

Business Insurance

What is business insurance?

As you would expect, business insurance includes policies of insurance (such as fire insurance) procured by your business to protect its physical assets. It also includes various forms of liability insurance similar to what you might have for your home and personal vehicle. The wide range of available insurance products offers your company more than just protection. These products also:

- Offer your business a means by which it can accomplish many of its goals
- Provide a source of funds to help ensure continuity of business operations after a catastrophic event or the death or incapacitation of a key employee
- May provide a source of funds for the payment of estate taxes after the death of an owner of a family-owned business
- May provide a source of funds for normal company operations, for expansion, or for a benefit program to aid in the recruitment and retention of employees

In addition, many states require businesses to maintain certain insurance, such as workers' compensation insurance.

What types of insurance are available to your business?

There are numerous categories of insurance and many types of insurance products that are available within each of those categories. The major categories include life insurance, health insurance, disability insurance, property and casualty insurance, and liability insurance. Let's briefly run through those categories and what they have to offer you.

Life insurance

Businesses often carry life insurance policies covering the lives of the owners and any other key employees. If your business is the beneficiary under such a policy, and if one of those people dies, your business will receive the face amount of the policy provided all conditions of the policy have been met. The funds can be especially important if your business is family-owned in that the insurance death proceeds can help keep the business in the family by providing funds to pay estate taxes, thereby avoiding a forced sale of the business.

Your business might offer a group life insurance plan as an employee benefit either as a stand-alone plan or as one feature of a cafeteria plan. Such plans enable your employees to obtain, at favorable group rates, life insurance protection for themselves and their families. Moreover, these plans are a desirable benefit for your employees, especially for those who might otherwise be uninsurable, so you may be able to enhance your company's efforts to recruit and retain desirable employees by offering such plans. Under the tax code, these plans often enjoy favorable tax treatment with employer-paid premiums being deductible by your company and wholly or partially tax free to the employee.

Split dollar insurance

With regard to your business's efforts to recruit and retain desirable employees, split dollar insurance gives your business a low-cost way of offering an employee benefit.

A split dollar life insurance arrangement, or SDA, is an agreement between an employer and an employee to share the costs and benefits of a life insurance policy on the life of the employee. An SDA is an agreement that concerns (at least in part) the premium payment (and its eventual repayment) for the life insurance; it is not a type of policy.

Split dollar arrangements are attractive to employees because they are able to procure more life insurance than they could on their own. A split dollar plan may be attractive to you as a business owner because eventually, the premium payments are returned to you in full. Though usually offered at the executive level, split dollar plans can be offered to other employees, as well.

Final regulations effective September 17, 2003 provide two mutually exclusive regimes for taxing split dollar life insurance arrangements: the economic benefit regime and the loan regime. Both the owner and the non-owner are required to fully and consistently account for all amounts under a split dollar arrangement under either the economic benefit regime or the loan regime.

Under the economic benefit regime, the owner of the life insurance contract is treated as transferring economic benefits to the non-owner. This regime generally governs the taxation of compensatory arrangements in which the employee is not the owner of the contract (e.g., endorsement split dollar arrangements).

Under the loan regime, the non-owner is treated as lending premium payments to the owner. The loan regime generally governs the taxation of collateral assignment split dollar arrangements (e.g., arrangements in which the employee is designated as the owner of the contract and the employer (non-owner) pays all or a portion of the premiums).

There are several varieties of split dollar plans, including the endorsement method and the collateral assignment method. Within each of these varieties, there is great flexibility as to how a particular plan can be structured, and your company may customize a split dollar plan to best fit its needs.

Health insurance

Your business can offer group health insurance to your employees, either as a stand-alone benefit or as part of a cafeteria plan. The company is providing employees (and perhaps their dependents) with access to medical services at advantageous group rates. Typical plans offer a selection of services, including access to a health maintenance organization (HMO), point-of-service (POS), or preferred provider (PPO) plans. Dental and vision coverage may also be offered. The tax law looks favorably on this benefit, and in most instances, the premiums are effectively tax free to both the employer and the employee. Usually, the employer contribution is fully deductible, while its value is not included in employee income.

Disability insurance

Your business can offer disability insurance to your employees, often at advantageous group rates.

