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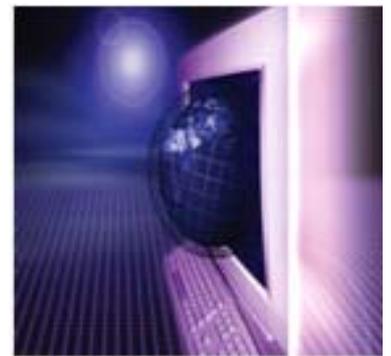
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The Spirit is Willing but the Flesch is Weak

On a Mission ... How we Migrated to Flare

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# The Business of Freelancing: Insurances

by Rhonda Bracey

In this article, I'll try to answer the questions other technical writers have asked me about business insurances and what cover I have.

## Disclaimer:

- I am not a financial or legal professional in ANY jurisdiction. Please consult an appropriate professional before using any information in this article.
- All opinions are my own and based on the experiences of running my small (micro) business since 1999. I have never run anyone else's business.
- The information in this article assumes you are working as an independent contractor or freelancer and not through an agency. If you work through an agency, check which insurances they carry on your behalf.

The terminology in this series of articles is specific to Australia and/or Western Australia. Other states and countries may have similar options available but under different names.

One of the ongoing expenses in running your own business is insurance.

However, instead of thinking of insurance as a black hole, think of it as 'risk protection'—you're protecting your business, and your ability to continue earning an income, from unforeseen circumstances.

## What insurances might you need?

As a small business owner and independent contractor you will probably need these:

- **Workers Compensation:** If your company employs staff (including you) you must have Workers Compensation cover. In WA, the annual premium is calculated on the total expected combined salary for you, your employees, and any subcontractors in the following year, and adjusted accordingly the following year.
- **Business Equipment:** This insurance covers any equipment owned by your business, such as PCs, laptops, printers, digital cameras and office furniture. Make sure you indicate if you want coverage when you are 'on the road'.
- **Professional Indemnity (PI):** Typically, you need \$1m to \$10m cover.

You may decide you don't need PI insurance, but be aware that your clients may require your business to have it. Supposedly this insurance protects you if the client sues your company for negligence or misconduct.

- **Public Liability (PL):** You should have PL insurance if any suppliers (accountants, couriers, cleaners, for example), employees, or subcontractors come to your work premises, including your home office, at any time. PL covers situations where they may sue your company if they are injured when they trip on your front mat. Coverage is typically between \$1m and \$10m. Like PL insurance, it may be required by the client.
- **Income Protection:** You can insure your ability to earn an income if you are temporarily or permanently incapacitated through illness or injury. Premiums for this insurance vary

according to your age, your income, and how long you can survive without working before making a claim. You can be paid up to 75% of your salary up to age 65 if you are permanently unable to work. Some policies include a business overheads component, which can help cover many fixed business operating expenses when you are unable to work through sickness or injury.

## Other insurance options to consider:

- **Trauma insurance:** Covers you for specified diseases or conditions, such as cancer, heart attack or stroke. Usually the claim is paid out in a lump sum (a one-off payment of \$50,000, say) so you can pay medical bills or perhaps alter your house to accommodate a wheelchair. It may be bundled with other insurances, such as life or income protection.
- **Key person insurance:** Provides a 'cash cushion' to help offset loss of profits if you die, become disabled or suffer a major illness.
- **Partnership insurance:** Provides you with funds to buy the business outright from your partner's beneficiaries in the case of your business partner's death.
- **Property:** Does your company own business premises? If so, there are special insurances for commercial and retail property buildings, as well as protection against theft, fire, and other external events that can affect the continual running of your business.
- **Vehicle:** Does your business own a vehicle? Then there are all the usual car and third party insurances you have to pay.
- **Bundled 'small business insurance' packages:** Some insurers offer bundled packages for small businesses that cover many of the insurances listed above. The advantage of bundling is that everything is with the one company and there's only a single premium to budget for.

