

Insurance Information for the Small Business Owner

Understanding your insurance needs

The Kansas Insurance Department regulates more than 1,700 companies and nearly 110,000 agents who sell approximately \$17.3 billion worth of insurance each year in the state of Kansas.

We've designed a business insurance information packet to help you, the small business owner. This packet includes materials on the following insurance topics:

- Providing health coverage
- Workers' compensation coverage
- Property and liability coverage
- Special considerations for home-based businesses
- Health insurance tax credits
- Health savings accounts (see brochure)
- Disability and life insurance

It also includes three lists of companies that may be able to help you:

- Companies with HSA (health savings account) forms
- Small group health carriers

The Kansas Insurance Department can help with your insurance questions. We can also assist if you have a claims problem. Contact the Consumer Assistance Division with your small business insurance questions or concerns.

Consumer Assistance Hotline: 1-800-432-2484

Website: www.ksinsurance.org

Email: KID.commissioner@ks.gov



Providing health insurance coverage

In Kansas, business owners with fewer than 50 full-time employees (or the equivalent) are not required by law to offer employees health insurance benefits. However, many small employers choose to offer health benefits to their employees in order to attract and keep good employees.

Small employer health plans

Employers with 2 to 50 full-time employees are eligible to purchase small group health plans in Kansas. For purposes of health insurance, a full-time employee is someone who works at least 30 hours per week and is not a temporary or substitute employee.

Kansas law requires insurance companies that sell health plans to small employers to make the plans available on a guaranteed-issue basis. Guaranteed-issue means that the policy must be issued regardless of the employer's or an employee's claims history, pre-existing conditions or health status.

Small employer plans are usually fully-insured. The employer purchases coverage from an insurance company, and the insurance company assumes the risk to pay all eligible health claims. Fully-insured plans are regulated by the Kansas Insurance Department.

Some insurance companies will require that a certain number of employees participate in an employer's health plan. For this reason, insurance companies have the right to request a company's tax return to ensure adequate participation in the plan. Additionally, business owners may request verification if an employee is covered by another group plan.

You can enroll in a small employer health plan by contacting any health insurance agent or company in Kansas, or contact the Kansas Insurance Department at 800-432-2484.

Small Business Health Options Program (SHOP) marketplace

The Small Business Health Options Program (SHOP) is a marketplace set into place by the Affordable Care Act of 2010, and allows small business owners to buy health insurance coverage for their employees. It is designed for small employers with 50 or fewer full-time employees.

If you plan to use the SHOP marketplace to buy coverage for your employees, you must offer coverage to all full-time employees. In general, 70% of these full-time employees must enroll in the SHOP plan. The employer decides how much will be paid towards employees' premiums, and then the employees use the SHOP to enroll in a plan.



Currently, the SHOP marketplace is open to any employer with 50 or fewer full-time employees. Begin

ning in 2016 the SHOP will be open to employers with up to 100 full-time employees. If you have questions about the SHOP marketplace, you can call the SHOP's toll-free number at 800-706-7893.

Health insurance tax credits

Two different tax credits are available to small employers who choose to offer health insurance coverage to employees: a federal tax credit and a state tax credit.

Federal small business health insurance tax credit - This tax credit is available to any small business employer with fewer than 25 full-time (or equivalent) employees. You must pay an average wage of less than \$50,000 each year, and you must pay at least 50% of employee health insurance premiums. In order to qualify for this tax credit, you must purchase your health insurance coverage from the SHOP marketplace. Non-profit and tax-exempt organizations may also be eligible for this credit. For more information, see the brochure enclosed with this packet, or visit <https://www.irs.gov/ewsroom/a-health-insurance-tax-credit-for-small-employers>.



Kansas state health insurance tax credit - K.S.A. 40-2246 allows an income tax credit for some small employers that make qualifying contributions to a small employer health benefit plan or health savings account of an eligible employee. In order to be eligible, the small employer must have from 2 to 50 employees, and these credits are only available to corporations subject to the Kansas corporate income tax (C corporations). For more information and to utilize the tax credit, obtain Kansas Department of Revenue schedule K-57. Call the Kansas Insurance Department's Consumer Assistance Hotline at 800-432-2484 for more information.

Benefits covered & required in your policy

Your group health policy will only pay for covered expenses. Factors considered in paying or denying a claim are:

- Is the expense listed in your policy?
- Is it a medically necessary service?
- Is the charge for the service usual, customary & reasonable?

