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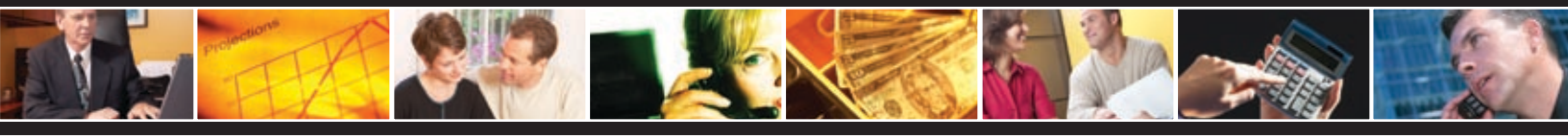
Risk Monitor



Ten Most Grievous Insurance Offenses Committed By Business Owners

Your business insurance is an asset just like your equipment or inventory. To use it to its full advantage, you have to learn to avoid these common mistakes:

1. Business insurance is only necessary if you have assets to protect - Asset protection is only one reason to purchase insurance. Insurance policies also pay for the legal defense of covered losses. As the defendant in a lawsuit, you will find yourself with a hefty price tag for court costs whether you are innocent or guilty. Without insurance, those costs will be an out-of-pocket expense.
2. Sole proprietors and S-corporation owners don't need workers' compensation insurance - Small business owners are typically classified as clerical or salespeople and workers' compensation rates for these classes are minimal. In return for your premium, you get 60 percent of your salary, tax-free should you need to file a claim. Workers' compensation also pays medical bills that may not be covered under your health insurance and there are no deductibles or co-pays.
3. When buying insurance, you should always opt for the higher deductible - Never choose a deductible until you have first reviewed the savings associated with each deductible level and compared that with your final out-of-pocket payment difference. Don't forget to factor in the level of risk you are comfortable with before making your final decision.
4. It isn't necessary to see a sub-contractor's certificate of insurance - Operating on faith may work in some situations, but this isn't one of them. If you fail to get a copy of insurance certification before work starts, you could end up paying more for your workers' compensation after you are audited, even if no claim was filed. If a claim is filed, and the subcontractor is uninsured, your premiums will increase.
5. Vehicles leased in the corporate name can be insured under your personal auto insurance policy - Since you don't have legal title to the vehicle, it isn't yours personally, so it cannot be insured under your personal auto insurance.
6. Thinking your coverage is cast in stone - Insurance can only protect assets if they are added to the coverage. As you add inventory or equipment, you should update your policy to reflect those changes.
7. Leaving your insurance agent clueless as to changes in your company - The time to tell your insurance agent that you are changing organizational structure, adding a new product line, or leasing a vehicle is before you start. Your agent can determine if the anticipated move will be costly in terms of the additional insurance you will need to cover new risks. Furthermore, they may be able to suggest an alternate course of action.
8. My insurance agent doesn't need to review leases before I sign them - Your agent can help you determine if the lease requires you to insure something over which you have no control, no insurable interest or which may cost you a lot to insure.
9. Home-based business owners don't need to consider business insurance - As the owner of a small business, you need the guidance of a business insurance agent who can discuss with you the specialized coverages you need.
10. You don't ask your insurer for loss prevention resources - Insurance companies are loss prevention specialists. If you don't take advantage of their knowledge, you're ignoring a valuable resource.

Welcome to the Elliot Whittier Insurance Newsletter!

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent risk management topics which may affect your organization. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us should you have any questions or needs.

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Shield Your Assets with Disability Income Insurance

Although it is difficult to consider, one day you may lose your ability to earn a living. An accident or injury could occur at any time, and cannot be anticipated. According to statistics presented by the Center for Disease Control's injury research department, an estimated 5.3 million Americans are currently living with a debilitating disability, and each year about 80,000 more become disabled. The CDC concluded that just over half of all non-minor injuries result in some sort of debilitating disability.

Your medical insurance does not cover all of the costs that accompany a disability, which comes as a surprise to many people. Even if you are covered by a group policy, you may only be eligible to receive a small percentage (usually 50-60% of gross income) of your current income if you cannot work, and benefits could last only a short time.

Social security disability will only be approved if you are severely disabled, and payments will not begin until six months after you have applied. Do not expect savings to cover you during this period; you may completely exhaust them within a few months. This could damage your credit, if you fall behind on mortgage, insurance or bill payments: 46% of all home foreclosures are caused by a disability, according to the U.S. Department of Housing and Urban Development. Sudden loss of income is a devastating, unpredictable experience and it pays to be adequately prepared.

A private disability income insurance policy can provide monthly benefits to replace a portion of your income in the event you become disabled. This will prevent you from exhausting your retirement savings, which would leave you without money to support yourself later in life.

While most people understand the importance of life insurance, it seems many overlook the value of disability coverage. It seems we anticipate death more fully than we anticipate becoming disabled. Disability insurance could prevent this unanticipated financial strain, by ensuring that you and your family are able to maintain a comfortable standard of living regardless of whether you are able to work.

Don't Be CLUE-less When It Comes to Insuring Your House or Vehicles

You're about to buy a new home or new car and you believe you've found the perfect one for you. You need to insure your new treasure, but for some reason you can't find a carrier to cover it. Is there any way you can find out why you seem to be uninsurable? The answer is simple, get clued in with CLUE.

