

DENTAL

Insuring Your New Dental Practice: Protecting Your Passion



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Starting a dental practice can be daunting whether you're planning to buy a new space or purchase an existing practice. A significant component of this process is obtaining the right insurance policies at the right times. You'll face different liability exposures no matter how you get your practice and being educated on which options cover what risks and when you need to attain them is all part of the process.

Obtaining a loan, building an office, signing a lease, and finally insuring your practice once it's fully operational are all situations that require different insurance policies to protect your interests. Working alongside a qualified insurance broker familiar with the unique liabilities of insuring a dental practice is paramount.

It's important to have a baseline understanding of the policies you'll need and how they safeguard a dental practice:

Bank Loans and Life/Disability Insurance Requirements

Whether building a new dental practice or buying an existing one, you'll likely take out a loan. Interest rates and loan terms will, of course, be top of mind, but don't overlook the insurance requirements when weighing loan offers. Insurance requirements will impact the overall cost of the loan.

It's recommended that the loan obligation is fully insured. There are disability products available that are specifically designed for this purpose, and it is a simple process to create a life insurance policy to mirror the loan amounts. For instance, having an insurance policy covering the monthly loan payment in total if you're out of work on a disability claim could be the difference between keeping or losing a practice. For dentists who opt not to insure the loan obligation fully, insurance requirements will impact the overall cost of the loan and should be part of the offer evaluation.

Different banks will make different insurance demands based on a myriad of factors. Every bank will require a policy that insures the practice's property and names the bank as a loss payee or mortgagee in the case of owned real estate. Some banks may also require life and/or disability insurance. A few will even dictate the type of disability insurance required.

For loans that require life or disability insurance, some will only request proof of coverage, but others may necessitate that the policy be assigned to them. There is a big difference between these two provisions. Assigning a life or disability insurance policy to a bank means that the bank has first right to any benefits paid by the policy, so if you become disabled or die, the bank will be entitled to the money they are owed first. You or your dependents will get what is left over if anything.

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When a bank requires the assignment of a life or disability insurance policy, it is best to buy policies that precisely mirror the loan requirements. It is possible to secure inexpensive life and disability policies to meet these requirements. These policies should never be considered part of your personal life or disability insurance programs.

If you are not required to purchase loan-related life and disability policies, they should still be considered when reviewing your insurance portfolio.

Four Steps to Consider When Leasing Space or Purchasing Land to Build a New Office

1. Review the lease before signing

It's imperative you have an insurance agent you trust review the insurance requirements contained in the lease before you sign anything. Most dentists value working with an attorney to review and help negotiate a lease. However, attorneys do not always possess a technical understanding of insurance coverage. Many commercial leases have poorly written insurance sections, and a lot of them will contain unreasonable, expensive, or even unnecessary requirements. A knowledgeable insurance agent helps you understand these policies and provide recommendations for renegotiating terms.

2. Insure the lease space for new construction

An important consideration is how to insure the lease space during construction. Generally, the time it takes to build an office space is three to six months. During that time, the office space is a construction site, not a dental practice. The policy used to insure a dental office is referred to as a business owner's policy. This provides coverage for office contents, including furniture, equipment, supplies, leasehold improvements, and general liability, among other things. However, during the construction phase, the lease space does not qualify for a business owner's policy with most insurance carriers because it is not yet a dental office. In many instances, the landlord understands the liability risk involved in the site's construction and requires seeing proof of insurance before they provide access to the space. The most common way to address this potential lapse in coverage is by being added as an additional named insured on your contractor's insurance policy.

When evaluating potential contractors, be sure to select a company that is willing to provide proof of adequate insurance. For reference, a good contractor will carry general liability insurance, workers' compensation, and commercial auto insurance. They should be willing to

name the lessee and the landlord as additional insured for the term of the construction project. In this scenario, the contractor's insurance protects you and the landlord during construction. It is imperative that this option be discussed and negotiated upfront. Most landlords will understand this issue, and the lease should address the insurance requirements.

In addition to the previously listed policy considerations, you'll want to confirm the contractor provides builder's risk/installation floater coverage. A builder's risk policy covers the completed construction work, such as walls, flooring, cabinetry, and loose building materials stored on-site during construction. Some contractors will forego this coverage when the project is building out a lease space. You can secure this policy separately but address the matter with your contractor first. If the contractor does not have this coverage, you'll have to decide if you want to retain that risk, typically no one will require you to purchase this policy.

