

Effective Wealth

A Newsletter of Rothstein Kass®

Fourth Quarter 2009

Inside:

Cutting Overhead Costs
Without Reducing Services

4

Reducing Insurance Costs Without Sacrificing Critical Asset Protection

There are very few people who joyfully take out their checkbook to pay insurance premiums, and there are even fewer who read their insurance policies. Most policies are so difficult to understand that often professional advisors cannot make sense out of them, so it is amazing that consumers are expected to understand these lengthy and confusing documents. This confusion can lead to drastic mistakes in the selection, or maintenance, of important coverages—especially when economic situations are driving cost cutting measures.

One of the worst things a business owner or individual can do, when analyzing cost saving measures, is to cancel existing insurance policies or forego the purchase of critical asset protection. As we begin to hear about predictions of a “hardening” insurance market which can lead to increased premiums, it is now time to take a hard look at your current program and seek out competitive quotations.

It is certainly safe to say that insurance is a necessary evil, and that our economy will not work properly without it. Without insurance, you must rely on your business and personal assets to protect your net worth; no amount of legal positioning can effectively minimize the potential to have your assets taken from you, if you suffer a loss of income due to casualty, business interruption, or litigation.

There are a growing number of businesses and high-net-worth individuals that are changing their attitude towards insurance as they recognize that their true cost of risk is much greater than the cost of the premium. They understand that loss of productivity, time, and additional aggravation due to dealing with unnecessary and preventable claims can cost them substantial amounts of money. Even for individuals with sufficient wealth, their desire to grow their assets and make contributions to their community, charitable organizations, and family members warrant serious consideration of the associated risks, and protection of their assets and reputations.

You must take responsibility. Take a personal interest, or engage a professional to advise you on how to best allocate your insurance budget, or you may continue to experience the ebb and flow of dollars called insurance cycles and the feeling of being totally out of control.

Where Is the Insurance Industry Today?

The changing economy certainly has an impact on how insurance companies earn profits. With lower investment profits, insurance companies must ensure their underwriting profits are capitalized, which means higher premiums, and less of an appetite for risks they perceive to be greater than the premiums charged.

In some areas, such as professional liability, (Directors & Officers [D&O] liability particularly for financial services companies), there has already been a tightening of the insurance marketplace with significant premium increases.

Traditional business insurance, such as property and casualty, and liability, have not yet been materially impacted, however, this may change in the last quarter of 2009 and first quarter of 2010. Prior to this time, and coinciding with your next renewal, an aggressive approach should be undertaken to achieve a reduction in costs before the harder market materializes (as it will, it is just a matter of timing). With these efforts, it would not be surprising to expect premium savings in the range of 5–15 percent.

In addition to premium savings, it is important to get appropriate coverage features added to the programs (while the getting is good). You should evaluate your needs with your broker and risk management consultant.

Be sure that you and your broker are paying attention to advance notices from your insurance companies regarding policy changes, anticipated premium increases and notices of “non-renewal.” Non-renewal notices received 30–60 days prior to the end of the term should be taken seriously. In the

(continued on page 2)

Reducing Insurance Costs Without Sacrificing Critical Asset Protection

(continued from page 1)

“Be sure that your policies are tailored to take your special situations into consideration, rather than accepting the ‘cookie cutter’ approach.”

past, non-renewal notices were considered to be formalities, however, in many situations, that is no longer the case, and policies are now being terminated upon expiration without further notification. Unless you plan accordingly, you may be uninsured without a viable alternative. Be sure to discuss these notices with your broker and don't accept the “it's not a problem; don't worry about it, everyone is getting them” rationale as some of these notices are real and can end up being very problematic.

Directors & Officers, Professional Liability, and Management Liability

There are more lawsuits, higher premiums, and less availability of coverage. More than ever, D&O liability is not just for larger companies. Even small, closely-held businesses and charitable organizations should consider purchasing this type of coverage because claims and lawsuits can be initiated from customers, competitors, and beneficiaries, not just from stockholders. There are situations where employee suits have fallen into a gray area between D&O coverage and employment practices liability. Closely-held businesses that have created advisory boards often fail to realize that D&O insurance does not always cover advisory board members unless the policy properly includes that extension of coverage. Be sure that your policies are tailored to take your special situations into consideration, rather than accepting the “cookie cutter” approach.

