

Protecting Your Practice and Holdings

You may believe you've done your best to ensure the physical safety of your patients on your office premises, but accidents do happen. Someone may take a tumble on a wet floor or a frayed rug while in your office. Professional liability insurance will not protect you if such mishaps occur and the patient

decides to sue. To make sure you're protected, you need a general liability policy to cover this kind of risk.

Settlements and judgments of premises liability claims may range from a few thousand to tens of thousands of dollars. An injured person can collect not only lost wages and medical bills, but payment for pain, suffering and mental anguish. According to Jury Verdict Research, the median award for premises liability in 2003 was \$90,055.

If you already have such a policy, it is a good idea to make sure you have the kind of coverage you need. A general liability policy covers normal business exposures that every business has, such as bodily injury liability, property damage liability, personal injury liability and contractual liability.

Experts say one of the main reasons for buying a liability policy is to provide payment for any judgment that might be rendered against you.

In many cases, general liability claims made against the medical practice involve slips and falls. Settlements and judgments of these types of claims may range from a few thousand to tens of thousands of dollars. An injured person can collect not only lost wages and medical bills, but payment for pain, suffering and mental anguish. According to Jury Verdict Research, the median award for premises liability in 2003 was \$90,055, with knee damage the most frequently claimed injury.

Liability policies usually state a dollar limit per occurrence

and an aggregate dollar limit for the policy year. For example, your policy may pay \$250,000 per occurrence for personal injury or a total of \$500,000 in any one policy year.

General liability insurance not only pays the cost of covered damages, it also covers attorney fees and other costs associated with your defense. When shopping for a policy, it is a good idea to get at least three competitive bids using brokers, direct agents and independent agents. Be sure you understand the details of your coverage and avoid duplication and overlap so that you don't pay for more insurance than you need.

You should review your coverage amounts each year and make adjustments that reflect any changes in your practice, such as expanding the amount of office space you lease or rent, adding new equipment or adding another physician. Be sure to list all your equipment on the insurance policy with the value and serial number in case you have a loss in this area, says Andrew Wood, chief operating officer for Insurance Noodle, a brokerage agency

Are You Prepared for Disaster?

Small businesses like many medical practices are especially at risk from disaster, since few have the resources or knowledge to develop full-scale property protection and continuity plans, according to the Institute for Business & Home Safety (IBHS), a nonprofit initiative of the insurance industry to reduce deaths, injuries, property damage, economic losses and human suffering caused by natural disasters.

To help small businesses prepare for disaster, IBHS created Open for Business, a comprehensive disaster planning tool kit in booklet and CD-ROM formats, which helps business owners reduce the potential for loss should disaster strike and reopen quickly should they be forced to close.

Open for Business includes an assessment tool that helps the business determine its susceptibility to disaster and minimize its risks. The tool kit also includes materials to help organize the business's critical information and review its essential operations, both of which lead to developing a continuity plan.

To access the tool kit on-line, log on to www.ibhs.org/business_protection. To request a free single copy of Open for Business, e-mail info@ibhs.org or call toll-free 866-657-IBHS (4247).

that works with the American Medical Association Insurance Agency to help physicians with their insurance needs. AMA Insurance Agency is a wholly owned subsidiary of the AMA.

Insurance experts say it is important to tell your insurance agent about all areas of usual risk in your practice. If you don't disclose all the facts, you may not get the coverage you need or the agency may decide that you misrepresented your insurance needs. You also want to make sure that the insurance company has a local or regional office that you can contact if you have a loss.

Keep in mind that it is possible to take federal tax deductions for premiums you pay for different types of business coverage. These may include liability insurance, malpractice insurance that covers your personal liability for professional negligence resulting in injury or damage to patients or clients, life insurance covering your employees if you are not directly or indirectly the beneficiary under the contract, and business interruption insurance that pays for lost profits if your business is shut down due to a fire or other cause.

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Business Owner's Policy

Some insurance carriers offer a business insurance package specifically for medical offices. These packages often provide broader coverage at a lower price than individual policies. Coverage will include building and business personal property, business liability, loss of income and, in some cases, may include employment practices liability insurance.

