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Quarterly Newsletter 4th Quarter 2017

Donate to A Good Cause:

If you are looking to make a 2017 charitable contribution and would welcome a suggestion, please consider supporting the fight against Rheumatoid Arthritis. This is a cause that is near and dear to the Bates family as it has impacted one of our own. To read more or to donate please visit the [Bates Donation Page](#).
Thank you!!

Cyber Liability and Data Breach Coverage

I am sure you have read in the paper or seen on the news the high profile data breach and cyber-attacks that have occurred over the last few years. I ran across a decent article on this subject dated April 24, 2017 from Greg Boop of Business Insurance. I hope the following is helpful in your understanding the problem and its potential solutions.



"Does your firm use electronic data? If the answer is yes, you may need cyber liability insurance? A cyber liability policy protects your business against data losses caused by cyber-attacks, viruses, and other threats. It also covers lawsuits against your company that result from data breaches or your failure to protect sensitive information that belongs to someone else.

Who Needs It?

Cyber liability coverage can benefit any company that uses electronic equipment to conduct its operations.

You may need this coverage if you do any of the following:

- * Communicate with customers via email, text messages or social media
- * Send or receive documents electronically
- * Advertise your company via electronic media, such as a website or social media
- * Store your company's data on a computer network. Examples of data include sales projections, accounting records, tax documents, and trade secrets.
- * Store data that belongs to others (such as employees or customers) on a computer network. Examples include customer names and addresses, customers' credit card numbers, and employees' birth dates and social security numbers.
- * Sell products or services through a company website

These activities may allow your company to operate more efficiently, but they also generate risks. The data you store on your computer system could be breached, resulting in lawsuits against your firm. The data could also be damaged due to a virus, hacker attack or other cause. Restoring or repairing the data could be very costly.

Covers Claims Not Insured by CGL Policy

Cyber liability insurance covers lawsuits stemming from events like data breaches and denial of service attacks. Such lawsuits aren't covered by a standard commercial general liability (CGL) policy.

For one thing, damage to electronic data does not qualify as property damage under a CGL policy.

This is because electronic data is not considered tangible property. Secondly, most CGL policies contain a specific electronic data exclusion. This exclusion eliminates coverage for claims based on the loss, damage, corruption, or inability to use data.

For example, suppose that your company provides bookkeeping services. A virus invades your computer network and damages a client's data. The client is unable to access records he needs to obtain a loan. He sues you for the damage to his data. The suit will not be covered by your CGL policy. Damage to your client's data does not qualify as property damage.

Cyber Liability Policies

Cyber liability policies protect businesses against lawsuits filed by customers and other parties as a result of security or privacy breaches. Policies vary widely from one insurer to the next. Some cover claims alleging libel or slander, invasion of privacy, or infringement of intellectual property rights (such as copyright). Virtually all cyber liability policies apply on a claims-made basis.

In addition to third-party liability, most cyber policies cover various first-party expenses. Here are some examples:

- * Business Income and Extra Expense Covers income you lose and expenses you incur due to a full or partial shutdown of your computer system because of a hacker attack, virus or other insured peril. Such losses are not covered under the business income and extra expense insurance that is available under a commercial property policy.
- * Loss of Data Covers the cost of restoring or reconstructing data that was lost or damaged due to a virus, hacker attack or other covered cause
- * Associated Costs Covers costs you incur due to a data breach. Examples are the cost of notifying affected customers as required by law, and the cost of providing credit monitoring to affected customers.
- * Cyber Extortion Covers the costs associated with an extortion threat, including ransomware. For example, an extortionist installs ransomware your computer system. The extortionist refuses to release your data unless you pay him or her a sum of money.
- * Crisis Management Covers the cost of hiring public relations, legal, and computer forensics consultants

Some insurers have developed special cyber liability policies for certain types of businesses, such as technology companies or health care organizations.

Many insurers offer coverages on an "a la carte" basis so that customers need buy only the ones they want.

How to Obtain Coverage

Your agent or broker can help you obtain cyber liability insurance by submitting an application on your behalf to an insurer that offers the coverage. The application is likely to ask detailed questions about your firm's computer system and its security. Here is the type of information insurers typically seek:

- * Firewall Does your system have a firewall?
- * Virus Scans Do you scan email, downloaded data or portable devices for viruses?
- * Responsible Person Who is responsible for network security?
- * Security Policy Do you have a written security policy?
- * Protection Software Is your system protected by anti-virus software? Do you use intrusion detection software? Do you update your software regularly?
- * Remote Access Do employees, customers or others access your system remotely? If so, what system is in place to authenticate users?
- * Sensitive Data What types of sensitive data (social security numbers, credit card information etc.) do you store on your computer system? Is the data encrypted?
- * Access How do you control access to sensitive data?
- * Data Controls Testing Do you periodically test your data control measures?
- * Data Backup and Storage Do you back up your data daily? Where are the backups stored?
- * Outsourcing Do you outsource any computer functions (such as data storage) to others?
- * Recovery Do you have a written disaster recovery plan you would follow in event of a computer-related incident?"

If you are interested in purchasing cyber liability coverage, contact us at BIG.

General Liability
Property
Work Comp
Umbrella
BOP
Commercial Auto
Professional
Cyber Liability
EPLI

D&O
Boiler
Bonds
Homeowners
Personal Auto
Personal Umbrella
Jewelry
Group Health
Group Dental

Group Life
Group Disability
Group Vision
Individual Health
Individual Dental
Individual Life
Individual Disability
Individual Vision

College Saving 529 Plan...Now Tax Deductible Contributions



Maybe you've heard, college is expensive. What an understatement! Average debt for Minnesota students earning a 4 year degree is \$55,000, up from \$20,000 in 2010. Rule of thumb is it takes \$10 per month to repay every \$1000 of debt. So this means today's debt requires a \$550/mo. payment plan.

