

# CONSUMER ACTION NEWS

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## Are you covered? Insurance for the home- based microbusiness

By Michelle De Mooy

Insurance is an essential part of protecting a home-based business. Whether you're selling homemade crafts online, operating a small in-home day-care, providing freelance consulting services, or even just traveling to different farmers markets to sell your wares, you'll need to carefully consider the type of insurance that will best suit your business.

Insurance for very small businesses provides a safety net in case of a lawsuit, and can protect important assets, such as your home and family savings, from being included in any litigation damages you might be forced



to pay. Microbusinesses, with operations on a very small scale, are especially vulnerable to liability, since the business's operating budget typically is very low.

Insurance coverage is not about how much money you are making; it's about how much money you can afford to lose.

Yet, according to the Independent Insurance Agents & Brokers of America, 60 percent of home-based businesses lack adequate

insurance. The reason? Many entrepreneurs who work from home mistakenly believe that their homeowners or renters insurance policy includes business property and liability protection. Adding a rider, or endorsement, to

your homeowners or renters policy may be a good option for a one- to three-person home-based business. Property and liability add-on policies (riders) are often affordable but sometimes require a minimum amount of business revenue each year to qualify.

Though you may have similar provisions in your homeowners or renters insurance, a separate "in-home" business policy can cover a larger range of property (equipment) loss, business accidents, and even loss of income in the event that your business is unable to operate for a time. If your business operates in more than one location and would need more than \$100,000 in coverage, such as a cupcake bakery or tax refund processing business, a business owner's policy (BOP) is worth considering—the coverage is typically more comprehensive. (For more information, see "Home-based business insurance options" below).

Each state sets its own rules about the insurance requirements for home-based businesses, and coverage requirements vary widely from state to state. State

insurance commissions establish business insurance requirements to protect consumers and ensure that promises made by insurers are kept. State departments of insurance also provide consumer services like education materials and hotlines, and they license



and regulate insurance agents and brokers.

If you have employees—even one—you likely will be required by your state to have workers' compensation insurance. Most workers' compensation coverage includes medical expenses, lost wages and rehabilitation costs for employees. Without insurance, your business would be on the line for these expenses. Independent contractors, business owners, domestic employees (house cleaners or babysitters), unpaid

See "Covered?" on page 3

## Home-based business insurance options

By Ruth Susswein

No matter how small your business, there will be risks to protect against.

Here's a breakdown of some key types of insurance coverage available to home-based business owners.

### Homeowners/renters

In most cases, you can't count on a homeowners or renters policy to cover your small business risks. A rider or endorsement (add-on policy) to your homeowners or renters policy is the least expensive option, but these offer the least protection.

If you have few customers or employees, minimal deliveries to your home office, little equipment and no valuable inventory at home, add-on coverage might

be all you need. (See article on page 2.)

Check with your state insurance department or an insurance agent to see if your home-based business could be covered adequately by a rider on your homeowners or renters policy.

### Home-based business

An in-home business owner's policy (home-based business policy) provides more protection than a rider on your homeowners or renters insurance by combining homeowners and business coverage in one policy. It typically offers coverage for loss or damage to property and equipment (from fire or theft), loss or damage to records and loss of income due to business interruption.

Business interruption coverage protects your earnings if you can't operate your business because of unexpected events such as a fire or extended power outage. This coverage can pay for operating expenses at a temporary location and any costs you need to restart business. When deciding whether to purchase business interruption coverage, list any expenses you'd have to pay even if your business operations were temporarily suspended, such as mortgage or business loan payments, taxes, etc.

In-home business policies may also offer product liability coverage, which protects you against lawsuits brought because of injuries caused by your product or service. This coverage is most useful for manufacturers, wholesalers and distributors, but even home-based artisans and crafters may want to ask about product liability coverage.

In-home business policies are recommended for small home-



based businesses with very few customers visiting your place of business each week.

### BOPs

A business owners' policy (BOP) offers the most comprehensive home-based business protection, with expanded

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## Consumer Action www.consumer-action.org

Consumer Action has been a champion of underrepresented consumers nationwide since 1971. A non-profit 501(c)(3) organization, Consumer Action focuses on financial education that empowers low- and moderate-income and limited-English-speaking consumers to financially prosper.