The building and business personal property coverage will pay to help you repair or replace your building and equipment, supplies, furniture or fixtures that you own, up to the policy limit. Some policies will protect against the breakdown of all kinds of equipment, including computers, scanning equipment, phone systems, communication systems, air conditioners and more.

To minimize the risk of property damage, the Insurance Information Institute recommends that you train employees in fire safety, particularly those responsible for storage areas, and make sure you have the appropriate fire extinguishers on hand and in working order.

Usually a business owner's policy (BOP) does not cover damage due to earthquakes or floods, workers' compensation, group health, life or disability insurance and insurance for company-owned vehicles.

Don't delay in notifying your insurance carrier if you have a claim. Try to report the problem within 24 to 72 hours of the incident. If you fail to do so, you may nullify your right to have the accident covered by the carrier. Be sure to report promptly any burglary or theft to the police.

Insurers use rating formulas to determine the policy premium. For a BOP, they consider several factors, including the type and location of the business; the building's age, construction material and security features such as alarms and sprinklers, and your own claims history.

If you have suffered a loss to property, insurance companies will ask you to verify proof of loss, so be prepared to take photographs of any damaged property and provide other documentation, such as receipts. If you are renting or leasing the space where you practice and incur a loss to the property and/or equipment, your landlord may be liable for some of this. For example, if a water pipe breaks, you'll have to determine whether your policy or the building owner's insurance will cover the damage.

Don't delay in notifying your insurance carrier if you have a claim. Try to report the problem within 24 to 72 hours of the incident. If you fail to do so, you may nullify your right to have the accident covered by the carrier. Be sure to report promptly any burglary or theft to the police.

In addition, after damage to your building, you should take steps to protect the property from further problems, such as having broken pipe repaired as soon as possible. Be sure to save damaged parts if you have to make repairs immediately because the claims adjuster may want to examine them.

If you practice in an area that is subject to floods, check to see

if your policy covers this problem or if you will need an additional policy for this type of disaster from the National Flood Insurance Program.

It is also a good idea to develop a disaster plan which may include setting up your practice in an alternative facility if you encounter significant damage to your current location. You also should keep a list of important phone numbers and addresses that include local and state emergency management agencies, contractors, suppliers and financial institutions.

Physicians should consider purchasing coverage that is tailored to specific risks in the medical practice. For example, The Hartford offers a policy that will reimburse you for legal expenses related to disposal of medical waste. If you are sued for allegedly violating a law governing the disposal of medical waste, you can be reimbursed up to a specified limit in defense costs. The Hartford also has coverage for expenses, up to a specified limit, if you should be required to appear for disciplinary action before court or review boards.

It may also be wise to look into a product called Healthcare Billing Errors and Omissions, which is designed to help physicians fight any charges the federal government makes involving unintentional billing errors. Some medical malpractice carriers offer this coverage as a supplement to their professional liability policies. One policy underwritten by SCPIE Companies will pay 90 percent of your defense costs up to \$1 million for solo physicians and \$2 million for medical groups (nine or fewer physicians) if the charges against you involve unintentional billing

The Safety of Records

You should have a full backup system of records you maintain on computers. To insure safety of the records, the backup should be stored off the premises. Be sure you have a list of all the equipment you own or lease, by type, model and serial number.

Experts say it is a good idea to keep complete records of your insurance policies, premiums paid and any losses you've incurred in a safe place. You may need to retrieve these records quickly in the event of a loss or general liability claim.

errors and omissions. This claims-made policy, however, does not reimburse policyholders for amounts that are over-billed the government.

NCRIC, a medical liability insurance company that covers physicians in several mid-Atlantic states, offers a package called PracticeGard Plus, which covers not only allegations of billing errors and omissions, but also violations of such federal regulations as the Stark referral laws, the False Claims Act, the Emergency Medical Treatment and Labor Act and the HIPAA information privacy rules. PracticeGard Plus provides defense and indemnity coverage, protects healthcare providers from civil fines and penalties and provides defense and indemnity coverage with a combined \$1 million in limits subject to a \$1,000

Perform a Safety Audit

Taking steps to manage risk in the office is always recommended by insurance carriers. It is a good idea to undertake a safety audit to make sure that there are no hazards present that could cause injury to patients or others who frequent your office. In addition, involve your staff in all programs to prevent loss and maintain safety. Be sure you have a modern electrical system because a large percentage of non-residential fires are caused by faulty wiring. Insurance experts recommend locating your practice in a fire-resistive building, which involves a structure that is made of non-combustible materials with fire walls that create barriers to the spread of fire.

