

Focus on Consulting



Ensuring Success with Sound Policies

by Christopher Juillet

Right! So here's your plan: You'll quit your full-time job, get a couple of freelance assignments, set up shop in your basement and be your own boss. Ah, the good life, the consulting life.

Before you take that step, think a minute about what you already have as a full-time employee. Well, you have deadlines. Don't worry; you'll have them as an independent contractor. You have an office and a desk. No problem; you can set up something in that extra bedroom that you've used as a storage room all these years. And you probably have a complement of insurance policies to protect your savings, income, and family, something that you may not have once you leave the corporate cocoon.

The insurance needs of self-employed consultants are, for the most part, no different from those of full-time employees. They fall into six general categories:

- health
- equipment
- retirement
- life
- disability
- liability

In this and next month's "Focus on Consulting," we'll look at the options and the costs of ensuring your independence as a consultant. However, understand that I am a technical consultant, not an insurance consultant. Before you act to insure yourself, be sure to get advice specific to your situation from qualified insurance professionals.

Insuring Your Health

First and foremost is the need for

comprehensive medical insurance. In today's world of \$800-per-day hospital stays, expensive examinations and tests, and costly therapy and medication, one simply cannot afford to be without solid health insurance.

Whether you elect to go with a health maintenance organization (HMO) or a more conventional major medical plan, this is one area that you ought not overlook. A major illness can quickly dissolve a life's worth of financial reserves, even plunge you and your family into substantial debt. Even those in the best of health risk injury every day, traveling to client sites, mowing the lawn, even walking along the street.

For the self-employed, health insurance boils down to few options:

- Purchase the coverage outright from a health care provider or independent insurance agency.
- If your spouse works and has medical insurance, add yourself to that coverage.

Most major medical plans cost from \$300 to \$400 per month, depending on the level of coverage. That's \$3,600 to \$6,000 per year in insurance costs, and we're just getting started. Many professional organizations offer members the opportunity to purchase such insurance at group rates, usually much less than the cost of individual insurance policies.

If you can, a good alternative to this is to add yourself to your spouse's employer-supplied in-

surance. The cost is much less, ranging from \$30 to \$100 per month; sometimes such family coverage is provided at no charge. However, you'll have to be satisfied with whatever coverage your spouse's employer provides.

For a few, a third alternative may occasionally crop up. A long-term client may offer to add you to the company's insurance rolls as compensation. Be careful in this instance; your client's offer is surely out of genuine concern for your welfare, but the Internal Revenue Service may not see it that way. Any time a client provides an independent contractor with any service or material, you become less like an "independent" and more like an "employee."

If you decide to accept your client's offer, make sure that the company bills you each month, or quarter, or year for providing health insurance, and that you pay the invoice with real money and not by providing services.

Life Insurance: Curse or Cure?

I've heard it said that if you can afford life insurance, you don't need life insurance. To be sure, it's a double-edged sword: spend money now so you can get it back when you die; not the most appealing of investment instruments.

As with health insurance, your options are either to purchase the insurance outright from an agent or add yourself to a spouse's employee benefit plan. To purchase a policy outright from an agent, you can pay as little as \$500 a year to as much as \$5,000 a year, depending on the specifics of the policy. If you can buy insurance through your spouse's benefit plan, you'll probably pay from \$200 to \$500 a year, and have far fewer options as to the level of coverage.

Shopping for life insurance is a bit like shopping for a car. It's easy to get carried away when the agent starts his sales pitch. You begin to think, "Well, as long as I'm spend-

ing this much money anyway, a little more can get me this neat additional feature or coverage." Pretty soon, you're getting ready to buy a \$1,000,000 life insurance policy.

Do you need this much life insurance? Probably not, unless you live in Beverly Hills. A good rule of thumb is to get enough life insurance to allow your survivors to pay off your major debts: mortgage, car, cottage, and the like, and to cover your funeral expenses; maybe \$200,000 or so. That way, your family can face the days and years to come with some level of financial security.

Often, a former employer will allow you to keep your life insurance for a period after employment is terminated (usually to the end of the month or, possibly, to the end of the quarter). This is especially useful during the transition between employee and independent, since it gives you additional time to plan your insurance strategy. You can usually convert such life insurance to health insurance during this period should events make it desirable for you to have medical benefits.

Covering Your Assets

One insurance area that many independents overlook is providing coverage for the tools of their trade. Once you start working for yourself, you'll need equipment and supplies and all those items that came automatically when you worked as an employee.

The smartest time you can spend is with the agent who handles your homeowner's insurance. Many homeowner's insurance policies do not automatically cover property used for business purposes, or cover it only to a point, usually a point far below the actual value of the property. Be sure to learn the extent of your homeowner's coverage. If you need to, add endorsements for additional equipment; the cost can range from \$50 to \$150 per year, and is an excellent investment.