- **Health:** If waiting for a procedure or treatment prevents you from earning your income or reduces your earning potential, consider private health insurance cover.
- **Travel:** Do you have to travel for work? If you travel a lot in a year, consider a multi-trip business insurance package. You pay a single premium and it covers you for all travel for 12 months.
- **Life:** In the event of your death, would your family be covered sufficiently to pay off debt and survive financially? You can link life insurance with superannuation, and sometimes with trauma and income protection insurance.
- **Superannuation:** Protects you against some future event—in this case, retirement and the subsequent loss of income. If you have spare funds, consider salary sacrificing into Super. For those of you nearing or over 55 and less than 65, get some advice on the TRAP strategy (Transition to Retirement Allocated Pension).
- **Specialist insurance:** There are insurances available for all sorts of special situations, such as trade shows and exhibitions, tax audits, legal expenses related to contracts, employee dishonesty and so on.

### How much cover do you need?

It depends! The amount of cover depends on your business structure (Pty Ltd company, sole trader, under your own name), your work environment (city office or hazardous on-site location), if you employ others as employees or subcontractors, your age, and sometimes the clients you work for.

Some clients require all their contractor companies to produce a 'Certificate of Currency' for the minimum coverage that they specify.

You may be able to get a clause such as this removed from your contract, but if fighting it is likely to jeopardise a lucrative multi-month contract, you have to assess whether pushing hard to get it changed is worth it.

### Where do you get cover from?

You could do all the research yourself and spend countless hours on the phone, on company websites, or consumer advocate and comparison websites, and still not get a clear answer or simple comparative costs.

Other than a lot of frustration, you've also just cost yourself a lot of money—and you still haven't paid the annual insurance premiums.

Let's say it takes you two hours (conservative estimate) to research offerings for each insurance type. If you are looking for cover for ten of the insurances I've listed above, that's a minimum of 20 hours of your time. For the sake of this exercise, let's assume your chargeable rate is \$50 per hour. Those 20 hours have just cost you the opportunity to earn \$1000 (20 hrs x \$50). Many small business people forget to factor in the cost of their time when they do a business task that doesn't earn them income. They think it's dead time. It's not. It's an opportunity lost and should be costed accordingly. Economists have a term for this: 'opportunity cost'—

the cost of doing an activity instead of doing something else.

So what's the alternative? Pay someone to do the research and all the running around for you. There's a whole occupation devoted to this—they're called insurance brokers and the type you want is a business insurance broker. Yes, they may charge a fee; some are affiliated with large insurance companies or banks, or get kickbacks from the companies they recommend. However, I consider their fee miniscule for the peace of mind I get for not having to run around and deal with the companies themselves, especially when it comes to claims.

Good, independent business insurance brokers are hard to find. Try asking colleagues, your accountant, and professional groups first—they may recommend someone; or check the Yellow Pages and other reference sources.

### What insurances do you have and how much do they cost?

Remember, my circumstances are likely to be different from yours—for example, I have a Pty Ltd company and I do a lot of work for companies in the resources sector.

As a guide I have the following insurances for my business (all approximations include stamp duty, GST, and broker fees):

- Workers Compensation: ~\$600 per year
- Professional Indemnity bundled with Public Liability: ~\$3500 per year
- Income Protection: ~\$3600 per year
- Business equipment: ~\$1400 per year

It's not cheap, but nor is losing your business or your income source, or getting sued.

### Finally...

- Get professional advice about the specific insurances you need for your business and the circumstances in which you work.
- Factor the cost of insurance premiums into your rate.
- If you don't like receiving a really large bill, stagger the renewal dates over the year, or choose the 'pay by the month' option if it's offered.
- While most of these insurances are tax-deductible expenses for your business, check your eligibility with your accountant or tax professional.

(The full version of this article was first published on the CyberText Newsletter/Blog on 9 June 2008: <http://cybertext.wordpress.com/2008/06/09/business-of-freelancing-insurances/>)

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