The Nonprofit Network
Hosted by CFGV with special guest, Rose Tocke
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here for good

The Ins and Outs of Insurance:
Coverage for Your Nonprofit Organization and Ways to Cultivate Legacy Donors

Rose Tocke is moving from American Family Insurance into financial advising, and offered to share her insurance knowledge with the local nonprofit community. Rose covered the general topic areas:

1. Types of property and casualty insurance for your business. What do you need and what does it cover?
2. Workmen's Compensation Insurance – REQUIRED if you have paid employees
3. Insurance as a mechanism for philanthropy, no matter your income level.

Property and Casualty Insurance for Organizations

- ***Director's & Officer's (D&O):*** This is a fiduciary policy that protects the people making financial decision as well as protecting those same people from the potential consequences of those decisions. This is a very important policy for the protection of your Board and its fiduciary responsibility. It protects individual Board members from personal risk. Most D&O policies start at $1 million of coverage and are available in $1 million incremental increases. It's important to consider your organization's assets as well as the estimated assets of your Board members when choosing a policy coverage amount. A savvy board member is unlikely to join a board if the organization does not carry this coverage.

- ***General Liability:*** This policy covers "everybody else", meaning not staff or Board. It protects the organization if they are found responsible for bodily injury or property damage to someone else. Examples are: a person tripping while running an errand to your office and knocking their teeth out; someone taking their jacket off when they come in to do some volunteer work, and the office pup has chewed a hole through it when they go to leave. General liability insurance is similar to your car insurance because it covers other people. This is important to have when your organization has a space where the public is in and out – e.g. a thrift store, etc. General liability DOES NOT cover professional services or advice. General liability coverage is not subject to a deductible.

- ***Property***: This policy covers the organization's owned property from specific losses. If the organization owns a building, you'll want to carry this coverage in case the building burns down, is vandalized, or suffers water damage from a frozen pipe (short list of things that are covered by a property policy). For organizations that either own OR rent, this policy also covers the owned contents of a building, like office furniture, computers, inventory, etc. This coverage is subject to a deductible. Be sure to seek a policy that offers Replacement Cost Value on property and contents, versus Actual Cash Value. A policy that offers coverage on a Special Form will give you the most comprehensive coverage against all losses, except those that are specifically excluded by the policy. Additional features can be added to this policy including business interruption coverage (income replacement), employee dishonesty, and payroll coverage (among many others).

- ***Professional Liability Insurance:*** This covers advice you're giving or professional services provided. You will find that consultants have this insurance since part of their job is advising. If you are working with an independent contractor or consultant, it's a good idea to make sure they have indemnification and hold harmless contracts. If your organization needs this kind of insurance, it's a good idea to research companies that specialize in what you do. They will have the best idea of your potential risk and the specifics of the coverage you need – they'll know how to rate you.

- ***Excess Liability:*** This is an umbrella policy. You can think of it as “above and beyond” general liability. It picks up where other insurance policies leave off. If you have a $1 million general liability policy, your organization is financially exposed for claims above and beyond that amount. The higher your total assets, the more important it is for an excess liability policy.

Workers’ Comp:

- NEVER let workers’ compensation lapse. It is REQUIRED if you have paid employees, and there is a hefty fine if it lapses. Workers’ comp covers employees from injury on the job or becoming sick from your work. Common limits are $100,000 per incident per employee (up to $500,000 per incident if multiple employees are involved). It does not cover Board members or volunteers. If you work with independent contractors, be sure they sign work comp waivers to make sure you cannot be held liable in the event they are injured on the job. Work comp payouts can go toward medical bills and lost wages.
- You have the option to select no-deductible or carry a deductible to keep rates lower.
- Short-term disability and life insurance are things to consider for employees above and beyond work comp.

Notes:

- It may be a good idea to have the Treasurer understand the importance of insurance and take responsibility for explaining the organization’s needs and coverage to the rest of the Board. The Treasurer (or another representative from the Board) should visit with your insurance agent on an annual basis to revisit policies and coverage.
- Generally speaking, general liability and property policies are bundled into one policy for a cost effective and comprehensive package.
- Buy as much insurance as you can afford!

Insurance as a Tool for Giving

- Life insurance: if the sole beneficiary of a policy is a charity, the individual is allowed to write off the payments as a donation on their taxes.
- If a donor has a life insurance policy with the organization listed as beneficiary, the donor can maintain ownership or transfer ownership to the organization. This is a personal decision and each option has benefits and drawbacks.
- The face value of a life insurance policy factors into the total estate value, so transferring the policy to a charity lowers a person’s total estate tax liability. (Note: this is relevant to donors with a net worth high enough to subject them to estate taxes).
- An IRA or 401(k) can transfer to a charity tax-free. Tip: Suggest that a donor with a $50,000 IRA list your organization as the beneficiary and take out a $50,000 life insurance policy for his/her heirs. This way, family is still inheriting $50,000 (tax-free), the organization is receiving $50,000, and there isn’t a tax burden on the donor’s estate or his/her heirs!
- Similarly, donors over age 70½ who don’t need the mandatory IRA disbursement can:
    - Instruct that the annual payment go straight to a charity (tax-free); or
    - Use some of the mandatory disbursement to purchase a life insurance policy and make a charity the beneficiary.

Rose spoke briefly about the structure of charitable lead trusts and charitable remainder trusts. These are great gift vehicle options but more complicated to setup than leaving an organization in your will. Any donor interested in setting up a trust should speak with their attorney, CPA and/or financial advisor.