By providing financial education materials in multiple languages, a free national hotline and ongoing financial services research, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

### Advice and referral hotline

Submit consumer complaints about consumer problems to our hotline:

**hotline@consumer-action.org**  
**(415) 777-9635 or (213) 624-8327**  
Chinese, English and Spanish spoken

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# Personal home and auto policies come up lacking

By *Monica Steinisch*

If you've been thinking that your annual homeowners, renters or auto insurance premiums would cover you for claims related to your home-based business, you'd be (mostly) wrong. To adequately protect your assets and future earnings, you'll need at least some additional coverage. The good news is that the extra protection won't necessarily cost an arm and a leg.

## Personal policy limitations

A typical homeowners or renters policy does offer some limited coverage for damage to or loss of property (i.e. a computer or camera) used for both business and personal use. But if you have expensive business equipment—say you run a recording studio or video production company from your home—your homeowners or renters policy will fall far short.

Your personal policy won't cover your liability for injuries or losses related to your business.

while delivering business supplies, your homemade jam makes someone sick or your database of client tax returns is stolen? These are just a few scenarios that make the case for buying business insurance.

Having customers visit your home exposes you to much greater liability related to falls and other injuries—medical bills for a single incident could be tens of thousands of dollars or more. Not only do most homeowners policies exclude these and other business-related liability claims, some insurers consider running a business out of the home a violation of policy terms and could void your entire policy.

Occasional domestic workers, such as someone who cleans your

home, typically are covered under your personal homeowners policy. But if the person will be cleaning an area of the home that is used only for business or that presents business-related risks (heavy boxes of inventory, for example), you should check your policy or ask an insurance agent if you would be protected.

## Auto insurance

Not all small business owners need commercial car insurance. According to Insure.

com, "In most cases, if you use your vehicle to deliver goods, services or to transport equipment from job to job, you need only a personal auto policy. For example, an Avon sales representative

who uses her car to deliver products once a week may only need a personal insurance policy."

However, terms can vary from insurer to insurer, between states, and even among products within the same insurance company. According to Progressive Insurance, using your car to deliver pizzas, newspapers, food or other products may require a commercial auto policy. Likewise, using

your car to meet clients and drive to worksites every day might not be covered. Progressive's website offers the example of a coworker getting injured in an accident while riding in your car for business purposes. If the accident was your fault, your personal auto insurance most likely would not

cover your coworker's injuries, but a commercial auto policy most likely would.

Since a single uncovered accident could result in a financially devastating judgment against you, your smartest move is to let your insurance agent know how and when you plan to use your car for business so that he or she can advise you. Also ask about coverage if employees or independent contractors will be driving their own cars on your behalf.

## Are you covered?

Insurance agents recommend considering the specific types of activities and claims you want covered to be certain that you're insured for those activities. It's good practice to follow up with an email confirming the coverage. Should you ever have a claim, the email will also provide evidence that you disclosed exactly what you would be doing.

Though they're not written for the average person, you should read your policy. Ask the insurer to point out key terms in the policy documents to avoid any misunderstandings. And make sure you comply with all government regulations, health codes and other laws. If you don't, you could void your coverage. ■

## Business insurance checklist

- ✓ Be sure you've got adequate personal coverage (health, homeowners or renters, auto and life insurance).
- ✓ Shop around for the most coverage at the best price—get several quotes.
- ✓ Compare coverage: It won't be the same from each insurer.
- ✓ Consider varying levels of deductibles to manage premium costs. (Higher deductibles translate to lower insurance premiums, but require you to pay more out of pocket when you file a claim.)
- ✓ Co-insurance: Are you required to share a portion of the loss with the insurer (for example, you cover 20 percent of losses)? Co-insurance expenses are in addition to deductibles.

You might think that selling jewelry, making homemade foods for sale or providing accounting services would not be risky endeavors, but what if the UPS driver slips on your doorstep

## New: Class Action Database

Consumer Action has created a database of notable class actions so that interested consumers can learn more about a case, join a pending action or make a claim. All research for the posts is done by staff members.

Free and accessible to the public, the database can be found at [consumer-action.org/lawsuits](http://consumer-action.org/lawsuits). The database also can be accessed via a link on our home page under Help Desk.

The new database allows consumers to view a calendar of upcoming claims deadlines and

to click through to official class action materials and settlement information.

"We established this database because far too many consumers don't receive the restitution they are entitled to because they don't know they are eligible or they're confused by the legal language of the notices sent to class members," said Consumer Action's Linda Sherry. "We built our Class Action Database to help people find cases they might be eligible to join."