Personal umbrella liability policies should extend coverage to non-compensated positions held with charitable or non-profit organizations. It is prudent to ensure the organization has adequate coverage before accepting any such positions.

An alternative to insurance for protection of individual directors and officers is called “Excess Side A Coverage.” This protection provides higher limits if the primary policy limits are exhausted; if the entity fails to indemnify the individual, or if the primary policy may not otherwise respond. It is critical that this insurance is obtained from a different insurance company than the primary policy for the entity to provide further protection in the event the insurance company is unable to respond such as in the case of bankruptcy or financial distress.

Instead of eliminating the purchase of coverage, consider alternatives in coverage features, limits, and deductibles to achieve cost reductions.

Key Property and Liability Insurance Issues

As the economy creates more challenges, it is critical to evaluate potential “big hits.” The potential for liability lawsuits from high risk exposures must be foremost in your planning. From a property perspective, attention needs to be paid to the potential for lost income, or extra expenses that would be incurred, if your business property is destroyed, and the business sustains significant lost revenue, or needs to expend additional resources to get back up and running.

Critical to the evaluation of property and business interruption coverage is assuring that you don't get surprised after the loss, due to restrictive features or penalties. “Coinsurance” is a critical feature of many of these policies. This is a feature that requires the purchase of “appropriate” insurance commensurate with the correct values, or the amount of loss you will be reimbursed may be substantially reduced, as a penalty. If you wish to purchase lower limits of insurance for cost savings, than be sure the policy is structured to avoid these penalties.

For most individuals and businesses, auto accidents have the highest potential risk to attack personal and business assets. In addition to having appropriate limits, it is critical that the policy be structured to appropriately cover the vehicles owned, as well as other situations creating risks, such as employees using their own vehicles used for business, use of rental vehicles, and personal use of company owned vehicles. Be sure your insurance advisor is aware of your personal situation to appropriately address these needs.

Workers' Compensation

Most states have requirements for businesses and individuals to provide statutory benefits, in case an employee is injured during the course of their employment. Independent contractors, who do not maintain their own insurance, can become your responsibility. Without the proper insurance in place, you may be subject to significant additional liabilities, as well as penalties or fines.

One way to ensure that independent contractors do not become an additional liability or cost to you is to require them to provide you with proof of insurance coverage. A certificate of insurance showing that all employees (including owners) of the contractor have appropriate levels of coverage for workers compensation, general liability, and auto liability is a simple way to protect yourself and avoid additional premiums.

Employee Health Benefits

Employee benefits is another area where many business leaders are looking to reduce costs, It is not unusual today to experience rate increases of 10–25 percent per year. Over the last 15 years, an entitlement culture has been created toward employee benefits. Twenty-five years ago, most insurance policies were considered protection against catastrophe. In recent years, businesses were driven into the HMO mode. The prevention of illnesses, although important, leads to the perception that doctor visits only cost \$5-\$20 dollars, the cost of the co-payment.

Education is the key to implementing changes in employee benefits, particularly health insurance. Strictly applying cost shifting measures will not change the rising costs. Options are becoming available that can assist in changing expectations and the use of health insurance to achieve improved health, through prevention and consumerism, to take charge of medical care and associated costs.

“Push for the services you should be receiving, and make sure it includes more than just the cost to pay claims.”

So how can businesses save money on their health insurance? Employers are shifting the cost to employees. Fewer employers are paying the full insurance premiums for employees and their dependents. They are considering higher deductibles, co-pays and out-of-pocket maximums to effect changes. One way for businesses to reduce the cost of health benefits is to add a deductible to hospital admissions, which can shave a few percentage points off of the premium, depending on the plan. There are things that can be done to minimize costs, but you need to be aggressive and start educating employees on the true cost of health benefits. To increase your staff's appreciation level, assist them in realizing that health benefits are extremely expensive and you are spending large dollars on their behalf.