3. Insure new construction when you purchased land

Suppose you purchased land and have engaged a contractor to construct a building that you will eventually occupy as a dental office, the contractor will almost always provide the builder's risk coverage. But always clarify the matter with them before construction begins. In this scenario, check that the contractor carries adequate insurance, including builder's risk, and verify that they will name you as an additional insured on the policy.

Even if you're listed as an additional insured on another policy, you should still strongly consider carrying your interim liability insurance. Your risk in this situation differs from leasing a space in a retail building because you own the land. Ensuring you are protected from whatever might happen on that land during construction is essential and worth the money.

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4. Secure a General Liability policy for the construction term and become eligible for a Business Owners' Policy

One last vital consideration when relying on contractors' insurance policies is that the construction industry can be extremely volatile and rapidly change. One of the first things contractors quit paying during hard times is their insurance premiums. Consider this when deciding if you want to trust a contractor as your only source of insurance coverage for the project. If you or a landlord are uncomfortable with only being listed as additional insureds on the contractor's policy, secure your own

general liability policy for the construction term. This short-term liability policy is known as contractors' and owners' protective liability. This policy is never bad to have, but it is important to note that it can be relatively expensive, and the added cost is not always desirable.

As soon as the dental equipment is delivered and installed, you will be eligible for a business owner's policy. It is strongly recommended that the policy be made effective at that time, even if construction is still underway. This will protect your equipment in case of an incident as construction is completed.



Three Steps to Consider When Purchasing an Existing Practice

1. Review the lease before it's signed

When buying an existing practice, you avoid many of the issues associated with construction and the additional insurance considerations that come with it. Nevertheless, one thing remains of the utmost importance: you must carefully review the insurance section before assuming the lease as part of the sale. Working with a trusted insurance agent through this process is always advised. In this situation, you may be able to negotiate lease requirements before taking responsibility for the lease. The most significant benefit of buying an existing dental practice is that there are no interim insurance needs like what was outlined above. All your permanent practice-related insurance policies should be effective on the closing date, as the seller will undoubtedly terminate their policies on that date, and you do not want any lapse in coverage.

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2. Insure your operational dental practice

Once your dental practice is operational, whether you built a new office or took over a pre-existing office, your next priority is to secure the appropriate insurance policies to protect it. Every practice needs to carry the following basic insurance policies: the business owner's policy, workers' compensation policy, professional liability policy (malpractice), and stand-alone cyber liability (data breach) policy. These policies create the foundation for your practice's insurance program, and all are necessary without exception.

Business Owner's Policy

The business owner's policy provides the practice with property and general liability coverage. It is one of the more complex policies to understand because it can be tailored in hundreds of different ways. You can structure a business owner's policy to cover any price range; it is simply a matter of what you're willing to risk or insure. You need to be very mindful when dictating these policy terms because some brokers selling business owner's policy either don't fully understand the coverage or are unfamiliar about insuring a dental practice.

Almost any property you own related to your dental practice can be insured on a business owner's policy. If you're practicing in a lease space, you'll be insured for the space, equipment, and furnishings as contents. If you own the building, you can insure the building and the contents as separate coverage limits on a business owner's policy. If your dental practice is in a commercial condominium you own, you need to ensure the policy recognizes the practice is in an office condominium you own because that impacts the terms of a business owner's policy. It doesn't matter if you own real estate in a different name from the dental practice; you can still insure the real estate ownership entity and the practice ownership entity under the same policy, and it's more cost effective.

One of the problems often seen on business owner's policy is insufficient property coverage limits. The business owner's policy is designed to insure the practice for replacement costs. That means that regardless of how old a practice may be if it's destroyed due to a covered risk, the insurance company will pay to replace everything brand new if the property coverage limit chosen for the policy is sufficient. If you're building a new practice, it's easier to determine the limits you'll need to obtain. Simply add the amount paid to the contractor

for construction, the cost of equipment, furniture, and supplies, and you'll have a comprehensive understanding of the limits you'll need. Remember to include any build-out allowance extended to you from the landlord. They will not extend this offer to you again in the event of an insurance loss, and they will expect you to rebuild the space to its original condition.

