



Insurance Bulletin #106

of



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The Six Biggest Mistakes Care Home Providers Make



Are you a self-employed care provider? If so, are you completely satisfied with your present Fire and Liability insurance programs? Or, have you struggled to consistently meet your insurance needs over time?

It is very likely that you believe that some level of improvement can be made. We all typically seek the same general objective: to reduce premiums while, at the same time, protecting ourselves from inadequate insurance coverage. However, it is becoming increasingly difficult to reach this objective because of the sheer volume of information and available insurance alternatives.

Mistake # 1

Overlooking Business General and Professional Liability Insurance for your Facility.

Many care providers are unaware that running a care facility without general and professional liability insurance can be a source of business failures. This exposes you to the possibility of paying court judgments and incurring insurmountable legal expenses, usually amounting to hundreds of thousands of dollars, and in some cases up to millions of dollars.

Specifically, business general liability insurance refers to exposures such as slip and fall incidents. On the other hand, professional liability is triggered by an error in rendering your service. For example, if your employee made a mistake in following the doctor's prescription, and because of that error, your client had a fatal reaction, the resulting lawsuit would very likely be covered by your professional liability.

Without general/professional liability coverage, you expose all your assets to risks you never intended.

Mistake # 2

Buying Homeowner's Insurance or Personal Dwelling Insurance for your Facility

Whether it's the advice of your friend, real estate broker, insurance broker, or any other source, the use of personal insurance for a commercial risk (even a facility that is run in a residence) is inappropriate.



Personal insurance is designed primarily for personal risks. This means that if you have a property loss resulting from the business operations, your insurance carrier will very likely deny the claim. Moreover, personal insurance policies specifically exclude most business activities, especially if a residence is being used primarily for a commercial operation. Thus, if you have a business liability loss, the personal insurance policy will likewise deny the claim.

In order to properly protect your interests, you must carry both the commercial property and business general/professional liability insurance coverage.

Mistake # 3

Ignoring Business Auto Insurance Requirements for a Vehicle Used to Transport Clients.

It is a common mistake to believe that your personal automobile insurance protects you when transporting clients simply because you have bodily injury and property damage liability coverage. This is a recipe for disaster. Personal automobile insurance policies specifically exclude transporting clients. Consequently, bodily injuries resulting from such business activity will be very likely rejected by your insurance carrier.

You need a commercial automobile insurance policy with limits of at least \$1,000,000 for bodily injury and uninsured motorist/underinsured motorist per accident. Otherwise, all of your assets are exposed each time the vehicle is used by you or your employee.

Mistake # 4

Running Your Business Without Workers Compensation Insurance.

A number of care providers have no workers compensation insurance for their business. Workers Compensation is a mandated insurance coverage, i.e. you are required by the State of California to carry workers compensation insurance, and failure to do so is a misdemeanor subject to civil penalty and/or imprisonment or both. Section 3700.05 of the California Labor Code specifies that it is a misdemeanor punishable by either a fine up to \$10,000 or imprisonment in the county jail for up to a year, or both. The State may issue penalties up to \$100,000 against uninsured employers. For example, if your employee is hurt on the job and you have no workers compensation insurance, you have no defense. Additionally, if the employee were seriously injured, you would be required to pay not only the medical expenses for the injuries, but also the employee's compensation for as long as he is disabled.

You must continuously carry workers compensation insurance to comply with the state regulations.

Mistake # 5

Underestimating the Replacement Cost Value of Your Building.



Most people purchase building insurance because it is required by the banks or their lienholders. Many people ignore the co-insurance clause of an insurance policy. Most policies contain this clause, and it refers to the amount of insurance that must be carried; it is not the percentage of the loss that can be collected after occurrence. Property insurance policies typically contain an 80 percent, 90 percent or 100 percent co-insurance clause, and it would be applied as follows:

If you have a building that would cost \$ 1,000,000 to replace, and your policy contains a 90 percent co-insurance clause, you must carry insurance as follows: \$1,000,000 (replacement cost) x 90 percent (co-insurance clause) = \$ 900,000 (amount of insurance required).

Formula used for settlement of a \$ 200,000 loss are as follows:

(Insurance Carried)	=	\$ 900,000		
		-----	X	\$ 200,000(loss) = \$ 200,000
(Insurance Required)	=	\$ 900,000		=====
Amount Collected	=	\$ 200,000		

However, if you decided to carry only \$ 400,000 insurance, formula settlement would be as follows:

(Insurance Carried)	=	\$ 400,000		
		-----	X	\$ 200,000(loss) = \$ 88,000
(Insurance Required)		\$ 900,000		=====

In this example, only 44 percent of the amount of insurance required was carried, therefore, the insurance company would only pay 44 percent of the loss, or \$ 88,000.

Generally, because the rates are relatively low, you want to insure the building to its full replacement cost. Saving a small amount of premium on this item is not recommended. In addition, you should insure on a “Special Form” rather than on a restricted specified peril basis.

Mistake # 6

Forgetting the Importance of Adequate Business Interruption Income Coverage.

Business income is probably one of the most important types of coverage in your property insurance policy. It will pay for your net income plus continuing expenses in the event of a disaster such as a fire. Without business income coverage, your income requirements could be detrimentally affected.

It is very important that you calculate your actual net income plus continuing expenses prior to purchasing a commercial fire policy. For example, if you sustain 50% fire damage and your building becomes uninhabitable, you will need funds to replace your income. For example:

	Annual	Monthly
Net Income per year	\$ 50,000	\$ 4,167
Add: Mortgage	36,000	3,000
Employee Compensation...	72,000	6,000
Insurance	12,000	1,000
Property Tax	4,500	375
Other Continuing Expenses	3,000	250
 Total Monthly Requirements		 \$ 14,792
		=====

You need at least six months business income coverage, or \$ 88,752. However, one year of coverage, or \$177,504, is highly recommended to provide you with uninterrupted business income coverage.

DID YOU MAKE ANY OF THESE MISTAKES?

It's difficult to avoid all fire and liability insurance pitfalls because you wear several hats in managing your business and you simply don't have the time to process the sheer volume of information available to apply them to your insurance needs.

For more than three decades, Ferrer Insurance Services, Inc. has been helping business owners meet their insurance needs. Our track record speaks for itself. Moreover, our clients value our continuing commitment to standards of excellence.

We invite you to call our office to learn more about our services. Simply call 415-856-0709 or call our 24-hour toll free line, 1-800-333-9166, to speak with one of our representatives.



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