Consider Health Savings or Health Reimbursement Accounts. These programs provide 100% preventive care, with other services paid, after reaching a higher deductible than most plans. However, there are tax benefits and savings incentives from these plans for both the business and its employees. Slowly introducing these alternatives with education and continued incentives to in-network usage will help employees become truly involved in their health care decisions.

Disability and Business Overhead Insurance

As important as business interruption coverage is to a business, disability insurance is critical to individuals and businesses dependent on their continued earnings. If an illness or injury occurs, where will the resources come from to pay ongoing expenses? In addition to group insurance, individual insurance options should also be considered.

Group insurance provides reduced costs due to the combined savings and risk sharing of a group plan. A key advantage of an individual disability plan may be protecting availability of coverage and holding costs down for the future, when it may be difficult, if not impossible, to obtain coverage when it is most needed. Many disability policies do not have increasing premiums, and in those cases, if the policy expires, the cost savings will be lost forever. Another advantage of maintaining individual disability is portability, if you change jobs, you take your coverage with you.

Cutting Costs Where It Makes Sense

There are a lot of different ways to control costs, such as reviewing contracts you are entering into and making sure you are not giving away the store. The best philosophy in risk management is to give as much risk away as you can and take back as little as possible. If you have leverage in contract negotiations, you can do that. Look carefully at the depth of the exposure you are assuming for somebody else (i.e., leases, vendors, employment contracts).

Typically, loss control and prevention techniques are scaled down when you are trying to cut expenses. You may decide to terminate safety training, OSHA standard compliance reviews, or refuse to pay for loss prevention and liability control related expenditures. Those are the biggest mistakes a business owner can make. It may cost you substantially more than you were previously spending to prevent claims for legal costs, loss of productivity, and morale problems in your organization.

Take a holistic view and evaluate your current insurance program, or have someone in your organization or a risk management consultant read your policies. If you are not reading your policy, you may not know what you are buying. Think about why you are spending so much money for something you don't understand. It is not the dollar amount on the front page of the policy that matters, it is the fine print in the contract. No two policies are identical, so it is so important to evaluate each of them carefully.

Look at the stability of the insurance provider. Unfortunately, some large insurance companies are now out of business or may not be in business for much longer. Make sure the companies you are dealing with are financially sound. Investigate the ratings given by organizations such as AM Best Company, Moody's Investors Service, the Fitch Group, and others. Make sure that your insurance company will still be in business when your claims are filed.

Push for the services you should be receiving, and make sure it includes more than just the cost to pay claims. There are services from your agent, your broker and your insurance company that you should be getting. If you don't know what they are, **ask**, and if you're not getting them, **demand them**. Consider negotiating with your broker on fees and commissions to ensure that you are receiving the services you require at the right price.

You can only control rising costs if you are proactive and aggressive. If you don't have the time or ability to oversee your risk and insurance costs, make sure you have someone on your management team (either an employee or consultant) who is responsible. It is the only way you will be able to combat the true cost of risk and ensure the continued survival of your business and protection of your personal and business assets. [®]

.....
By JoAnn Ralph, CPCU, CIC, CRM, CPIW, Principal
For more information on this article and for services
offered by Rothstein Kass, please contact JoAnn at
973.577.2414 or via e-mail at jralph@rkco.com.
.....

Cutting Overhead Costs Without Reducing Services

Many businesses are suffering through one of the worst economic downturns in history. When the overall economy came tumbling down, so did projected profits and employee morale. Business owners are now searching for ways to cut back, or "trim the fat," to keep their businesses lean and moving forward.

Some businesses reduced salaries, while others laid off employees. Many businesses are also looking to reduce manageable overhead expenses. By reducing overhead, businesses can eliminate excess costs without terminating employees and affecting client service.

HOW TO "TRIM THE FAT" IN YOUR BUSINESS

Facilities

Are you paying the right price for the location of your business? Is your lease in line with your neighbors and competitors? With so much commercial space currently available, there may be an opportunity to negotiate lower costs by renewing your lease early. This will ensure, that your business receives a fair price and the property owner has a tenant for the foreseeable future.

Are some of your competitors and clients moving out of the cities for a more affordable location in the suburbs? Urban sprawl and new tax incentives are pushing some businesses out of major cities and into the surrounding metropolitan areas. By moving out of the city, a business can greatly reduce its overhead costs and still be a part of the metropolitan area without the entry fee.

