

LBS Insurance Commission **Advisory**

Important Notice to All Residents October 2018

This communication is intended to clarify how the changes that have been made to the condominium association's policy effective October 1, 2018 will affect you as an individual unit owner. It will also provide you with a sample of talking points you can use when you contact your personal insurance agent to discuss the changes you may need to make to your personal Condominium Unit Owners Policy (HO-6). It is recommended you review all of your coverages with your agent. Definitions and examples are included for the terminology used.

Note: This information subject to change for clarification or accuracy. Please review at any time you are considering your personal insurance needs.

Important Changes in the Condominium Association's Insurance

PAST	October 1 2018-19
Insurance Carrier Philadelphia	Insurance Carrier Travelers
\$5,000 Deductible	\$25,000 Deductible EXCEPT for 2% WIND/HAIL Per Building
Betterments and Improvements "All In" Coverage	Betterments and Improvements to follow IL Condo Act
No Limit for Water or Sewer Back Up	\$25,000 Limit for Water or Sewer Back Up
Equipment Breakdown Included	Equipment Breakdown Excluded

Definitions

DEDUCTIBLE: The amount that must be satisfied by the policy holder before the insurance policy will begin to pay.

WIND/HAIL DEDUCTIBLE 2% PER BUILDING: The amount that must be satisfied by each building before the insurance policy will begin to pay for exterior damage due to wind/hail. The deductible for the building is 2% of the insured value for the building.

Example: A 4 unit building insured for \$1 Million will have a \$10,000 Deductible. This means each unit will be responsible for \$2,500.

IMPROVEMENTS AND BETTERMENTS ALL IN COVERAGE: Coverage for the building and the interior of all units up to the first coat of prime of the interior walls and ceilings and full replacement value of floor coverings, permanently installed fixtures and appliances which includes: electrical wiring and fixtures, plumbing, cabinets, HVAC equipment, and bathroom fixtures with like kind and quality.

IMPROVEMENTS AND BETTERMENTS TO FOLLOW ILLINOIS CONDOMINIUM PROPERTY ACT: The structure of the building is insured for 100% replacement cost. The interior of the units are insured up to the first coat of prime on the interior walls and ceilings. There is **no** coverage for floor coverings. Permanently installed fixtures and appliances which include electrical wiring and fixtures, plumbing, cabinets, HVAC equipment, and bathroom fixtures will be replaced with the quality of materials used at the time of construction. If permanently installed fixtures and appliances as defined above have been replaced, upgraded, remodeled or altered in any way from the original builder grade installations, the unit owner must insure for them.

WATER AND SEWER BACK UP COVERAGE: Insurance coverage for damages caused by water that backs up through a sewer or drain.

EQUIPMENT BREAKDOWN COVERAGE: Sudden or accidental breakdown (not normal wear and tear) of the mechanical components of the building such as heating and central air conditioning, electrical panels, transformers and distribution equipment, water circulation pumps, alarm systems, etc.) .

Examples:

- An area wide blackout from local utilities can cause a power surge when power is lost or restored resulting in damage to equipment.
- Fluctuations in power or brown out as opposed to a full interruption of power.
- Drying costs to equipment damaged by water.
- Electrical power surging to common buildings
- HVAC breakdowns for multiple units/shared buildings.

Talking points to use when contacting your agent to discuss changes to your personal HO-6 Policy

Insurance Change

\$25,000
Deductible EXCEPT
for 2% WIND/HAIL
Per Building

Betterments and
Improvements to
follow IL Condo
Act

\$25,000 Limit for
Water and Sewer
Back Up

Equipment
Breakdown
Excluded

Some Questions to be asked

Can Loss Assessment
Coverage be increased
to cover the \$25,000
Deductible?

How much Coverage A
should I have to replace
the inside of my unit?

Do I have Water and
Sewer Back Up
coverage of my own to
cover the inside of my
unit?

Do I have coverage of
my own to cover an
Equipment Breakdown
loss?

What does this mean for you?