If you use computer equipment in your business, as do many independents, you'll want to cover that equipment up to its current market value. Be especially watchful for caveats in any computer insurance policy you purchase; many policies cover only theft, others exclude lightning or power overload damage, and still others refuse to cover "media," the data and software that you keep on disk. Of course, the best "insurance" for your computer is to buy a good surge suppressor and keep backup copies of all software and data safely off-site (subject to the license agreement governing your use of your software).

As you sell old equipment and purchase newer tools, be sure to keep a record of the model and serial numbers, as well as the purchase price and date. Make sure your agent has a list of covered equipment, including serial numbers. Most important, you should review your coverage at least every other year to ensure that it is sufficient.

Coming attractions

In the next "Focus on Consulting," we'll have a look at other self-employment insurance topics, including disability, retirement, and personal liability insurance.

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Christopher Juillet is a self-employed technical writer and technical publishing consultant living in Ann Arbor, Michigan. He is a past president of the Southeastern Michigan chapter of STC.

Be a "Bigwig"

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nominating committee for either an elected or appointed position. However, as you know, nominating committees can miss people who do outstanding work, so if you're interested in working on the international level, consider the various opportunities, and then let

the appropriate people know of your interest.

You can find out about the appointed and elected positions by asking your local chapter president. If your president has questions, or if you think you need even more information about positions on the international level, let me know. Please remember that the application of your skills and abilities, whether on a chapter level or in an appointed or elected position on the international level, determines the way your Society functions. And it is *your* Society.

If you find, however, that you prefer to use your membership in the organization in a non-participatory manner, you still have the right to voice your concerns and make suggestions to those who have volunteered to assume leadership roles. Please use that right both through the annual elections of officers and through personal contact with your chapter officers and with me. And always remember that you, as members, are the "bigwigs" in the Society.

Next Edition of *Directory* Now Open for Listings

The fifth edition of the *Chapter's Directory of Communication Professionals* is now in preparation. The anticipated publication date is April 1988.

The *Directory* lists technical communicators who provide services to clients. It is distributed to area organizations who use those communication services.

For information and rates to renew, update, or start your listing, contact the Directory Manager:

Donald Skiff
Datascribe
2048 Charlton, No. 202
Ann Arbor, MI 48103
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Focus on Consulting



Sound Policies— Part Two

by Christopher Juillet

In the last "Focus on Consulting," we considered some of the issues relating to the insurance needs of the self-employed, including the options and costs of health, life, and business asset insurance.

This month, we'll finish up by looking at some of the issues surrounding disability, retirement, and personal liability insurance. Again, however, understand that I am a technical communication consultant, not an insurance consultant. Before you act to insure yourself, get advice specific to your situation from qualified insurance professionals.

Keeping Your Income Healthy When You Are Not

One of the fundamental reasons that we work, either for a company or for ourselves, is to receive financial remuneration for our time and effort. Why? Because it costs money to live.

Unfortunately, living expenses seldom stop just because your income stops. Sometimes, it may be for a short time, like when you catch the annual flu bug; you're on your back for a week, then you spring again into action. This sort of short-term illness is generally not part of any disability coverage. Like a company, you must, as a self-employed person, provide short-term sick time to yourself, generally by considering some portion of your payment for services to be for sick time and vacation overhead.

However, when you encounter a serious, long-term disability, either due to illness or accident, you'll want to be covered by a policy that will provide enough supplemental income to cover your basic living

expenses and debts.

Generally, long-term disability policies will provide up to 60 percent of your salary up to the policy limit. A policy that provides, say, \$1500 a month can cost around \$600 a year. (You may be asked to provide proof of your income level.) When you shop for long-term disability insurance, ask these sorts of questions:

- Can I increase the level of coverage as my income grows? Make sure that you can. If the agent begins to squirm, find another source for this policy.
- What constitutes "disabled"? For a writer, a broken hand is a safe bet. For a consultant who must travel to client sites (and who has a stick-shift car), a broken leg or ankle should qualify. Also, many agents get vague when you tell them you work out of the home. (After all, what's to stop you from earning money while you're in a body cast, hanging around your office, right?)
- How long a "waiting period" will you need to serve? Most policies require you to go a period of time without income before they begin to pay out. This is designed to keep people who get a hangnail from claiming three days of disability. In many cases, you can choose this duration; the shorter the waiting period, the more the policy is likely to cost. If you have a second income that can keep you above water for a while, go with a longer waiting period, perhaps as long as two months. If you are your own sole support, you'll probably be better

served by a policy with a short waiting period.

Retiring Writers Need to Know

Retirement is one area that one seldom thinks about for a long time. If you like what you do and do it well, why would you ever want to stop? Well, I'm not sure, but I am sure that I'd like to have that option some day.

The two main retirement vehicles for the self-employed are the independent retirement account (IRA) and the Keogh plan. (Bear in mind that tax laws change regularly. Also, I am not a tax consultant; I recommend that you see one to get the latest and most accurate information, and to determine a good retirement strategy for your specific situation.)