Staffing

Businesses that are refraining from laying off employees or lowering salaries are gravitating towards outsourcing. By using outsourced services, businesses may be able to pay part-time fees instead of hiring employees with full salaries and benefits. This allows your business to maintain the appropriate number of employees to provide consistent, quality service to your customers, while reducing some of the costs associated with full time employees (benefits, payroll taxes, office and technology expenses, etc.).

Telecommuting has become a popular trend. With higher gas prices, extended commutes, and longer hours required, many businesses are allowing their employees to work from home part-time and even full-time, year round. The employees can begin work earlier, and work later, because they do not have to commute. This allows employees to save on gas and car repairs while working more hours per week.

Technology


Purchasing new equipment, software, and licenses may not be prudent in a down economy. Renting or leasing equipment may provide a more affordable option. Over time it may be more cost effective to lease or rent, than to purchase new equipment and software.

Business Development

Business development expenses may seem like easy costs to reduce when the economy is in distress, but by simplifying your marketing schedule, you can still promote business development without exhausting your finances. You may want to reduce the number of networking events and conferences your employees attend and focus on more worthwhile events that create better opportunities. Taking a lower sponsorship role at key industry events can still help your business show its support while spending less money than prior years. Holding webinars instead of in-person seminars can reduce out-of-pocket costs associated with such events.

Going Green

With electric cars, wind and solar power, and recycling efforts so prominent in our everyday lives, many businesses have an opportunity to reduce overhead costs by "going green," but have a difficult time understanding the financial benefit. Although the initial start-up costs for "going green" may be higher, the cost reduction for the future can be even greater. Solar panels, recycled materials and reduction of waste not only help the environment (which is positive for any business), but can produce substantial savings over time as less energy is used, and significant cost reductions when reusing and recycling materials drop.

By reviewing your business expenses and looking for ways to reduce overhead costs, you can increase profitability during good economic times and maintain earnings during recessionary periods. Business owners will often relax the leash on spending when times are good and then overcompensate during a financial downturn. This causes a panic among the executives, as well as the staff, investors, and clients. By planning ahead and operating on a lower cost basis, you will be more prepared for the unexpected and therefore better able to cope with industry and economic downturns. 

By Jeffrey Davis, CPA, Principal

For more information on this article and for services offered by Rothstein Kass, please contact Jeffrey at 973.577.2236 or via e-mail at jdavis@rkco.com.

Rothstein Kass

Effective Wealth

Managing Editors

Richard J. Flynn, JD

David B. Kaufman, CPA

Editorial Advisors

Evan Jehle, CPA

JoAnn Ralph, CPCU, CIC, CRM

Paul H. Rich, CPA, CM&AA

Rothstein Kass Locations

Beverly Hills

310.273.2770

Dallas

214.665.6000

Denver

303.675.0666

Grand Cayman

345.949.6333

New York

212.997.0500

Orange County

949.833.8900

Roseland

973.994.6666

San Francisco

415.788.6666

Walnut Creek

925.946.1300

www.rkco.com

Copyright © Rothstein, Kass & Company, P.C. All rights reserved.

The information provided in this newsletter is being provided with the understanding that it should not be construed as legal, accounting, tax or other professional advisor services. The contents are intended for general informational purposes only and it should not be used as a substitute for consultation with professional accounting, tax, legal and other advisors. Before making any decision or taking any action, you should consult your own qualified professional advisor. In no event shall Rothstein, Kass & Company, P.C., its officers, partners and employees be liable to you or anyone else for any decision made or action taken in reliance on the information provided in this newsletter. The information and content provided in this newsletter is owned by Rothstein, Kass & Company, P.C. and should only be used for your personal or internal use and should not be copied, redistributed or otherwise provided to third parties.

In order to comply with U.S. Treasury Regulations governing tax practice (known as "Circular 230"), you are hereby advised that any tax advice provided herein was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of (i) avoiding U.S. federal, state or local tax penalties, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.



A member of AGN International Ltd, a worldwide association of separate and independent accounting and consulting firms.