



This worksheet is an all-in-one tool for calculating and understanding business income and extra expense coverage.

- Page 1 calculates a 12-month BI/EE exposure
• Page 2 shows how to calculate a limit of insurance/coinsurance
• Pages 2 and 3 explain terms used in this worksheet and coverage points, period of indemnity options and waiting periods

The worksheet below is a simplified method for determining a 12-month business income and extra expense exposure. Business income, in general, pays for net income (or loss) the insured would have earned or incurred, plus continuing normal operating expenses including payroll.

Named Insured: \_\_\_\_\_ Policy: \_\_\_\_\_

Date: \_\_\_\_\_ Location: \_\_\_\_\_

(limits by location(s) should be shown on the application)

Table with 7 rows (A-G) and 3 columns: Description, Operator, and Value. A: Total Revenue; B: ALL Expenses (be sure this includes payroll\*, do not include cost of goods sold); C: Total + Expenses; D: Expected Growth for current 12-month period (i.e. 3% growth = 1.03); E: 12-month expected Business Income Exposure (Cx D); F: Extra Expense (see page 2 for extra expense examples); G: 12-month expected Business Income and Extra Expense Exposure (E+F)

\*Payroll: include 100% of payroll unless endorsement CP-1510 Ordinary Payroll Limitation or Exclusion is added. If CP-1510 is added (not common), reduce payroll in "ALL Expenses" by the ordinary payroll amount for the period chosen in the endorsement. Note: cannot exclude payroll when insuring for maximum period of indemnity or monthly limit of indemnity. (see page 3 for additional information on payroll)

Additional Required Information:

- 1. Excluded payroll (if applicable); include if CP-1510 endorsement is added (not common) \_\_\_\_\_
2. Maximum expected period of recovery in event of total loss (months) \_\_\_\_\_

I certify that this is a true and correct report of values as required under this policy for the 12 months ended (Date) \_\_\_\_\_

Completed by: \_\_\_\_\_ Date Completed: \_\_\_\_\_

## Business Income and Extra Expense Example

\$1,000,000 12-month expected BI exposure (item E, page 1)  
 8 month max expected period of recovery (item 2, page 1)  
 3 peak months generate an average of 33% greater business income exposure  
 \$100,000 Extra Expense exposure (item F, page 1)

- a. \$1,000,000 12 month BI exposure
- b.  $\$1,000,000 \div 12 = \$83,333$
- c.  $\$83,333 \times 8 \text{ months} = \$666,666$
- d.  $\$83,333 \times .33 \times 3 \text{ (monthly BI exposure} \times 33\% \text{ peak increase} \times 3 \text{ months)} = \$82,500$
- e. Add \$100,000 Extra Expense  
 $\$666,666 + \$82,500 + \$100,000 = \$849,166$  limit needed (c+d+e)

## Business Income/Extra Expense Limit Calculation

- |  |   |  |  |
|--|---|--|--|
| A. Total 12-month business income expense (item E, page 1)             |   |  |  |
| B. Divide A by 12 (A ÷ 12)   | = |  |  |
| C. Max expected period of recovery (Number of months) (item 2, page 1) | × |  |  |
| D. Expected period of recovery business income limit (B × C)           | = |  |  |
| E. Add increased peak season exposure (if applicable)                  | + |  |  |
| F. Add Extra Expense (item F, page 1)                                  | + |  |  |
| G. ESTIMATED BI/EE LIMIT NEEDED  | = |  |  |

### Selecting Coinsurance

- F. Determine starting percentage by dividing max expected period of recovery by 12 (item 2, page 1 ÷ 12)  
 Need at least 6-month maximum expected period of recovery for coinsurance option
- G. Round down to next highest coinsurance percentage (Coinsurance% options: 50, 60, 70, 80, 90, 100, 125)

### Example:

Max expected period of recovery is 8 months

- F.  $8 \div 12 = 66\%$
- G. Round down to nearest coinsurance percent  
 Coinsurance = 60%  
 Would need \$849,166 limit at 60% coinsurance

## Coinsurance Calculation

- |  |   |  |  |
|--|---|--|--|
| A. Determine starting% by dividing max expected period of recovery by 12 (item 2, page 1 ÷ 12)                 |   |  |  |
| B. Choose Coinsurance% by rounding down & enter next highest coinsurance%: 50%, 60%, 70%, 80%, 90%, 100%, 125% | = |  |  |

If B is less than 50%, review if coinsurance is the best option; coinsurance intended for insureds with maximum expected period of recovery of 6 months or greater.