The Ophthalmic Mutual Insurance Company also offers the following office safety recommendations:

- Make sure your office floor coverings are easily traversed by patients on foot, on walkers or wheelchairs. Avoid the use of area rugs because they may cause patients to fall.
- Supervise patients with mobility problems, especially when they are being moved in and out of exam rooms or on and off chairs.
- Don't leave elderly patients unattended in exam or treatment rooms.
- Make sure hallways are well lighted and easily traversed by patients.
- Keep pathways leading to the office and parking lot areas well lighted and free of obstacles.
- Routinely check equipment and office furnishings for loose fittings and unstable tables or chairs.

deductible. However, the policy does not cover criminal fines and punitive damages.

Key-Person Insurance

One type of life insurance that can be useful for physicians is “key-person” insurance. In the event that you or one of the partners in the practice pass away, a key-person insurance policy pays cash to the practice, which is usually the beneficiary. The insurance proceeds can be used as the financial cushion needed for the remaining partners, enabling the practice to continue while new talent is recruited. In addition, if you have any kind of loans, your bank may require that you obtain this type of coverage as a way for the bank to get its money back if you or one of your partners dies.

The typical coverage benefits for a key-person policy should be \$250,000 to \$1 million. To determine how much coverage you need, estimate how much revenue you would lose if a key person in the practice passed away. The proceeds not only can help defray the cost of replacing a physician, but also can finance employee-benefit obligations.

Purchase term insurance for this coverage. Whole or variable life policies have higher premiums than term because they provide a cash build-up for investment, but this is not necessary for a key-person policy. A low-cost term policy will fit the bill.

The typical coverage benefits for one of these policies should be \$250,000 to \$1 million. The cost is relatively inexpensive because it is based on standard actuarial tables. To determine how much coverage you need, estimate how much revenue you would lose if a key person in the practice passed away. The proceeds not only can help defray the cost of replacing a physician, but also can finance employee-benefit obligations. Here again, don't overpay for this coverage. Ask your insurance broker to get you several price quotes.

While you're on the subject of how your practice will survive in the event of a partner's untimely death, review also your personal life insurance protection to make sure you have an adequate amount. There are often frequent changes in your financial situation, so experts advise that you analyze your coverage when any of the following take place: marriage or divorce; birth

or adoption; taking on the financial responsibility of a dependent, such as a parent; children leaving home for college; serious illness; retirement; substantial growth of assets, or death of a family member.

It is also a good idea to check your beneficiary designations. Too often individuals forget to make changes to their policies

Too often individuals forget to change their insurance beneficiaries when their family situations change. Also be sure that you name secondary beneficiaries in the event that your primary beneficiary dies before you do. The proceeds from life insurance policies pass according to your beneficiary designations and cannot be over-ridden by your will or revocable trust.

when their family situations change. If you recently became a parent or a grandparent, be sure to reflect this major life change on your policies. But keep in mind that you should not name minor children as beneficiaries because insurance companies generally will not pay death benefits to minors. The best way to provide for minors is to name a trustee or establish a trust.

You should also be sure that you name secondary beneficiaries in the event that your primary bene-

fiary dies before you do. The proceeds from life insurance policies pass according to your beneficiary designations and cannot be over-ridden by your will or revocable trust.

