

BUSINESS INSURANCE IN ONE HAND

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Insurance is a business necessity. Of course, there is liability insurance (sometimes called "slip-fall") and errors and omissions insurance (for professional blunders), but there is also product liability insurance (for uncertain outcomes with a product). With the requirements for Workers' Compensation insurance (in the event an employee suffers injury while working), every business with at least one employee has to face the challenge of insurance.

This article attempts to list the prominent insurance requirements of a business - something like a checklist with which to compare. [The list is not definitive and is not based on expertise in the insurance industry. Please be forewarned.] Key man Insurance

A business or business owner will sometimes desire to insure a person who is important to the success of the business by buying what is called "key man" insurance. The death of that person is supposed to pay the sole proprietor enough money to find a suitable replacement person for the key person who has died. This insurance is bought by sole proprietorships, partnerships, LLC and corporations. Use of Term Insurance

The purchase of "term" insurance (as opposed to whole life insurance) would accomplish the end desired - cheaply. Because term insurance does not build equity (as does whole life), and because it does not cost the insurance company if there is no death by the end of the term, the cost of the insurance is very low. Some creditors buy term insurance on the debtors who owe them - to ensure payment of the loan in the event of the debtor's death prior to lifetime payoff.

Partnership Buy-Sell Insurance

A partnership raises other issues. Each partner will have an insurable interest in the other partner. The death of any one partner could be the cause of an insurance payoff to the surviving partner (or to the partnership) to enable the surviving partner the financial ability to pay the necessary money to the spouse or other heirs of the deceased partner. Again, term insurance would be a cheap source of this capital. Group Term Life Insurance

To be competitive, employers might offer life insurance as a benefit to the group of people who comprise their employees. Because of the low cost (as compared to individual insurance policies), the insurance premiums might be totally paid by the employer or they might require some contribution by the employees. Although the employer will own the policies, the individual employees will name their relatives as beneficiaries in the event of their deaths. If the employer pays all of the premium, all of the employees will be enrolled in the insurance; not so with insurance requiring partial contribution by the employees. And, because of the low cost of term insurance, most employer group plans will be term insurance policies

Conversion to Individual Insurance Most group insurance plans contain provisions that allow the conversion of the policy from group term to individual whole life, without evidence of insurability (medical inspections), if employment is terminated, if conversion is attempted within about a month. The groups term insurance will remain in force during that period prior to the conversion and after departure from the company.

Group Health Insurance

Just as with life insurance, some employers provide health insurance (which protects against the costs of medical care - not to be confused with medical expense insurance - below) for their employees, either paying the entire premium or requiring contribution. The employees are taken as a group, but dangerous hobbies or jobs can cause the premium (paid by the employer) to be raised. On the other hand, most group health policies pay dividends (to the company - owner of the policies) or lower premiums when claims and expenses are low and earnings are high. The employer generally chooses one of two types of group health insurance plans: a) payments to commercial insurance providers; and b) payments to service providers.

Commercial Insurance Providers Seeking health care services first, and being reimbursed for fees paid, is the method by which commercial insurance providers operate. Many times there are restrictions on amounts of reimbursement and on the health care providers chosen.

Service Providers There are three types of organizations that utilize the "service" approach to group health care: 1) Blue Cross and Blue Shield Organizations; 2) HMOs; and 3) PPOs.

1) Blue Cross and Blue Shield Blue Cross (for hospitalization) and Blue Shield (for medical services performed by doctors) are universally known service providers. Blue Cross and Blue Shield do not provide the health care services; they pay the service providers who have signed with them to provide health care services on rate schedules approved by "the Blues." If there is no agreement with "the Blues," a health care provider will not be paid. The payment for services is not seen by the employee or the business; premiums are paid and no other money is transacted with Blue Cross and Blue Shield. Blue Cross of California has recently begun offering health insurance as well as hospital and medical care payments.

2) HMOs HMOs (Health Maintenance Organizations) are known for stressing preventive care as much as for providing health services that are prepaid. In such a system, the business would pay all or some of the premium and the employees would utilize the HMO services in the HMO facilities as they desired. There are two types of HMOs: open panel HMOs and closed panel HMOs. An employer of 25 or more employees must offer enrollment in an HMO - if health care benefits are provided for the workers. Open HMO Panels A network of physicians who work out of their own private offices and are part-time HMO participants defines an open HMO panel.

Closed HMO Panel A group of physicians who are salaried employees of the HMO and who work in an HMO facility defines a closed HMO panel. Kaiser is an HMO; it is the largest in the country.

3) PPOs Recently, groups of hospitals and physicians and other health care providers have organized themselves to offer their services to certain groups of employers and employees at prearranged prices - usually less than their normal charges. Unlike HMOs, PPOs operate on what is called a "fee for service" basis - not prepaid. PPO members are normally in private practice - as opposed to the HMO employees.

Optional Health Care Coverage Employers are now offering the following coverages as competitive benefits: dental coverage, vision care, supplemental accident coverage (e.g., ambulance and paramedic services) and prescription drug coverage. Medical Expense Insurance

Medical Expense Insurance is not usually provided by employers for their employees. To the degree some of those premiums are paid by the employer, they pay for the reimbursement of actual expenses for medical care: hospital, physicians, surgery, drugs, nursing, convalescent care, diagnostic treatment, laboratory services, rehabilitative services, dental care and/or physical therapy. The policies vary greatly in coverage for these items. The policies are expensive. There are two plans: basic medical expense and major medical.

Basic Medical Expense Insurance "Basic" plans provide what is called "first dollar" coverage for

medical expenses, i.e., they do not require payment of a deductible amount. However, their payments are limited - causing a need for Major Medical coverage. Major Medical Expense Plans can be acquired as a rider (an add-on) to a basic plan or as a stand-alone plan of insurance. A licensed physician must perform the services or prescribe the actions being taken. Major Medical plans have deductible payment requirements to be met before payments are made by the insurers. Disability Insurance

Many sole proprietors and partners find it wise to purchase disability insurance to protect their income during untimely disabilities that keep them from their businesses (economic death - as compared to physical death). The insurance companies usually pay only a percentage (e.g., 70%) of the last two years' average income of the insured person.