State & federal laws require most group insurance policies to provide the following benefits:

- Maternity & newborn coverage
- Emergency services & care
- Hospitalization
- Childhood immunizations for children up to the age of 6. Deductibles and copays do not apply.
- Coverage for many preventive care services at no out-of-pocket costs, including mammograms, pap smears and prostate screenings.
- Prescription drugs

- Minimum mental health/substance abuse services. The amount of benefits depends on the type of treatment and whether services are for inpatient or outpatient treatment.

Benefits vary from one plan to another. To be certain whether or not a service is covered, you should refer to your specific policy.

Employers may impose a 90-day probationary period before health insurance benefits begin, but they may no longer exclude pre-existing conditions from being covered.

High deductible health plans

A high deductible health plan (HDHP) features higher deductibles but lower premiums than other types of insurance plans. An HDHP can be combined with a health savings account or a health reimbursement arrangement to allow you to pay for qualified out-of-pocket medical expenses on a pre-tax basis. These can be arranged with employer or employee contributions and can often help offset employer health care costs.

Managed care plans

Managed care plans use selected doctors and other providers (referred to as “networks”) to provide and coordinate your health care. Managed care plans generally provide comprehensive health services to their members and offer financial incentives for patients who use the providers who belong to the network.

HMO (health maintenance organization) - The HMO provides health services through a network of doctors, hospitals, laboratories, etc. Care must be provided or authorized by a primary care physician whom you select from the HMO’s list of participating doctors. The health care providers may either be HMO employees or have some other contract arrangement with the HMO. HMO plans pay providers a monthly set fee regardless of the amount of services performed.

PPO (preferred provider organization) - A PPO is a group of doctors, hospitals and other health care providers (preferred providers) that have agreed to provide services to members of a health plan for discounted fees. Benefits are available on an in-network and out-of-network basis, and you are not required to select a primary care physician. However, patients who use a preferred provider generally receive a higher level of benefits. If you utilize an out-of-network provider, you will be responsible for higher out-of-pocket expenses, including the difference in excess of the allowed benefit amount.

POS (point of service) plans - These plans are a hybrid that combine the managed care aspects of an HMO with the flexibility of a PPO plan. They allow members to use services provided outside the network without prior approval from a primary care physician.



Questions to ask before joining a managed care plan:

- What's covered? What's not covered?
- What are your rights and responsibilities as a plan member?
- Is your physician a participating provider in the network?
- What out-of-network care is covered?
- What procedure does the plan have for resolving complaints and handling appeals?
- Are you comfortable with the network of available health care providers?

Other things to consider

Find out about the company before you buy coverage. Here are some factors to consider:

Customer service: Find out how the company services its policyholders. Does the company have a toll-free customer service number?

Complaint history: Refer to the Kansas Insurance Department's annual *Consumer Complaint Ratio Report* to find out if the company has had an unusually high number of consumer complaints.

Licensing status: Call the Kansas Insurance Department's Consumer Assistance Hotline to find out if an insurance company is licensed to do business in Kansas.

Cost: When you look at bids from several companies, you will also need to look carefully at the benefits offered. Premiums for health insurance can vary greatly because plans aren't standardized. Be sure to give each company a complete listing of the employees who will be covered under the plan. Final rates depend on the number of eligible employees in the plan and medical history of those enrolled, including dependents.

Financial stability: Financial stability helps ensure that company can pay its claims. KID enforces statutory requirements and monitors the financial stability of companies licensed and operating in the state. You can check a company's financial rating by contacting one of these organizations:

Moody's Investor Services

212-553-0377, www.moody.com

Standard & Poor's Insurance Rating Services

212-438-7280, www.standardandpoors.com

TheStreet.com Ratings

800-289-9222, www.weissratings.com

Or link to **A.M. Best Co.** ratings through the KID home page - www.ksinsurance.org. Just click on the "Agent/Company Search" under the Quick Links tab in the upper right hand corner of the home page. The A.M. Best search box will appear on the right side of the page. You can also link to A.M. Best's home page at www.ambest.com.

Other health publications available

The Kansas Insurance Department has developed easy-to-use health booklets and shopper's rate guides, which can be ordered at www.ksinsurance.org/department/publications/request-kid-premiere-publications.php. Publications can be printed at www.ksinsurance.org/department/publications.php.

Booklets

- Health Insurance in Kansas
- Consumer Complaint Ratio Report
- Medicare Supplement Insurance Shopper's Guide
- Long-Term Care Insurance & Shopper's Guide
- Life Insurance and Annuity Basics

Brochures

- Health Care: Take Control
- Independent Medical Review
- Health Savings Accounts
- Prompt Pay Act

Life insurance coverage

People buy life insurance to replace income that would be lost with the death of a wage earner. The cash provided by life insurance also can help ensure that dependents are not burdened with significant debt upon the death of a loved one. Small businesses sometimes purchase life insurance as a benefit for employees. If you are interested in purchasing life insurance for your employees, contact an agent licensed to sell life insurance in Kansas. The most common types of life insurance include:

Term insurance is coverage for a term of one or more years. Benefits will be paid if the insured dies during that period. Some term insurance can be renewed at the end of the term.