- Disability insurance can be offered either just to your key employees or as part of a general benefit package. As with health insurance, offering this desirable benefit to your employees, especially for those who might otherwise be uninsurable, enhances your company's efforts to recruit and retain desirable employees.
- Disability insurance gives your employees additional security by providing them with either full or partial replacement income if they cannot work due to sickness or accident. If your company pays the insurance premiums and does not include the cost of coverage in the employee's gross income, it is generally a deductible expense for the company, and not taxable to the employee. If the employee is sick or injured, payments made to the employee under the policy will be deemed taxable income to that employee. However, if the employee pays the premiums with after-tax dollars (instead of your company paying the premiums) or if the employee periodically reimburses your company for the premium payments you made, then policy payments made to the sick or injured employee will generally be free of income tax.

Property and casualty insurance

This category of insurance provides protection when your business suffers some sort of physical loss, such as fire or theft. You can purchase a policy to cover a specific kind of loss or damage, such as fire insurance, or you can purchase a package of policies that provides coverage for multiple hazards, usually at a savings over the cost of purchasing individual policies. Finally, you can get a business owner's policy that provides a comprehensive package of property, casualty, and liability coverage designed to meet the needs of your business.

Specific forms of coverage available for the protection of your business include the following:

- Accounts receivable/valuable papers insurance: Protects you if the documentation supporting your accounts receivable or other valuable business records is lost or destroyed
- Building & equipment insurance: Protects you if your facility or equipment is damaged or destroyed

- Business interruption insurance: Protects you by replacing some or all of your operating cash flow if your business is unable to maintain its normal operations for a period of time as a result of a covered event, such as fire damage to your facility
- Crime insurance: Protects your business in the case of theft

In most states, your company is required to maintain workers' compensation insurance, which provides compensation to your employees who are injured on the job. In return, they are usually prohibited from suing your company for those same injuries.

Liability insurance

This category of insurance provides protection when your company is liable or is alleged to be liable for property damage or injury suffered by a third party. This is similar to the kind of insurance you might have for your own automobile to cover you if you become involved in a collision with another vehicle and the other driver claims that you caused the accident.

Two terms that are important to keep in mind when discussing liability insurance are defense and indemnification. Under most liability policies, the insurance company undertakes to defend you if there is a lawsuit filed or threatened; they will hire a lawyer to defend you and pay the lawyer's fees up to the policy's limits. This duty to defend can be valuable to your business because you do not have to divert funds from operations to pay the lawyer (thereby preserving your cash flow and making it more predictable). Moreover, via provisions included with many liability policies, and by law in many states, insurance companies are required to provide a defense if the complaint alleges some act or omission on your part.

A liability policy can provide protection for you even when you aren't liable for some alleged act or omission, freeing you and your cash to concentrate on the operation of your business. By obligating itself to indemnify you for acts or omissions covered under the liability policy, the insurance company must pay the third-party claimant(s) for any damages they sustained or pay any judgment rendered against you in a civil suit, up to the policy limits. If your company had to directly pay those sums, its operations could be negatively impacted; in fact, its very existence could be jeopardized. As with property and casualty insurance, there are comprehensive packages of liability insurance available to your business, so you can customize an array of policies to meet your particular needs. Specific forms of coverage available for the protection of your business include the following:

- Bonds (such as surety bonds, license and permit bonds, fiduciary bonds, fidelity bonds, and court bonds): Provide security for persons depending on another for faithful performance or for full completion of some task or project
- Directors and officers liability coverage: Defends and indemnifies your company's directors and officers for acts or omissions occurring while they are acting in their official capacities
- Environmental liability coverage: As the name implies, offers protection to your company for environmental accidents, such as an accidental spillage of hazardous waste on your premises
- Errors & omissions coverage: Indemnifies your company for loss sustained due to an error or oversight by your company or its employees
- Malpractice coverage: Protects professionals such as doctors or lawyers against claims of negligence while they were engaged in their work
- Manufacturers and contractors coverage: Liability protection if you are engaged in manufacturing or construction
- Owners, landlords & tenants coverage: Liability protection if you are involved with owned or leased real estate and buildings
- Product liability: If you are involved in the design, manufacture, distribution, or retailing of products, this coverage provides protection against claims by purchasers, users, or bystanders for damages or injuries caused by, or allegedly caused by, defectively designed or defectively manufactured products
- Employment-related practices coverage (protection for claims arising from a violation, or alleged violation, of discrimination, sexual harassment, and similar employment-related laws and regulations)

Umbrella excess liability coverage

This is a type of supplemental liability insurance policy available to your company that provides liability coverage above and beyond your underlying liability policy.

If your company has a liability policy with a \$1 million limit, you can procure an umbrella policy providing coverage for amounts above \$1 million, which will come into effect if your company is sued and a judgment is rendered against it for \$2 million.

An umbrella policy is usually less expensive for your company than procuring an underlying policy with a higher policy limit.

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