

Under-insuring your home-based business puts it — and you — at risk

By Karen Jowers, Military Times 12:03 p.m. EST February 6, 2016



(Photo: Pfc. Garrett White/Marine Corps)

For many military spouses, operating a home business fulfills entrepreneurial dreams and creates a portable career. Many veterans have found that starting a business in their home is the answer to a successful career transition from the military.

But if you don't properly insure your business, you may be putting your personal assets and business assets at risk.

Risk assessment

Too often, home-based business owners assume their businesses are covered by personal insurance policies, according to the National Association of Insurance Commissioners.

“Without proper insurance planning, even the most promising home-based business dream can quickly turn into a nightmare,” according to an NAIC news release.

- [Single, no dependents: Do you need life insurance?](#)
- [Important tax document to watch for](#)
- [Life insurance after — or in addition to — SGLI](#)
- [Holidays & new DoD rules mean it's time to check on renters insurance](#)
- [Life insurance can pay for nursing home, in-home care](#)
- [Comparison chart: 16 life insurance plans](#)

“A lot of small businesses, especially home-based businesses, are not smart about how they approach insurance. If not, it can come back to bite them,” said Ken Walsleben, professor of entrepreneurial practice at Syracuse University’s Whitman School of Management. He is also an instructor for the Entrepreneurship Bootcamp for Veterans with Disabilities program, part of the university’s Institute for Veterans and Military Families.

But a number of military spouse entrepreneurs are asking the right questions and seeking the best advice, said Sue Hoppin, wife of an Air Force retiree and president of the National Military Spouse Network. The nonprofit works with other organizations to connect spouses to information, workshops and mentors for a variety of issues related to entrepreneurship, including insurance. They advise spouses to make sure they are properly covered for their type of business. Mentors can provide valuable advice as they delve into questions about insurance needs, she said.

"Every industry is different," she said. "One size doesn't fit all."

Protect your personal assets

Most of Walsleben’s career has been in industry, starting and funding small businesses. “I’ve talked to thousands of small-business entrepreneurs and have been stunned at how many there were whose personal credit rating was trashed” after the business ran into trouble or the business had to make good on payments that would have been covered by insurance, he said.

For example, there might have been a fire, and the homeowners policy covered the structure and the personal contents, but not the business equipment and other assets. Or the owner might have had an accident when using a personal vehicle for business — and the personal vehicle insurance policy didn’t pay for the accident because the policy didn’t cover business use.

“People are not thinking about the down side of risk,” Walsleben said.

Not under the homeowners umbrella

Unless you’ve added specific extra coverage for your business, your homeowners insurance generally won’t cover business losses. Business owners may need more insurance to cover their business equipment, and to cover liability related to the business, as well as replacement of lost income.

There also are possible liability concerns. For example, if the product or service being provided is defective, the business owner could be liable. A business owner probably needs professional

liability insurance, according to the Insurance Information Institute, and some businesses, such as those that make or sell food products or sell homemade personal care products, may have to buy special policies.

Unexpected liability

You may not think the product you make carries any liability risk, but you could be wrong, Walsleben said. For example, if you make a small part that goes into the subassembly of an aircraft's braking system, you may have liability if that system fails.

There are other types of liability to consider. If a client or business-related delivery person slips on your property, and sues you, your homeowners policy might not cover it.

You should also research your state's definition of "employee" when it comes to workers' compensation insurance, and what coverage you must carry for those employees.

Limited or comprehensive coverage?

Different businesses may have different needs. Depending on the type of business, simple homeowners policy endorsements — minimal extra coverage for a business — might be adequate, according to the Insurance Information Institute. Your existing insurance company might add extra coverage to protect your business equipment, and a homeowners liability endorsement might be available if you have few business-related visitors.

But many should consider more comprehensive coverage through in-home business policies or business owner policies, according to the institute. These provide more extensive coverage for business equipment, and for liability. Various companies offer these policies, including some companies that sell homeowners insurance. Specialty insurers sell stand-alone policies, too.

If a fire damages the house to the extent that you have to temporarily suspend business, some of these policies would pay for lost income. Some policies pay for the extra costs of operating out of a temporary location. These policies also may offer protection against lawsuits related to the products and services you sell. The policy might also allow a few full-time employees to work in your home.

Other business policies

Business owner policies are for small and medium businesses and provide broader coverage than in-home business policies, according to the institute. They also cover businesses that operate in more than one location.

For businesses owned by more than one person, the partners should consider life insurance that names each partner as the beneficiary in the event the other person dies.

Another key consideration is the structure of the business. If it is a sole proprietorship, where the owner does business as himself, and the business is not incorporated, the owner is 100 percent personally liable if something goes wrong, Walsleben said.

“You need to insure yourself accordingly,” he said. “The liability of that is unlimited for you personally. Everything that happens, every debt and every liability, is on you personally. It’s not a business model I’d recommend staying in for long.”

While the sole proprietorship structure might work for some people for a limited time, it needs to be consistently re-evaluated.

“If the business is incorporated, you’re shielded from personal liability,” he said.

Bring in a pro

These issues can be complicated.

“The best advice is to find a good, solid insurance consultant,” Walseben said.

These consultants can provide advice on the direction you should take based on your answers to questions about what the business does, its structure (such as corporation, limited liability company or sole proprietor), who your customers are, whether you do all the work yourself or have employees.

To find these consultants, get personal recommendations from those you trust, such as bankers, attorneys or accountants.

Once you find someone who understands the market and the issues, you can either pay a fee for the advice, or they may earn their compensation from the commission they receive by placing you with an insurance carrier, Walsleben said.

“All too often, veterans and others think only about, ‘How do I sell my widget?’ ” Walsleben said. When they do start selling that widget, then they start thinking about other aspects, like insurance, he said.

Such an important decision should be given consideration earlier in the process.

Karen Jowers covers military families, quality of life, and consumer issues for Military Times. She can be reached at kjowers@militarytimes.com.