain limit, usually about \$2,500. Coverage for business property away from your premises is even more limited, with most policies having a \$250 maximum. That is the extent of insurance coverage for your business in the typical homeowners policy. You are not covered for business liabilities, including such things as a delivery person or a client injuring themselves while on your property.

For a higher premium, some insurance companies offer an endorsement that you can add to the standard homeowners policy. An endorsement allows you to increase the liability limit for business property and add a small amount of general liability coverage. The endorsement is designed for very small businesses. However, even with an endorsement, your business is left with uncovered exposures.

Home office policy

Many insurance companies now offer the home office policy, which is a combination of a homeowners policy and a business owners policy. This policy provides adequate business liability coverage, business interruption coverages, and increased limits for your business property, along with the traditional coverages found in a homeowners policy.

The business property limits typically begin at \$10,000. Depending on the policy, the business liability limits may range from \$300,000 to \$1 million. The policy covers lost income and continuing expenses for up to one year in the event your home is damaged and you're unable to work. The policy also covers loss of valuable papers and accounts receivable, while offering higher limits for equipment breakdown coverage and business property used off-premises.

Business owners policy

This type of commercial policy is designed specifically for small businesses. Traditional business owners policies (BOPs) are very comprehensive because they cover buildings, business property used on- and off-premises, and liability. Also covered are computers and other business equipment, software, data, loss of income, continuing expenses, and professional liability for certain occupations.

Some insurance companies have created a new kind of BOP designed specifically for the at-home business. This policy is less expensive, and it provides broad-enough coverage for a larger business without duplicating your coverage. For example, the new BOP would not cover your home structure, because it is already covered by your homeowners policy.

Umbrellas and professional liability

An umbrella policy provides increased liability limits beyond those in separate policies. For example, say you have a BOP with a general liability limit of \$3 million. If you think you'll need more than \$3 million for your business, an umbrella policy will pick up where the BOP leaves off. If you purchase an umbrella policy with a \$5 million limit, your total limit of liability would be \$8 million.

For those in occupations that are particularly vulnerable to professional liability, a separate professional liability policy, usually called malpractice coverage or errors and omissions coverage, is a must. Examples of such



professions include law, medicine, architecture, day care, and personal beauty.

Automobile insurance

If you use your personal automobile extensively for your own business, you'll probably need to purchase a commercial automobile insurance policy. Examples of such small businesses are painters, caterers, and contractors. If you use your automobile as part of your business (e.g., a taxi service), you definitely need a commercial policy.

If you rent automobiles in the course of traveling for your own business, check your personal auto policy to see if it covers nonowned autos. Your auto insurance provider can help you determine the extent of your coverage and fill in any gaps.

Workers' compensation

Even if you have only one employee, you need workers' compensation insurance. Each state has its own minimum requirements for this type of coverage--contact your insurance agent or state insurance department for details.

Life insurance

Chances are, you already have a life insurance program in place. Though your individual life insurance needs may not change when you start an at-home business, the amount of insurance you have may change. For example, if you lost employer-sponsored coverage when you left your previous job, you may want to make up the difference so that you're still adequately protected. You may also need more insurance to cover any debts or liabilities you took on to develop your business.

Key person life insurance

Key person life insurance covers financial loss to your business due to the death of your partner or a key employee. If the covered individual dies, your company receives a death benefit. There are several creative ways you can set up a key person life insurance plan. Contact your financial professional to set up the best arrangement for your business.

Disability insurance

This type of insurance is very important to consider when you have your own business. Ask yourself if you have enough resources to support your family if you became disabled and could not work. If you do have some savings, how long would they last? Would you be depleting savings that are earmarked for your retirement or your kids' college education? Most people need disability insurance to protect against the loss of income that can result from disability. Your ability to produce an income is an asset that should be covered like your house and your car.

Health insurance

Health insurance for the self-employed can be expensive and difficult to find. One affordable alternative may be to join a professional association that offers group health insurance to its members. Chances are, your profession has its own specific association in your area or state. If not, there are associations for small-business owners in general. Finally, your local chamber of commerce may have a health insurance program for its members.

Individual health insurance is very expensive. What's more, some states have made the laws so restrictive for individual health insurance that many insurance companies in those states no longer offer them. However, one way to buy yourself protection before finding a permanent health plan may be to purchase short-term health insurance, if these policies are allowed in your state. These policies run from one to six months and are relatively inexpensive. Contact your insurance professional to find out how you can get short-term medical coverage.



Meet with a trusted insurance advisor

With all you have to think about in starting and running your own business, reviewing and updating your insurance program can seem like an overwhelming task. Your first step should be to talk with an experienced and licensed insurance professional. He or she can identify your needs, familiarize you with the relevant state laws, and recommend a suitable insurance program to meet them.

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