IRAs are about as straightforward as something can be; at least, they used to be. With an IRA, you can put up to \$2000 into a savings instrument before taxes, reducing your taxable income by that amount. Married couples can deposit up to \$4000 before taxes if both are employed (\$2250 if only one is employed). Your deposits are "tax-deferred." This means that you don't pay income tax on this money until you withdraw the money upon retirement (when you're age 59 1/2), hopefully when you're in a lower tax bracket. The interest you earn on your IRA deposits is also tax-deferred.

This works until you have an annual income of \$40,000 (for married couples filing jointly). Once you're over this amount, a decreasing portion of your IRA deposits can be deducted from your taxable income for the year.

Be advised that there are substantial penalties for early withdrawal; currently you pay an additional 10 percent in addition to the income tax.

IRAs are available to anyone who works. Another plan, the Keogh plan, is available only to those who are self-employed. A Keogh plan works much the same as does an IRA. Your payments are tax-deferred; you pay income tax only when you withdraw the funds.

Similar penalties apply in case of early withdrawal. However, the nice thing about a Keogh plan is that you can put aside a portion of your net earnings (up to 15 percent), so if you have a really good year, you can stash a fair amount before taxes.

Insurance You're Liable to Need Sometime

Of all the various insurance needs of the independent contractor, liability insurance generally comes last on the list of things to get. After all, you do good work, you're a good driver, you shovel your sidewalk, and the like. But even if you're not in business for yourself, basic liability insurance makes good sense. And if you are self-employed, it is a virtual necessity to protect you in the event of legal action.

A basic umbrella liability policy providing \$1,000,000 coverage is a good start. This sort of policy can protect your business and personal assets should you be sued by an angry client or subcontractor who injures himself when he trips on your garden hose during a visit to your "office." This sort of basic policy can run from \$500 to \$2000 per year, depending upon the carrier and the terms of the policy.

Once you have an umbrella policy, you can add additional coverage for very little additional investment (\$100 or so per \$1,000,000 coverage). Such coverage is especially valuable if you are not incorporated, since the corporate structure offers limited liability in business affairs. Know, however, that incorporation is not an absolute shelter for your personal assets. If you can be shown to be negligent, your "corporate veil" can be challenged and removed, exposing your personal assets.

Another good reason to cover your own liability insurance is that many clients require independent contractors and consultants to carry "adequate" insurance as a requirement of conducting business. Such clients often make every attempt to get consultants to sign a "hold harmless" agreement to absolve the client of liability for injuries sustained on-site by the consultant. Go ahead and sign this

agreement, but try to get the clause amended to exclude client negligence from the agreement. After all, even a client has an implicit obligation to make every effort to provide a safe work environment for employees and contractors alike. If you have any uncertainty about such a contract, be sure to have your attorney give it a thorough reading and offer legal counsel.

Section 1706 Update

In recent action, the Boston, Houston, and Twin Cities administrative councils joined the Southeastern Michigan Chapter in opposing Section 1706 of the Tax Reform Act of 1986 and supporting its repeal or suspension. (These four chapters represent over 1700 STC members, about 15% of our membership.)

In response to Southeastern Michigan Chapter President Hugh Templeton's letter to all U.S. STC chapters about Section 1706, STC President Janis Hocker has placed discussion of whether STC should adopt positions on legislation on the agenda for the January 1988 STC Board of Directors meeting.

Now is an excellent time for STC to decide to take note of and positions on legislation affecting our profession, Section 1706 in particular. In a recent letter from U.S. Senator Carl Levin (D—Michigan), I learned that (as of December 9, 1987), neither the House of Representatives nor the Senate had acted to repeal or modify Section 1706. The struggle continues.

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Tech Comments expresses great appreciation to Lutz Associates Incorporated for its donation of desktop publishing services and facilities.

Positions Available on the West Coast

The MICROSOFT Corporation in Washington state has several technical communication positions open.

TECHNICAL WRITER—Work with programmers, marketing, and testing to complete software documentation for applications/languages/operating systems products.

Qualifications: Four-year degree in English or related field; two years' writing experience in micro-computer industry; programming experience preferred.

Send resume and writing sample; no phone calls please.

TECHNICAL EDITOR—Edit software documentation and follow through production.

Qualifications: Two years' experience with reworking technical copy for presentation, consistency, language, and content; knowledge of production process; familiarity with DOS and desktop publishing; knowledge of programming languages desirable for some positions.

Send resume and before & after samples; no phone calls please.

If you're interested in these positions, contact:

Jo Ann Rahal, Recruiter

MICROSOFT Corporation
16011 N.E. 36th Way
Box 97017
Redmond, WA 98073-9717

Moving?

Don't forget to send your change of address to Membership Manager Dana Barrager. His address is listed in the Board of Directors Box on page 2.