Class actions are an important

component of consumer protection because they root out corporate misconduct. A single class action complainant can have a big impact on how business is done, whereas a single complaint to regulators or law enforcement might not result in individualized attention or resolution.

Class actions can advance important public policy goals, remedy injustices and place consumers on an equal footing with powerful corporations and institutions. Class actions offer a remedy for consumers without the heavy costs of individual litigation or the risks of potentially conflicting court decisions. ■



## Covered?

Continued from page 1

volunteer workers and farm workers are generally not eligible to receive workers' compensation. (For more information, see "Insurance for businesses with employees" on page 4).

Physical or mental disability can strike at any time. Though disability insurance can be pricey, if the worst happens, it might be crucial income for you and your business. A handful of states (CA, HI, NJ, NY, RI and Puerto Rico) require small businesses to purchase disability insurance if they have any employees. Small business owners that depend on their income can ask an insurance company to shorten the waiting period for payout after disability. Expect a higher insurance premium for this benefit.

"Overhead insurance" (for expenses like rent, payroll and utilities) can be included as a rider to a disability policy. Coverage kicks in for a limited time if you become unable to work.

Life insurance for home-based business owners is typically dependent more on your family's needs than on your business operations because many micro-businesses fold when the owner's life ends.

However, if you have a business partner, you may want to consider purchasing policies on each owner's life, naming each other as beneficiary to allow the business to continue operating after one owner's death.

If your business involves regularly transporting people or hazardous materials, such as a small landscaping business, you may also need to get a commercial auto insurance policy. Commercial policies have higher liability limits and can include coverage for when your employees use their cars for company business. (For more information, see the article on page 2.)

Making a business inventory can be a first step in deciding what kind of insurance your business needs. Write down everything you know about the ins-and-outs of your trade: how your

business operates on a daily basis, how frequently you receive visitors or packages, the value of your business equipment, your backup plan in case of illness or death, and the amount of revenue you make now, as well as future projections.

Talk to other small business owners to learn more about their experiences with home-based business insurance and go online to research costs and coverage options. Assess the benefits and risks of each policy and make sure to shop around to compare different plans before making a decision. It's especially important to read all policy terms and conditions, as insurance frequently is subject to limitations and exclusions you might not expect.

## Safekeeping for vital business records

Store copies of important business records and keep a full backup of your computer files outside of the home-based business premises.

Keep a record of receipts for business equipment, titles, appraisals, etc. because you will have to prove your losses if a catastrophe occurs.

Take photos or video of insured items.

A good place to store these items is in a bank safe deposit box.

The National Association of Insurance Commissioners offers InsureU ([www.insureuonline.org](http://www.insureuonline.org)), a website with information on a wide variety of insurance concerns, including a section devoted to small business owners, in both English and Spanish.

The U.S. Small Business Administration also offers insurance resources for microbusinesses at [1.usa.gov/1mThUT7](http://1.usa.gov/1mThUT7). ■

## Options

Continued from page 1

property, liability and business interruption coverage. A BOP typically protects against losses from damage to your property, like computers and inventory, due to fire, smoke, hail, wind, frozen plumbing, vandalism or theft (even when you're traveling with covered items).

A business owner's policy may offer both on- and off-premises liability protection for accidents that cause bodily injury and/or property damage. This could include liability or medical coverage if someone is injured on your property; it could also include coverage for damage to someone else's

items on her or his premises while doing business with you. A BOP includes protection from employee, customer and contractor claims, and may shield you from contract or advertising liability, too, which could include damages from claims of libel or slander. (Disability, health and workers' compensation are not included in BOPs.)

"Because a BOP is a[n insurance] package, it may offer discounts over what a business owner would pay individually for the same coverage. An in-home business policy may offer somewhat more limited versions of the coverage. So the difference would be the size of the home-based company and the types of risk the company would con-

front. Commercial policies are as diverse as the types of businesses they cover," said Peter Moraga, spokesman for the Insurance Information Network of California.

Businesses that manufacture products or store a lot of inventory would be best protected by a BOP. A business owner's policy may also include professional liability protection.

Professional liability coverage—

also known as errors and omissions or malpractice insurance—covers the costs of mistakes when advising or providing a service to a client. For example, it could cover the cost of retrieving data lost while you were working on a client's computer. These policies help pay legal fees if a

customer sues you.