LOSS ASSESSMENT COVERAGE (AND HOW IT CAN AFFECT YOU): The Illinois Condominium Property Act grants the board of directors the right, at its discretion, to assess (or chargeback) the association's deductible (\$25,000) to the unit owner or owners affected by a loss and that receive the benefit of coverage under the association's policy. This is a common practice and you will want to be sure that your HO-6 Policy will provide coverage at a minimum of \$25,000. If a loss occurs that involves the structure of the building or the drywall within a unit(s) but does not meet or exceed the association's \$25,000 deductible, the association may make the repairs on your behalf but can assess (or chargeback) the cost of the repairs to your unit(s). The **Loss Assessment Coverage** on your personal HO-6 Policy should be increased to a minimum of \$25,000 to cover the limit of the association's deductible should it be assessed or charged back to your unit.

BEWARE: The policy provisions for Loss Assessment vary by insurance carrier. When speaking to your agent, be sure to ask:

- Is it possible to increase my Loss Assessment Coverage to \$25,000?
- Will the Loss Assessment Coverage on my policy provide coverage if I am the only unit (or a neighbor and I) are the only units affected by a loss?
- If I can't increase my Loss Assessment Coverage to \$25,000, will you cover the association's deductible for under the Property (Coverage A) portion of my policy?
- If the answer is "NO" to any of these questions, you will want to find an insurance company that can cover you for the \$25,000 deductible. Otherwise, you may subject to a \$25,000 out of pocket expense.

2% Wind/Hail Deductible Per Building: Your portion of the wind/hail deductible will be 2% of your building's insured value divided by the number of units in your building. The property management office has this information on file for your convenience.

COVERAGE A (DWELLING): Coverage A on your personal HO-6 Policy provides coverage for the interior finishes of your unit as well as permanently installed fixtures and appliances, and improvements and betterments as previously defined. Be sure to ask your agent if your current Coverage A limit is enough to replace the interior of your unit and the improvements and betterments. You may need to increase your coverage. **Reminder:** the association's policy will only cover losses over \$25,000 and will replace your unit with the original quality of materials installed by the builder.

WATER AND SEWER BACK UP (AND HOW IT CAN AFFECT YOU): In the event of a loss due to **Water and Sewer Back Up**, the association is only responsible for the exterior components and drywall up to prime paint coat in your unit. It is highly recommended you obtain **Water and Sewer Back Up** coverage on your HO6-Policy to cover items such as clean up in the event of a loss, floor coverings, wall coverings beyond the first coat of prime, permanently attached fixtures and appliances, any improvements and betterments you have made to the interior of your unit, as well as damage to your personal things such as furniture or clothing and the like.

The association has a \$25,000 Deductible and is only responsible for the quality of materials installed by the builder and bears no responsibility for your personal belongings. In addition, the association's policy has a \$25,000 limit. Simply stated, if there is a Water and Sewer Back Up loss that affects your unit or the other units in your building, the first \$25,000 of the loss would be assessed or charged back to you and/or your neighbors and then the association's policy will pay up to \$25,000. **Keep in mind**, the \$25,000 Deductible does not negate the \$25,000 limit of coverage. It only means that the loss in terms of the association's responsibility would need to exceed the \$25,000 Deductible. After the \$25,000 Deductible is met, then the association's policy will only pay up to \$25,000. **Example:** In the event of a \$35,000 Water and Sewer Back Up claim that would be covered by the association's policy, the first \$25,000 of the damages would be the deductible and would be assessed/charged back to the unit or unit owners affected. The remaining \$10,000 would be paid by Travelers. The most Travelers will pay after the \$25,000 Deductible is met is \$25,000. (See the attached chart)

EQUIPMENT BREAKDOWN (AND HOW IT CAN AFFECT YOU): The association does not have coverage for Equipment Breakdown (as previously defined). The association is not responsible for mechanical components to your unit which have been replaced, improved, changed or altered in any way since your building/unit was built. When speaking to your agent, be sure to ask if your HO-6 Policy provides coverage for losses involving:

- An area wide blackout from local utilities which cause a power surge when power is lost or restored resulting in damage to equipment.
- Fluctuations in power or brown out as opposed to a full interruption of power.
- Drying costs to equipment damaged by water.
- Electrical power surging to common buildings
- HVAC breakdowns for multiple units/shared buildings.

LBS Insurance Commission, Oct. 2018

LBS Insurance coverage treatment for various cases of an insurance loss.

