

## **Business Insurance**

1. By New Jersey law two types of insurance are required for every business operating in New Jersey -- Workers Compensation and Vehicle Liability.
  - a. Workers Comp must be provided for all employees, including part timers. Until recently, sole proprietors, partners of a partnership or principals of an LLC were not eligible for coverage to protect themselves. This has been changed and these people may elect to cover themselves or they can reject the option. They must, however still purchase coverage to protect their employees. Active corporate officers are considered to be employees of their corporation and may not exclude themselves when purchasing a policy. Corporate officers who claim not to draw a salary are treated, under the law, as though they earn \$21,800 per year. Their pay is also capped at \$86,000 per year. These salary figures are for 2002 and will increase some each year. Policy cost is based on payroll and occupation of those to be covered.
  - b. Vehicle liability insurance cost is based on registered gross weight of trucks, intended use, place of garaging, radius of operation and the driving record of you and your operators. If your vehicle is under finance, the bank will require collision and comprehensive insurance. If the vehicle has substantial value you may want to consider collision and/or comprehensive insurance even if you own the vehicle outright. The cost is based on the same factors as above along with make, model, year and approximate cost when new. You may find it cheaper to rent a vehicle if the need is only occasional. Compare the insurance, depreciation and estimated repair costs with the rental fee.
2. There are two other major classes of exposure that you should consider for insurance coverage -- personal liability and property insurance.
  - a. Personal Liability – A personal liability policy agrees to defend you and pay damages you are alleged to have inflicted. Liability insurance is recommended for everyone in business. If you are a contractor, wholesaler, retailer, manufacturer or in the service industry, there is generally a specific policy intended to fit your exposure. The policies provide liability protection for your premises, the premises of someone else where you are working and for products you sell after they leave your possession, as well as losses

occurring after you complete a contract or project. Premium cost is based on what you do and where you do it for retailers. For contractors and service businesses, it may be based on sales and/or payroll and for manufacturers and wholesalers it is generally sales based. A major consideration is the amount of liability insurance you wish to purchase. The amount, generally \$100,000, \$300,000, \$500,000 or some other amount appropriate to the business, is what the company is obligated to pay on your behalf for each occurrence. This is sometimes referred to as 3rd party insurance.

- b. Property Insurance – This is first party insurance because the insurance company agrees to pay you, the insured, for damage to your building, stock, glass, fixtures, equipment and anything else you want protected from various exposures, also known as “perils.” Thus, you can protect your personal property at a specific location or in transit, either incoming or outgoing. Premiums vary widely, based on building construction, location, fire hydrant proximity, occupancy and, of course, the amount of insurance being purchased. If your building is mortgaged the bank will insist on property insurance. If there is a chattel mortgage on your personal property, the lender will also require insurance. Property insurance includes interruption, loss of rents, and other non-tangible losses. Perils for which you might be purchasing coverage could include fire, burglary, windstorm, flood, infidelity, etc.
3. Be sure to read and understand all leases and contracts. The lease may require that you provide fire and/or liability insurance on the building or simply name the landlord as an insured for liability on your policy. Leases on phones, office machines and contracting equipment almost always make you responsible for damage to the leased item. Construction contracts frequently contain insurance requirements, all of which can be remedied by purchase of appropriate insurance. If you fail to heed these suggestions you could suffer considerable economic loss should a loss occur which is not adequately protected by insurance.
4. You should determine the estimated cost of your insurance premiums and factor the total amount into your business plan as a cost of doing business. Some of the insurance can be paid in monthly installments. Just remember that every good business person carries an adequate amount of insurance. If you consider the cost prohibitive you must refigure your business plan and find a way to pay this essential cost.