## Glossary of Terms

### Total Revenue

This is the profit or loss of the business. The figure can be obtained from the insured's income statement, profit or loss statement, or federal income tax returns. Use latest 12-month figures.

### ALL Expenses

Include all expenses listed on the insured's income statement or federal tax return. Why include all? It is difficult to determine until time of loss which expenses will continue. Some expenses may not continue at the full amount; some expenses may continue but just at a temporary location. Therefore, this worksheet calculation includes all operating expenses (other than Cost of Goods Sold).

### Extra Expense

Include expenses to operate/move to a temporary location. Expenses should include amounts that would be above and beyond expenses already listed in operating expenses figure. Examples include but are not limited to costs associated with temporary locations/facilities (increased rent, cost to move, etc.), additional employee expenses, cost for processing or manufacturing externally, rush shipping and additional advertising.

## Coverage Points

### Payroll

Business income covers payroll expenses as a continuing expense unless ordinary payroll is limited or excluded (CP-1510 Ordinary Payroll Limitation or Exclusion). Ordinary payroll is payroll for employees other than officers, executives, department managers or employees under contract. The insured benefits from including all payroll in the business income coverage/limit. This helps prevent employees from leaving to work for a competitor if they are not getting paid during the recovery period after a loss. Also, time labor agreements may require payroll and benefits to continue.

Payment at time of loss is dependent on the necessity of continuing to pay the employees. Long-term claims may result in laying off certain employees and rehiring upon resumption. Short-term claims may result in paying all employees for the duration of the loss. Key employees generally remain on payroll throughout the duration of most claims. As noted above, some labor agreements require continued payment of wages and benefits. Actual payments will differ for each loss and are determined as the loss is adjusted.

### Extended Period of Indemnity

Once operations resume after a loss, most often revenues do not resume immediately to the level they were prior to the loss. The Business Income policy extends coverage up to 30 days for the continued business income loss. This extended coverage is subject to the limit of insurance, so the limit should also take this into consideration. Longer periods can be purchased (60, 90, 120, 150, 180, 270, 365, 450, 540, 630, or 730 days). If purchasing a longer period, the business income limit must be increased to account for this since it is subject to the limit of insurance. The selected time should depend on the time the insured estimates it would take for revenues to return to normal after suspension of the business.

## Period of Indemnity (Length of time for which benefits are payable)

### Coinsurance

Coinsurance is designed as a way to provide an adequate limit for the full business income exposure. It does not restrict the period of indemnity. For example, if the period of restoration exceeds one year, the policy would cover the entire loss period, subject to the limit of insurance. A coinsurance penalty applies only if the limit is inadequate at time of loss. The coinsurance option is best intended for businesses with a maximum expected period of recovery of six months or more.

### Actual Loss Sustained

With actual loss sustained, losses are not subject to a limit of insurance on the policy. Coinsurance clause does not apply. The period of restoration, however, is limited to 12 months. For risks that anticipate maximum period of recovery to exceed a year, coinsurance option would better suit the insured.

### Maximum Period of Indemnity

This option limits the period of indemnity to 120 days; the policy covers the actual loss sustained during these 120 days, subject to the limit of insurance. Coinsurance clause does not apply. This option is intended for businesses that do not expect an expected period of recovery greater than four months. The limit chosen should reflect the four consecutive months with the highest business income exposure (net income (or loss) plus expenses).

### Monthly Limit of Indemnity

This option limits payment on a monthly basis to the fraction chosen (1/3, 1/4 or 1/6). The most that will be paid in each period of 30 consecutive days is the limit of insurance multiplied by the fraction chosen for this coverage. Coinsurance clause does not apply. As with maximum period of indemnity, the limit should factor in the months with the greatest business income exposure. This option is intended for businesses that do not expect a period of recovery, in general, of more than six months. The period of indemnity is not limited by time/number of months. This option keeps paying subject to the monthly maximum or until the limit is exhausted. *See example below:*

\$100,000 limit

1/4 monthly limit of indemnity (maximum payment of \$25,000 for each 30-day period)

Month	Loss Amount	Paid Amount	
1	\$20,000	\$20,000	(less than monthly limit)
2	\$30,000	\$25,000	(capped at monthly limit)
3	\$40,000	\$25,000	(capped at monthly limit)
4	\$20,000	\$20,000	(less than monthly limit)
5	\$15,000	\$10,000	(limit remaining)
6	\$10,000	\$0	(limit exhausted)

## Waiting Periods

Waiting periods are built into business income forms. This acts as a deductible. Waiting periods apply to business income coverage, NOT extra expense. Business income loss during this waiting period is not recovered with business income coverage.