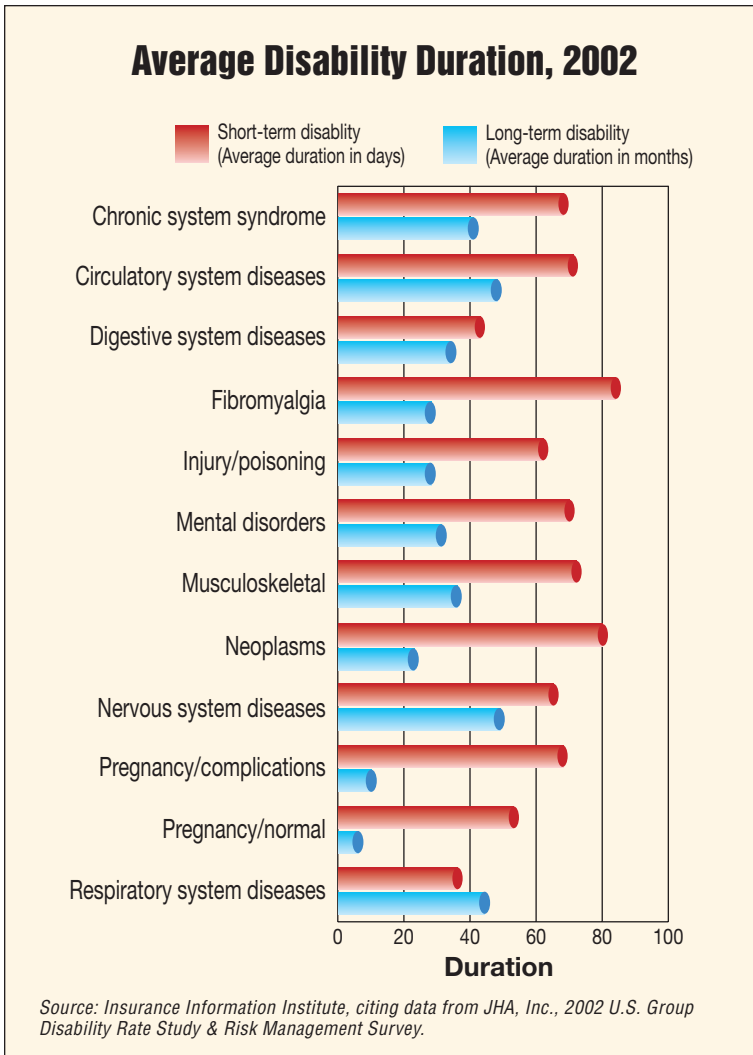
Be sure you understand the tax implications of your life insurance benefits. For the most part, life insurance benefits paid at death are not subject to federal income taxes. If estate taxes are a concern, says Jennifer Jones, a CPA in Fairfax, Va., consider having your relatives own the life insurance policies on your life or transfer existing or new life insurance policies to an irrevocable life insurance trust to preserve the entire death benefit for your family.

Disability Insurance

Some insurance experts insist that disability insurance is even more important than life insurance. According to the Insurance Information Institute, the average worker at age 40 faces only a 14 percent chance of dying before age 65 but a 21 percent chance of being disabled for 90 days or more. In the event you become

disabled, it is important to have disability coverage that will provide a fixed amount of monthly income if you are unable to earn anything for months or even years.

Statistics from the National Council on Disability indicate that 54 million Americans are disabled now compared with 43 mil-



lion in 1990. In addition, one recent study has shown that disability and related healthcare costs now account for half of all personal bankruptcies.

In addition, the 2003 National Safety Council's Injury Facts reveals that 19,600 people died in public accidents and 6.5 million more were disabled. Further accidents at home took 52,900 lives prematurely and left 14.5 million people disabled.

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The AMA Insurance Agency says a physician's most important professional asset is his or her ability to practice medicine. If you become disabled, you may lose that asset.

If you are employed by a health plan or hospital, you may receive an employer-paid disability policy. Employer-paid disability coverage is generally low-cost to the recipient. If a group policy is offered, it is a good idea to accept it. But you

may need more coverage than what you receive from your employer. In addition, more employers are reducing the amount they will contribute to this type of coverage or are doing away with this benefit altogether.

A disability policy that you purchase yourself can provide benefits if you don't have access to an employer-paid policy. These private plans are available on a group basis (such as through associations) or you can purchase it yourself. If you pay premiums for an individual policy, the benefits you receive will not be taxable, but that is not the case with employer-paid policies. Those benefits are taxable.