Whole life insurance, also referred to as "straight life," "ordinary life," or "permanent insurance," gives lifelong protection for as long as the premiums are paid. These policies are designed and priced to be kept over a long period of time. Whole life insurance policies develop cash values.

Universal life is a variation of whole life insurance and allows you, after your initial payment, to pay premiums at any time in virtually any amount, subject to certain minimums and maximums. With this type of policy, the amount of premium not used to purchase the death benefit accumulates as interest in a cash value-type account.

Variable life is a variation of whole life insurance that provides death benefits and cash values that vary with the performance of an underlying portfolio of investments. The cash value of a variable life policy is not guaranteed, and the policyholder bears the risk.

Workers' compensation coverage

Workers' compensation is an insurance plan provided by the employer (by law) to pay employee benefits for job-related injuries, disability or death. Benefits are paid at the employer's expense. Coverage begins the employee's first day on the job. The law covers all Kansas employers except for those in certain agricultural areas or those with a gross annual payroll of less than \$20,000. All payroll is taken into account, including that paid in Kansas or elsewhere.

If the employer is a sole proprietor or a partnership, the wages paid to the owners and any of their family members are not used in the computation of the \$20,000. If, however, coverage is obtained, family members are not exempt.

Cost based on business type

The key factor in determining the premium for your workers' compensation insurance depends on the kind of business you run. There are about 600 business classifications in use in Kansas. The more hazardous the work, the higher the workers' compensation rate. Be sure your insurance company understands the kind of work that you do so you will receive the most appropriate rating. For assistance in verifying that your business is correctly classified, contact the Kansas Insurance Department.



Employer responsibilities

Most employers are required by law to provide for the payment of workers' compensation claims at no expense to the employee. Employers may satisfy this requirement in one of three ways:

Workers' compensation insurance, obtained from a licensed insurance carrier. The employer pays the premiums, and the insurance company pays the claims. The insurance carriers are regulated by the Kansas Insurance Department.

Self-insurance. An individual employer must demonstrate to the state the financial ability to pay any claims that might arise. The self-insurance program is administered by the Kansas Department of Labor.

Group-funded pool. A group of employers meeting certain statutory requirements may form a self-insurance program to jointly insure their ability to pay claims. This program is administered by the Kansas Insurance Department.

Intentional failure to provide workers' compensation payment in one of the above ways is a Class A misdemeanor and subjects the employer to a civil penalty in an amount twice the annual premium the employer would have paid for insurance or \$25,000, whichever amount is greater.

Kansas Workers' Compensation Insurance Plan (Assigned-Risk Plan)

An employer who is unable to purchase coverage in the voluntary insurance market can obtain coverage in the assigned-risk plan. This means that an employer is assigned to an insurance carrier who is authorized to provide coverage. Assigned-risk plan premiums are, on average, 25% higher than the voluntary market. However, premiums may increase because of additional surcharges, which are based on the employer's loss experience.

Many times a small business owner may have to obtain coverage through this plan until the business generates a larger annual premium or establishes a record of low losses. This plan is regulated by the Kansas Insurance Department.

Contact information

For information on workers' compensation benefits or claims, employer guidelines and other general information, contact:

Kansas Department of Labor
Division of Workers' Compensation
401 SW Topeka Blvd, Suite 2
Topeka, KS 66603-3105
800-332-0353; 785-296-4000
www.dol.ks.gov

Property and liability coverage

To determine your business insurance needs, you should begin with an analysis of your property and your risks. Your property is the building and equipment you own. Your risks are the financial responsibilities you have for the people and property within your business.

Even if the law does not require your business to carry insurance, you may want to purchase coverage to protect you, your property and your assets. You may be able to purchase a package policy that includes several types of insurance. For instance, property, liability and automobile coverage could make up a package policy. Usually, the premium for a package policy costs less than the total cost of premiums for the individual coverages.

Property insurance

Property insurance may be one of the most important types of insurance in terms of financially protecting the property and physical assets of your business.

There are three basic types of property coverage. You will want to discuss these coverages carefully with your agent to make sure you understand the differences.



Basic form: Includes losses for such things as fire, lightning, windstorm, hail and explosion. The exact covered losses are specifically listed in the policy. Under a basic policy, you are insuring for only specific losses.