Professional liability coverage is geared toward advisors, attorneys, consultants, designers, doctors, computer analysts, financial planners, real estate agents, tax preparers and accountants, and may be sold as a separate policy.

### Additional coverage

Data compromise/data breach coverage protects against legal and other costs if customer data is stolen or released accidentally. Consider the amount of personal client information, such as Social Security numbers, bank account numbers, etc., that you could be held liable for failing to protect.

Employment practices coverage protects against employee claims of discrimination and unfair treatment.

Director and officers liability coverage offers protection from lawsuits claiming mismanagement of a business.

Key person coverage insures the life of the owner and key employees.

Flood protection for businesses based in a flood zone may require a separate flood insurance policy. Coverage is available through the National Flood Insurance Program ([1.usa.gov/1i55Jfs](http://1.usa.gov/1i55Jfs)).

To estimate how safe your business is and what coverage you might need, review Allstate's worksheet ([al.st/1f3iofv](http://al.st/1f3iofv)).

Whatever coverage and protection levels you choose, make sure you know the:

- Deductible (amount you must pay out of pocket before the insurer will pay a claim).
- Maximum dollar limits for each loss under each type of coverage.
- What's not covered (typically floods, earthquakes, "acts of God" and equipment breakdowns).

### Insurance required?

Whether you need insurance depends on what type of work you do and whom you do it for. To do work for some government agencies, you must carry certain insurance coverage. Some states require coverage for some professions, such as doctors, or auto insurance for drivers. Check with the National Association of Insurance Commissioners ([NAIC.org](http://NAIC.org)) for a link to your state's requirements.

Banks/lenders or investors will require insurance (to cover a mortgage or loan), and some landlords require their business tenants to carry insurance. Many artisans and craftspeople are required to have "crafts show coverage" if they are selling their wares to the public at such

events.

### Cover all your bases

**Property insurance.** List all office and other equipment you need to do your work and estimate the cost of replacing these items. Knowing what items you must replace can help you decide how much coverage you need.

When protecting property, consider paying more for replacement value coverage, which pays the full cost of replacing covered items today. Actual cash value coverage costs less, but you will receive only the depreciated value of the item(s) in the case of a claim, which could leave you paying a lot more out of pocket to get your business up and running again.

**Liability insurance.** Learn what state minimums are required for your type of work ([bit.ly/1g8hQWp](http://bit.ly/1g8hQWp)). Some insurance professionals recommend investing in more liability coverage (vs. property) to limit your vulnerability to a large lawsuit. For example, if you're a sole proprietor (and can be held personally responsible if sued), you may want more liability insurance than if your microbusiness were incorporated.

**TIP:** Discounted insurance rates may be available through trade or professional associations or unions.

A commercial umbrella liability policy on top of your original business liability policy provides extra coverage (typically from \$1 million to \$5 million) for legal fees, court costs, out-of-court settlements, etc. related to a lawsuit against you. Companies that have sizable assets or might be vulnerable to lawsuits should consider purchasing this type of policy. (Do not confuse a personal umbrella policy with a commercial umbrella policy.) ■



# Insurance for businesses with employees

By *Alegria Howard*

**C**ongrats! Your microbusiness is booming, and keeping up with the demand for your goods and service is becoming overwhelming. When you hire your first employee, it's important to consider the insurance obligations that come with growing a company.

## Workers' comp

Although insurance requirements differ by state, employers most likely will need to get



workers' compensation and unemployment insurance when hiring even one employee.

Even microbusinesses with only one to three employees should have workers' compensation insurance to cover on-the-job injuries. This type of insurance provides wage replacement and medical benefits to those who are injured while working. In exchange for these benefits, the employee gives up the right to sue the employer for the incident. Some states only require coverage when you have three or more employees. Other states exempt employees who earn only commission. Sole proprietors and partners are usually not required to provide workers' comp for themselves.

While coverage rules do vary, one message remains constant: As an employer, you can be held financially responsible for injured workers.

Here are a few examples of how workers' compensation requirements can vary by state:

### California

California requires workers' compensation in every work situation—even for businesses with one employee, and even for tem-

porary employment. Policies can be obtained privately or through the California State Fund. Failing to provide workers' comp is a criminal offense, punishable by hefty fines, jail time or both.