It is important to know how long you will receive disability coverage. There are two basic types available: short-term, which ranges from 12 weeks to a year; and long-term, which covers more than a year and may be available until you reach age 65.

The waiting period before benefits began is another factor to consider when purchasing a policy. For short-term disability, the waiting period can be seven to 14 days. For long-term disability, it can be anywhere from 30 days to a year. The longer the wait-

ing period, the less you will pay in premiums.

When selecting a policy, find out how sick or injured you must be before you can collect benefits. There are disability policies that provide benefits if you are unable to perform any of the duties of your own occupation. These are often known as own-occupation policies. This type of policy would pay benefits even if you were able to do some work, such as teaching, and generally costs more than coverage called “any” occupation. An “any” occupation policy will pay benefits only if you are unable to per-

How Secure Is Your Computer Network?

The Insurance Information Institute says that as we become more dependent on computer networks for vital data and communications, our vulnerability to cyber catastrophes increases.

According to the American International Group's eBusiness Risk Solutions, computer viruses caused an estimated \$13 million in damage in 2001. In addition, premiums written for cyber insurance are likely to top \$2 billion within the next four to five years as businesses recognize existing gaps in their coverage.

A recent survey conducted by the Human Resources Institute of Eckerd College found that U.S. businesses were unprepared to deal with and/or unprotected from computer-related risks.

Network security insurance, also known as cyber insurance, has been in existence since the late 1990s. The major factor leading to the creation of the insurance was the development and rapid growth of the Internet as a commercial tool. In addition, traditional insurance policies, such as standard property and commercial general liability insurance, do not adequately deal with the risks of a cyber attack or network security failure. While each policy is generally tailored to the specific needs of a company, cyber-risk coverage typically includes coverage for loss/corruption of data, business interruption, liability, cyber extortion, criminal rewards and identity theft.

Depending on the policy, coverage can apply to both internally and externally launched attacks as well as viruses that are specifically targeted against the insured or widely distributed across the Internet. Premiums can range from a few thousand dollars for base coverage for smaller organizations (those with less than \$10 million in revenue) to several hundred thousand dollars for major corporations desiring comprehensive coverage.

form any type of work.

The AMA Insurance Agency recommends that physicians purchase disability income coverage that pays benefits when they are unable to perform the duties of their own medical specialty. The AMA-sponsored plan has the “own occupation” medical specialty disability definition for the first five years of the total disability. After five years, benefits may continue if you are unable to work in any job for which you are reasonably fit by training, education or experience.

It is a good idea to purchase disability income insurance early in your medical career because that is when you are healthy and are more likely to meet the medical underwriting criteria. Experts say that if you purchased a disability policy several years ago, it may be better than any new plan on the market today.

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than any new plan on the market today. In addition, if you don't smoke, you should be paying lower premiums than smokers pay, so take the time to review this factor with the insurer.

If you become disabled, keep in mind that disability insurance will not cover 100 percent of your income. Policies generally will pay from 60 percent to 80 percent of your income, and many insurance carriers cap the amount paid at \$7,000 a month. You should expect to tap savings and investments to cover the rest of your lost income. In addition, you may want to pay extra for a provision that guarantees that your benefits will be adjusted each year to account for inflation.

Group coverage offered through associations, such as the plan sponsored by the AMA, is often less expensive than individual policies and may provide valuable benefits tailored for medical professionals. Make sure that you pay the premiums regularly because carriers will discontinue your coverage if you miss your payments.

In addition, the AMA Insurance Agency offers Office Overhead Expense protection to help cover a wide range of medical office expenses should an illness or injury result in your total dis-

ability. Even when you can't work, you can receive up to \$15,000 per month in benefits that will help you keep your practice going while you recuperate or make other important decisions regarding your practice. Covered expenses include malpractice insurance premiums, office rent and utilities, staff salaries, leasing costs, business services, professional dues and more. The agency says you are eligible for this coverage if you're a physician under age 60, actively performing the full-time duties of your occupation and not a full-time member of the Armed Forces.