College (post-secondary education) Savings 529 Plans have been around since the mid '90s due to efforts by the state of Michigan's request to IRS for a ruling allowing for prepaid tuition(s) to avoid taxation. This eventually led to today's 529 plan - a reference to IRS code section.

Today's 529 plans allow for contributions up to the "federal gifting limitations" or approximately \$28,000 per couple per year. While the gift amount (contribution) is not tax advantaged, any growth of these investment accounts are available tax free if used for "qualified education expenses". Of course this potential is full of rules to abide by, which requires the careful due diligence of yourself, and tax or financial advisor.

Minnesota's new law (effective 2017 and after) is allowing for a tax deduction framed as follows:

- * Individuals can take up to a \$1,500 state tax deduction (or \$3,000 if filing taxes jointly) on an annual basis regardless of income level.
- * For those who contribute up to \$500, a 50% in-state tax credit is available. The phase-out for this credit starts at an AGI-adjusted gross income of \$75,000 a year.
- * Student loan tax credits, subject to eligibility

Of course, like most things there are drawbacks of 529 plans too. The plans only allow 2 investment changes per calendar year, and the investment choices are generally limited to group of mutual funds. None of these choices are very aggressive in nature, so if you are looking for BIG growth opportunities you will likely be disappointed. Lastly, please keep in mind that there are possible taxes and penalties if these monies are not used for College. So, the intent should be for beneficiary and College, not a fishing boat someday.

Unlike IRA contributions that allow for one to contribute up to April of subsequent year, 529 plan contributions are only allowed in the same calendar year. So, to take advantage and receive a deduction in 2017, you must get your contribution submitted before December 31.

While 529 plans are one savings platform option, please note that there are others

too. So talk to your financial or tax advisor before making any decisions.

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Did You Know?

HealthPartners now writes more small group health insurance than any other insurance company in Minnesota.

Accountable Care Organization (ACO)

ACO's are all the rage this fall when looking at small group options for 2018. They have actually been around for several years, but they are gaining steam when considering options for your group plan.



What is an ACO? In an account care organization (ACO), the insurer and the provider network work together to deliver a level of integrated health care at a cost significantly less than the open access network. This may remind some of you of the old HMO (health maintenance organization) plans, where you picked your primary clinic, and had to get referrals for seeing a specialist. ACO's do not require referrals to see a specialist, as long as they are within the ACO network. If care is not available within the network, the ACO provider will direct the member to an appropriate provider outside the system. Because the member gets all of their health care within one system, this usually drives better patient management and improves the overall experience. Most of the ACO networks do not include Mayo Clinic (unless you choose the Mayo Clinic Health System ACO), but the good news is that you can save 10-15% in premium from the open access network. Once you've made the decision to try one of the ACO concepts, Medica has found that 60% of members enroll again the following year.

Medica, HealthPartners, Blue Cross, and Preferred One have all found value in offering this concept. Medica offers a Fairview & North Memorial ACO, HealthEast, Park Nicollet, and Ridgeview Community ACO option in the metro area. Other options are available out of the metro. HealthPartners launched their CentraChoice ACO in the St Cloud area for 2018. A close alternative to ACO's have been "Care Systems" like Medica's Elect/Essential, HealthPartner's Perform and Achieve, Blue Cross' Blue Value and new this year is the High Value network. Preferred One also offers their Connect and Horizon networks, which can save anywhere from 3-17% in some cases.

Let us know if you're interested in exploring these options to help keep your premium down. An ACO or Care System can work very well for a small group living in an area with fewer providers, or a larger group that has enough participants to offer multiple plans. If your renewal is coming up, this is a concept to keep in mind, as we're all looking for ways to keep health care costs to a minimum.

Quarterly Quote:

Success is not final; failure is not fatal: It is the courage to continue that counts...

Winston S. Churchill

Homeowners Insurance Valuation

Have you ever compared your property tax assessment and homeowners replacement cost and felt like you were paying too much? During any down housing market the topic of "replacement cost" versus "market value" is almost a daily conversation for an insurance advisor. Therefore, I would like to take this opportunity to explain replacement cost, actual cash value, and how both relate to market value.



Replacement cost is the cost to replace property on the same premises with other property of comparable material and quality used for the same purpose. This means that the home you live in now, no matter how old it is, would be replaced top to bottom with 2017 construction and materials. Replacement cost is a brand new home and despite the slumping housing market, the cost of construction continues to rise. The calculation is figured using square footage, home style, exterior siding, number of bedrooms, bathrooms,

Actual cash value is an alternative to replacement cost and is essentially "replacement cost," minus depreciation. Actual cash value has also been called "fair market value" and is much closer to the market value figure you have in mind. Keep in mind as you consider this type of policy, that this is not for those that wish to rebuild but would prefer to take some cash and move on. Additionally, not all insurance companies will write these types of policies because as you can imagine, settling on an actual cash value can be difficult and is often times done so in a court of law.

A down housing market always makes swallowing the "replacement cost pill" that much more difficult, but consider during the booming housing market we had the exact opposite problem. In 2005, when someone was trying to buy a home for \$300,000 but the replacement cost was only \$225,000 we ran into problems with mortgage lenders that required the home be insured for more. It is important that we all understand that replacement is what it is, and goes both ways in good and bad housing markets.

If you have any questions concerning how your home is insured or how your replacement cost relates to market value, please let us know.

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