Your general liability coverage exists to address any claim of bodily injury or property damage made against your practice that is unrelated to clinical patient treatment. It's an inexpensive part of the business owner's policy, and coverage limits of at least \$1M per claim are available. Most business owner's policies will allow you to select a general liability limit as high as \$2M per claim, and it is not too expensive.

In addition to the property and general liability, business owner's policies provide additional coverage options that can be crucial to the welfare of your practice. Some of the most important but often overlooked coverages include employment practices liability insurance, employee dishonesty coverage, employee benefits liability, loss of business income, utility services interruption, non-owned auto liability, backup of sewers and drains, to name a few. There are so many considerations with this policy, and that's why it's imperative to get it right by working with a broker who truly understands your risks and your practice.

Workers' Compensation Policy

Workers' compensation coverage is important to have. Unfortunately, it's not required in all states, but failure to have a workers' compensation policy could be devastating. A workers' compensation policy is designed to cover all costs associated with a job-related employee injury or illness. It will pay all medical bills related to the incident in addition to the employee's lost wages while they are recovering. It also protects you as the employer

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because an injured employee cannot sue you if you carry workers' compensation for your practice. Workers' compensation becomes their only remedy. If you do not have a workers' compensation policy in place and an employee is injured at work, they can sue you, and you may not have an adequate defense. States take away common law defenses of an employer who does not carry this line of coverage.

You can include or exclude owners from coverage under a workers' compensation policy. It will save a little on premium, but there is a risk associated with that option. It might seem unnecessary to cover yourself on your workers' compensation policy because you have other policies covering health, life, and disability, but it's common for insurance policies to exclude coverage for a work-related injury. It's recommended to regard your workers' compensation policy as a cheap disability or health insurance plan. Even if your health insurance covers your injury, you may have to pay higher deductibles and copays. Your disability insurance will typically have a 90-day waiting period, and these policies are often insufficient to cover the wages of a dentist who is out of work. Job-related injuries and illnesses are not uncommon for dentists, and workers' compensation coverage could make a big difference for you as the owner and primary clinician.

Professional Liability Policy (Malpractice)

You may already have professional liability (malpractice) in place when you start your practice. However, professional liability risk for a practice owner can differ from that of an associate dentist, and changes to the existing professional liability may be required upon purchasing your practice.

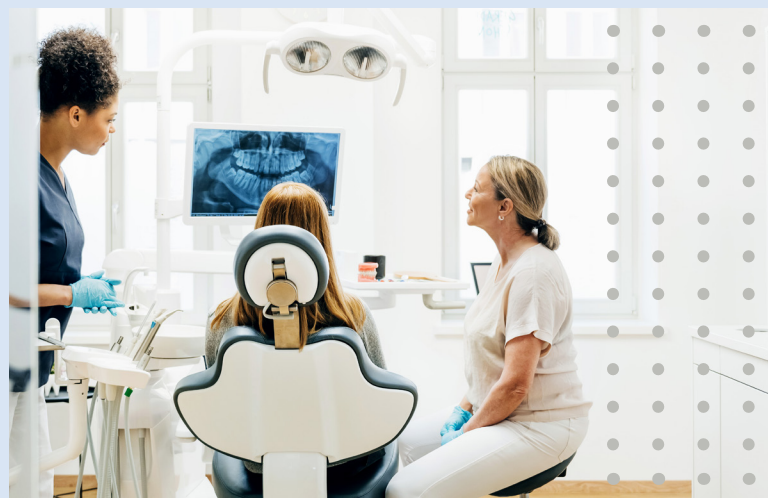
Practice owners must ensure that the entity has professional liability coverage. This can be done by adding the practice entity name as an additional insured to the individual policy. Most carriers will do this for you at no cost, but you must ask. It will not be done automatically.

Hiring associate dentists to work in your practice, even occasionally, creates a secondary risk to the practice entity known as vicarious liability. When you own a practice and have associate dentists working either as

contractors or employees, you must also protect the practice from their actions. Even if the associate only comes in a few days a month, the vicarious liability exposure still exists. Unless you specifically address this risk, there will be no coverage if a patient sues the practice over an incident at the hands of an associate dentist. This coverage is never automatic. Every dental professional liability carrier has a mechanism for addressing vicarious liability, and it's usually inexpensive. This is a crucial piece of coverage to not overlook.