Physicians are also eligible to receive Social Security benefits if totally disabled for five consecutive months and if the disability is expected to last at least 12 months or will result in death. However, it can take about seven months after your disability begins before you receive any benefits. Your salary and the number of years you have been covered by Social Security determine how much you will receive. It is also difficult to qualify for this benefit. Statistics indicate that of those who apply, only 37 percent are approved.

Social Security payments may be reduced by disability entitlements under other government programs, such as workers' compensation or a government pension, because combined payments generally cannot exceed 80 percent of average pre-disability earnings.

Glossary of Insurance Terms

When shopping for insurance, it pays to speak the language. Following is a glossary of insurance terms, provided by the New York-based Insurance Information Institute:

■ **Binder.** Temporary authorization of coverage issued prior to the actual insurance policy.

■ **Blanket insurance.** Coverage for more than one type of property at one location or coverage for one type of property at more than one location.

■ **Broker.** An intermediary between a customer and an insurance company. Brokers typically search the market for coverage appropriate to their clients. They work on commission and usually sell commercial, not personal, insurance. In life insurance, agents must be licensed as securities brokers/dealers to sell variable annuities, which are similar to stock market-based investments.

■ **Business income insurance.** Also known as business interruption insurance, this reimburses a business owner for lost profits and continuing fixed expenses during the time that a business must stay closed while the premises are being restored because of physical damage from a covered peril, such as a fire. Business interruption insurance also may cover financial losses that occur if civil authorities limit access to an area after a disaster and their actions prevent customers from reaching the business premises. Depending on the policy, coverage may start after a waiting period and last for two or more weeks.

Business income insurance, also called *business interruption insurance*, reimburses a business owner for lost profits and continuing fixed expenses during the time that a business must stay closed while the premises are being restored because of physical damage from a covered peril, such as a fire.

■ **Business owners policy.** A policy that combines property, liability

and business interruption coverage for small- to medium-sized businesses. Coverage is generally cheaper than if purchased through separate insurance policies.

■ **Claims-made policy.** A form of insurance that pays claims presented to the insurer during the term of the policy or within a specific term after its expiration. It limits liability insurer's exposure to unknown future liabilities.

■ **Deductible.** Amount of covered loss paid by policy holder. The bigger the deductible, the lower the premium charged for the same coverage.

■ **Exclusion.** A provision in an insurance policy that eliminates coverage for certain risks, people, property, classes or locations.

■ **Rate.** The cost of a unit of insurance, usually per \$1,000. Rates are based on historical loss experience for similar risks and may be regulated by state insurance offices.

■ **Rating agencies.** Six major credit agencies determine insurers' financial strength and viability to meet claims obligations. They are A.M. Best Company, Duff & Phelps, Fitch, Moody's Investors Services, Standard & Poor's Corp. and Weiss Ratings. Factors considered include company earnings, capital adequacy, operating leverage, liquidity, investment performance, reinsurance programs and management experience. A high financial rat-

ing is not the same as a high consumer satisfaction rating.

■ **Replacement cost.** Insurance that pays the dollar amount needed to replace damaged personal property or dwelling property without deducting for depreciation but limited by the maximum dollar amount shown on the declarations page of the policy.

■ **Rider.** An attachment to an insurance policy that alters the policy's coverage or terms.

■ **Risk management.** Identification and management of the varied risks to which a business firm or association might be subject. It includes analyzing all exposures to gauge the likelihood of loss and choosing options to better managing or minimizing loss. These options typically include reducing and eliminating the risk with safety measures, buying insurance and self-insurance.

■ **Risk retention groups.** Insurance companies that band together as self insurers and form an organization that is chartered and licensed as an insurer in at least one state to handle liability insurance.

■ **Schedule.** A list of individual items or groups of items that are covered under one policy or a listing of specific benefits, charges, credits, assets or other defined items.

■ **Underwriting.** Examining, accepting or rejecting insurance risks and classifying the ones that are accepted, in order to charge appropriate premiums for them.

■ **Underwriting income.** The insurer's profit on the insurance sale after all expenses and losses have been paid. When premiums aren't sufficient to cover claims and expenses, the result is an underwriting loss. Underwriting losses are typically offset by investment income.