### Texas

Workers' compensation is not mandatory for Texas employers (except for construction contracts with governmental entities). However, employers could still be held liable for even long-term bills if an employee files a claim for injuries they obtained while on the job. Employers who choose to carry insurance may purchase it from a private company. Texas does not fund workers' compensation insurance.

### North Carolina

All North Carolina employers with more than three employees are required to carry workers' compensation insurance. The state does not provide coverage. If a business fails to provide workers' comp, owners may face stiff fines, be charged with a misdemeanor or felony, and they may go to jail.

Depending on the state in which you conduct business (or where your employee is working), workers' compensation coverage may be purchased through a licensed insurance agent or broker.

Check with your state's office of workers' compensation for a list of authorized sellers. Some states require that workers' comp coverage be provided exclusively by a state-run program. To find contact information for your state's workers' compensation office, visit [1.usa.gov/1mTySAy](http://1.usa.gov/1mTySAy).

### Workers' comp costs

The cost of coverage depends on your company's history of work-related injuries, payroll size, type of industry and any special discounts you may be

eligible for. If you belong to a trade association, for example, you may be eligible for a reduced premium.

While often reserved for large, deep-pocketed corporations, self-insurance is an option for some small businesses. Being self-insured means the employer bears the financial risk of employees' claims. Employers pay claims out of their own pockets rather than premiums to an insurance carrier or state fund.

But for most microbusinesses, self-insurance is a risky route. If an employee gets hurt or sick because you did not provide adequate coverage, you will likely be responsible for paying medical bills and lost wages related to the injury or illness. Even more concerning, employers who don't purchase workers' compensation insurance remain exposed to employee lawsuits from injuries incurred on the job.

## Unemployment insurance

Typically, businesses that hire even one employee must pay unemployment insurance tax, and are required to register each employee with the state. Quarterly tax payments go to your state's unemployment compensation fund, which provides short-term relief to workers who lose their jobs.

States charge employers unemployment insurance tax on part of every employee's income. The tax rate varies by state and is based on payroll size, the amount the business has paid into the system and, importantly, the amount of unemployment benefits former employees have collected. Generally, the more unemployment claims a business generates,

the more it has to pay into the system. However, every state allows a probationary period for workers. If you find you've hired the wrong person for the job, you can let the employee go before that period ends (30 days in many states) and you will not have to pay unemployment benefits.

## Contract employees

A major benefit of hiring independent contractors is that

## Due diligence

Ask these questions before purchasing an insurance policy:

1. Will clients come to my home? Will I receive deliveries at my home?
2. What coverage, if any, do I need if I visit clients or customers at their homes, and will one policy cover me both at my home and my clients' homes?
3. Does this coverage protect me, my customers, my equipment, my inventory and my data (such as business and customer records)?

you won't be responsible for paying payroll taxes, workers' compensation or unemployment insurance. Either the agency the contractor works for will provide coverage or the worker will be personally responsible for the coverage. However, if the Internal Revenue Service (IRS) determines that you're treating a worker as an independent contractor purely for tax purposes when he or she truly functions as an employee, you could be responsible for fines and back taxes.

When hiring independent contractors or temporary employees through an agency, be sure to check for proof of insurance. Never assume they are covered. If a contracting agency's coverage has lapsed, you can be held liable for any injuries that happen on the job.

Be sure to check policy numbers, coverage amounts and dates of coverage. Business owners should request proof of insurance from their subcontractors annually, as well. ■

## Quick links for small biz

**State labor offices**  
[1.usa.gov/1i5Nl68](http://1.usa.gov/1i5Nl68)

**State departments of insurance**  
[bit.ly/1g8hQWp](http://bit.ly/1g8hQWp)

**State unemployment insurance tax agencies**  
[1.usa.gov/1ffLQC](http://1.usa.gov/1ffLQC)

## Attention entrepreneurs

Consumer Action's MoneyWi\$e Micro Business educational module is designed to provide and share basic information about creating and managing a microbusiness.

Microbusinesses are very small companies run by their owners with few or no employees.

With its MoneyWi\$e financial literacy partner Capital One, Consumer Action has created a free package of materials that includes:

- A brochure for consumers, available in Chinese, English, Korean, Spanish and Vietnamese.
- A "leader's guide" designed to prepare community advocates to lead trainings and answer frequently asked questions.
- An adult learning curriculum with classroom activities and a PowerPoint presentation.

Find these materials and more on Consumer Action's website ([consumer-action.org/modules](http://consumer-action.org/modules)).

## Join Consumer Action

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