Stand-Alone Cyber Liability (Data Breach) Policy

Stand-alone cyber liability coverage is inexpensive for a dental practice, and high coverage limits are available. It may be possible to add a small amount of cyber coverage on a business owner's policy, but it won't be enough coverage in the event of a breach. Procuring a stand-alone policy is the best option for a practice to be adequately insured. Coverage must be taken seriously and carefully reviewed because you are liable as a practice owner, even if the data handling is outsourced to a third party. Once a cyberattack occurs, you, the data owner, have an obligation to report it and pay the necessary fines for negligence. Depending on the related state or federal laws about the confidential information taken during a breach, you may be legally obligated to notify all affected individuals. These expenses quickly add up and could be financially ruinous. A stand-alone cyber policy will protect against many potential losses a practice may incur from a cyber incident.



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3. Additional Insurance Coverage Considerations

Depending on the practice additional coverage may be needed. Some of these coverages may include employment practices liability insurance, business overhead expenses, employee benefits, flood insurance, commercial auto, and pension plan bonds.

Employment Practices Liability Insurance

Employment practices liability insurance has become more important over the past several years. This coverage is designed to address allegations of sexual harassment, discrimination, or wrongful termination, and these claims may be brought against you by job applicants, employees, and former employees. Employment practices liability insurance is the only coverage designed to address these claims, so if you don't have it, you will be responsible for your defense in the event of an incident. Usually, this coverage is added to the business owner's policy, but it can also be purchased on a stand-alone basis. Purchasing employment practices liability insurance, a stand-alone policy, provides higher liability limits and broader coverage. A stand-alone policy will also include coverage for patient allegations of molestation. Or you can secure coverage for wage claims; these usually arise when a former employee alleges they are owed overtime because they were incorrectly classified as exempt. Employment practices liability Insurance insures the practice and all employees, not just the owner. Even if you believe you would never be liable for these claims personally, it does not mean everyone you employ can be as relied upon, making this insurance policy more valuable.

Business Overhead Expenses

Business overhead expenses insurance covers practice expenses even if the primary dentist has become disabled due to injury or illness. This policy is generally less expensive than an individual disability insurance policy, can be purchased with much higher coverage limits, and has a shorter waiting period to receive benefits. These funds are designed to reimburse the practice for rent, utilities, staff salaries, the cost of a

replacement dentist, interest on business loans, and more. If the primary dentist could not return to work, it would also keep the practice viable so it can be sold as a living practice rather than parted out as an equipment sale. Business overhead expenses is especially important if the practice owner is the only clinician.

Employee Benefits

Employee benefits coverage is for employee insurance plans, including health care, vision, life, disability, and accident. In a competitive job market, these benefits can offer an advantage for acquiring and retaining talent. Sometimes, these plans have even more weight than salary when it comes to keeping an employee. There are some programs that have no employer contribution and only require the practice to administer the plan. This is the only way to access short-term disability insurance for employees.

Flood Insurance, Commercial Auto, and Pension Plan Bonds

These policies should be defined by the individual practice, including location and staff. Flood insurance is essential to consider if you are in a region prone to flooding because this is not a covered liability under your business owner's policy. This insurance must be obtained separately.

Similarly, if the practice owns a vehicle, it must be insured via a commercial auto policy. The dentist's individual auto policy will not extend to this vehicle.

If you plan to set up a pension plan for your practice, it must be backed by a pension plan bond. These policies are just a few of the many available that address different risk areas for which your practice could be liable.

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Conclusion

Many factors impact how best to insure your dental practice as you're starting off. Carefully weigh your options and familiarize yourself with the nuances of buying an existing practice, building a new space, and how your choice will impact your coverage options.

Finding a specialty insurance broker who specializes in developing customized programs for dental practice owners is one of the most important things you can do to reduce your stress and be assured you have the correct coverage. A broker who works as your trusted advisor will be able to assess your needs and identify the best policies and limits needed to keep you and your new dental practice safe in the beginning, and for the long-term.

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The Risk Strategies Dental Practice incorporates the expertise of Wallace Specialty Insurance Group, which has over 30 years of experience advising dentists and dental practices. We collaborate with individuals and businesses to design comprehensive insurance and risk management programs.

We specialize in professional liability, disability, life insurance, office insurance, workers' comp, and more. If you're a new graduate, dental associate, or practice owner, our advisors will help you build an insurance program that supports your financial goals and protects your wealth and assets.

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