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Personal Finance

The Self-Employed: Rx For Your HR

Shira J. Boss, 01.30.01, 7:00 AM ET

NEW YORK - As your own human resources department, you have to think beyond the basics of health and life insurance. Too often, self-employed people forget about coverage for liability, disability and income protection.

If you've left a salaried position to strike out on your own, you probably did not roll over your disability coverage through your former employer. Likewise, you might not have thought about what kinds of liabilities your business could be hit with, especially if you work from home. Another hint: Don't expect your computer to be covered under your home owner's policy if you are using it for business.

"Insurance is an area people tend to have on the back burner when they start a business, but it's important," says **Gayle Buff**, a certified financial planner in Newton, Mass.

Here are some of the more obscure kinds of insurance to consider.

Death And Disability

If you are your business' main asset, you might want to consider a "key man" policy. Similar to a life insurance policy, this protects the value of your business rather than the value of your income. It works on the premise that without the owner, a small business loses significant value. One can insure the value amount of the business, or insure for enough money to provide liquidity for a transition time and to hire a replacement.

You should also protect your income in the case of disability. Between the ages of 35 and 65, you have a one-in-two chance of suffering a disability serious enough to prevent you from working, according to **David Bach**, author of *Smart Women Finish Rich*.

Yet it can be especially difficult for the self-employed to envision the need for this kind of coverage, says **Fran Twiddy**, certified financial planner in St. Clair Shores, Mich. "You're asking someone who's entrepreneurial to conceive of a situation where he or she is unable to make a living. That goes against their psychology."

You can get group insurance through an association, or buy an individual policy. Expect to pay between 1% and 3% of gross income in order to receive 60% of your income if you are unable to work. Premiums are only deductible if your business is incorporated.

"Disability premiums are expensive, and it's tempting to economize by telling yourself you'll do it later or by settling for a crummy policy," Twiddy says. Those working at home will find it harder or more expensive to get coverage.

Some features to look for in a good disability policy include a waiver of premiums, so that you don't have to pay for the insurance while you're receiving benefits, and built-in cost-of-living increases. "The benefit goes up with inflation, but the premium remains the same," says **Scott Bordonon**, a certified financial planner in Covington, La. "That makes it especially good for younger people because they can lock in a lower rate."

You want to make sure to get coverage for "own occupation" rather than "any occupation," so if you're a consultant you're not stuck telemarketing rather than collecting disability checks.

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If a policy is "noncancelable," you can't be dropped, and if it is "guaranteed renewable," the rates don't rise. Finally, spring for long-term coverage. "Everyone thinks, 'If I were disabled, it'd be at most for six months or a year,' but what they need to insure for is the long term, because they could get by six months, but not 20 years," Bordelon says.

Liability

Ask your insurance company if business use of your home is protected against liability under your home owner's policy. Often it is not.

"Even if you don't see clients or customers at home, if you have a computer-repair person come to your home and he slips on the ice, that might not be covered under your existing policy," says **Grace W. Weinstein**, editor of the newsletter *Money Matters*.

Then what you need is a business owner's policy. In addition to liability, it may cover fire damage in the home office, damaged or lost documents, and loss of income from those occurrences. "So many more people are working at home, there are more policies geared towards their needs," Weinstein says.

In certain occupations you will want specific liability coverage (such as malpractice insurance) as well as a general policy. "It's worth sitting down with an insurance person and figuring out where your liabilities are," says Gayle Buff. "If you decide not to insure, at least you understand where the exposures are."

As with liability, your home owner's policy may not apply when it comes to business equipment, whether this is a computer, a camera or a chainsaw. You may be able to list these items out separately and buy a rider to your existing home owner's policy, or you can buy a separate business owner's policy.

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