Broad form: Includes basic form coverage plus coverage for losses caused by such things as collapse of a roof because of weight of ice or snow; or damage caused by accidental discharge of water or steam. Covered causes of loss are specifically listed in the conditions of the policy.

Special form: Sometimes referred to as “all risk” because it covers all direct physical losses except conditions specifically excluded in the conditions of the policy. This policy usually costs more than basic or broad form coverage because it covers more types of loss.

Replacement cost or actual cash value

With property insurance, you can buy either replacement cost or actual cash value insurance.

Replacement cost insurance pays the cost of damaged property and goods without deduction for depreciation. Replacement cost insurance is more expensive than actual cash value insurance.

Actual cash value insurance pays the cost of damaged property and goods after deducting for their depreciation.



Liability coverage

Liability insurance is valuable coverage because it protects your business from financial loss because of injuries, deaths or property damage caused by your products, business operations or employees.

The only required liability coverage in Kansas is workers' compensation coverage, which protects you from the threat of lawsuits by employees who have received job-related injury or illness. For more information about this coverage, refer to pages 7 and 8 in this booklet.

Premises/operations coverage pays injury claims if someone slips and falls on your property and you are legally responsible.

Products/completed operations coverage helps pay for monetary losses that result from injury or damage caused by a product or completed work.

Commercial automobile coverage

If your business owns vehicles, you must obtain commercial automobile coverage. If your business leases vehicles, the lease agreement may require you to purchase liability coverage.

Liability coverage under a commercial motor vehicle policy is compulsory. This includes bodily injury, property damage, personal injury protection and uninsured/underinsured motorist coverage. The minimum liability limits that you have to purchase vary depending on whether your operations are regulated by a governmental agency. Check with your agent to determine the liability limits you should purchase. Physical damage coverage is optional unless the vehicle is leased or financed. The leasing company or lender will require physical damage coverage for any leased or financed vehicle.

Other insurances

Here are some brief descriptions of the many types of insurance available to you as a business owner. Ask your insurance agent to help you choose the type of coverage you need.



Bonds guarantee that you will perform a specific action. For example, a builder may buy a bond to ease the mind of a client. If the builder fails to perform as agreed, the client can get a settlement.

Boiler and machinery insurance pays for loss or damage to your property as a result of a sudden and accidental breakdown of equipment.

Business income or interruption insurance pays lost earnings if you must close your business because of an insured property loss.

Cargo and transportation insurance covers goods or products your company transports.

Errors and omissions insurance protects professionals from losses caused by their errors or oversights.

Fidelity insurance covers business clients or owners for losses because of dishonest acts by owners or employees.

Flood insurance covers losses to buildings and their contents because of flooding caused by rising water. (Visit the National Flood Insurance Program's website at www.floodsmart.gov or call 888-379-9531.)

Professional liability insurance pays liability claims arising from wrongful practice by physicians, attorneys or other professionals.

Special considerations for home businesses

If you run a home-based business, one of the most important things you should do is let your insurance agent know you are working from your home. Be sure you clearly describe your business operation so that your agent can help you determine the right kind of coverage to properly protect not only your home but also your business property.

Most of the information in this brochure still applies to you. Just because you operate out of your home does not mean you don't need business insurance. Most homeowners and renters policies specifically exclude coverage for property used in a business.

If your home-based business involves products, inventory or walk-in customers, you may need an attachment to your homeowners policy or even a business insurance policy. A business policy will insure you separately with property and liability coverage as though you were renting space for your business.

Be sure you clearly describe your business operations to your agent. Your agent will help you determine the kind of coverage that will best fit your situation.

Insuring for success

Evaluate your needs. Your agent can help you determine the most appropriate insurance package to cover your needs. Compare your options.

Check agents and companies. Make sure the Kansas Insurance Department licenses both the agent and the company with whom you are dealing.

Know what is excluded. Make sure you know what is and is not covered by the policy you are considering.

Consider a higher deductible. You can reduce your premium payments by raising the deductible. Make sure your deductible is high enough to reduce the premiums but not so high that you can't pay the deductible.

Don't underinsure. An inexpensive policy may not provide enough protection.

Other Resources

Small Business Administration

www.sba.gov

800-827-5722

Internal Revenue Service

www.irs.gov

Kansas Department of Labor

www.dol.ks.gov

785-296-5000

United States Department of Labor

www.dol.gov

866-487-2365 (1-866-4-USA-DOL)

Kansas Insurance Department

420 SW 9th St.

Topeka, KS 66612

785-296-3071 (phone)

785-296-7805 (fax)

TTY/TDD: 877-235-3151

www.ksinsurance.org

KID.commissioner@ks.gov

Consumer Assistance Hotline:

1-800-432-2484

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