CLUE, also known as Comprehensive Loss Underwriting Exchange, is a database of consumer claims compiled by a company called ChoicePoint that insurance companies access when they are underwriting or rating a homeowner's or auto insurance policy. An insurer can request a report for a piece of personal property that it is underwriting and receive claims information provided by the insurance companies who previously insured the property. This report also includes details such as the policyholder name, policy number, date of loss, type of loss, amounts paid, and a description of the property covered. The database contains up to 5 years of personal property claims history.

Under the Fair Credit Reporting Act, ChoicePoint can produce a CLUE report when a person or company intends to use the information in connection with the underwriting of a consumer's insurance policy. This includes situations where the consumer asks for an insurance quote or applies for insurance; or when the insurance company or agent requests the CLUE report.

Why would an insurance company investigate loss history? Actuarial studies have shown a high correlation exists between a consumer's prior loss history and future loss potential. This history, along with other factors, can be considered when a company is deciding whether to issue a policy and what premium to charge. It is legal for a company to investigate a prior owner's loss history in determining your eligibility for coverage.

As a consumer, you are not without rights when it comes to CLUE. Under the Fair Credit Reporting Act, you have a right to see and correct information on your claims history reports. If you have been denied insurance or charged a higher premium, contact ChoicePoint or ISO within 60 days of your denial to request a free report. Otherwise, you will be charged a small fee for your claims history report. You can find more information by logging on to ChoicePoint's website at http://www.choicepoint.com/industry/insurance/pc_ins_up_2.html

Employee or Independent Contractor?

A common scenario many business owners face is hiring an independent contractor, who operates as a sole proprietor, for a task where the possibility for injury exists. Yet, you fail to obtain workers' compensation coverage for this person because you assume if they were injured on the job, their independent contractor status would prohibit a claim against your insurance.

What you may not realize, however, is that just because someone is a sole proprietor of a business doesn't automatically make them an independent contractor if they come to work for you. They may very well be considered an employee.

Determining whether someone is an employee or independent contractor is complicated by the fact that three separate agencies, your state Workers' Compensation Board, your state Department of Labor and the IRS, each make a determination of status based on their own criteria. The IRS requirements can be found online at http://www.irs.gov. You can obtain state requirements by contacting your local Workers' Compensation Board and Department of Labor office.

In spite of all of this seeming confusion, there are general rules of thumb you can utilize to determine if a worker should be considered an employee. The commonality among these criteria is that the employer directly controls the how, what, and when of the worker's employment.

Direct Evidence of the Right to Control

- Do you have the right to require compliance with your instructions?
- Will you be training this person through meetings, classes, or apprenticeship with a more experienced worker?
- Will the worker's services be integrated into your overall business operations?
- Do you set the number of hours this person will work?
- Will the worker devote full time hours to your business?
- Do you determine the order or sequence in which the worker's tasks are performed?
- Is the worker required to submit regular oral or written reports?
- Do you pay the worker's business expenses?

Method of Payment

- Do you provide this person with hourly, weekly, daily, monthly or other regular periodic payments?

Furnishing of Equipment

- Is the work being performed on your premises?
- Do you provide the worker with tools, materials, or other equipment?

Right to Terminate Relationship Without Liability

- Do you have an ongoing relationship with the worker?
- Do you have the right to discharge the worker without liability?

The general criteria for determining whether a worker should be considered an independent contractor or employee are as follows:

- Does the worker perform services for several unrelated persons or firms at the same time?
- Does the worker make their services available to the general public on a regular and consistent basis?
- Does the worker realize profit or suffer a loss as a result of his/her services beyond the profit or loss ordinarily realized by employees?
- Does the worker invest in facilities used in performing services that are not typically maintained by employees?
- Will the sale of business assets provide the worker with a gain or recovery?
- If the worker suddenly stops working, is there contractual liability?

Remember, a worker's status is subject to the particulars of the specific work to be performed. While someone may qualify as an independent contractor for one assignment, they may become an employee for the next job. Therefore, you must always re-evaluate the worker's status on regular basis to ensure compliance.

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Protect Your Children While at College, Too!

driver on your policy. That way if they visit during breaks or weekends, they will be able to drive. You might also be eligible for a premium discount.

Your child will most likely take a computer, printer, and other valuable possessions to college. If your child lives at home or in a dorm, they should be eligible for at least some coverage under your homeowner's policy. If they live off-campus, however, you may want to consider a separate renter's insurance policy in their name to cover their belongings. This policy may also provide coverage if your child injures someone or causes property damage. Talk to your insurance agent to determine you and your child's needs as they prepare to leave the nest.

Protect Your Children While at College, Too!

Although you can't move into the dorm with your child to protect them 24/7, you can make sure they have the same insurance protection they had while living at home. There are several aspects of coverage you need to consider before they leave.

Health insurance coverage may be the most important. While most colleges and universities have an infirmary or basic health center which your child can access free of charge, if your child has a more serious problem or anything that extends beyond basic treatment, they will have to visit a hospital or physician's office off-campus. If they lack proper coverage, it could end up costing you a fortune.

If your child is going to college nearby, you might want to just keep them on your medical plan. Most plans cover full-time students as long as they're under the age of 24 (varies by plan). However, you might be restricted to a local network of physicians, and if your child is going away to college in another town or state, you will need to provide them with their own coverage, so they can see physicians in their area.

Another coverage to consider is your child's auto insurance. If your child owns a car and drives it at school, your insurer may require your child to have their own insurance policy. If they borrow one of your cars for school, you will want to list them on your policy as principal driver. If they aren't taking a car to college, you still might want to list them as occasional

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