

Money Saving Tips to Reduce Insurance Costs by Ken Peters

Are you spending too much or too little on your apartment insurance? Do you have enough coverage or are you paying for coverage you don't need? What type of endorsements should you have on your policy? Are you insured with a reputable and fiscally sound carrier? When was the last time you reviewed your insurance policy? Appropriate insurance coverage for your building is important. The right policy will protect you against the unexpected. Knowing what protections you need is a key factor in choosing an insurance policy. The following article will discuss these issues.

Replacement Cost

Replacement cost policies should have an "extra replacement cost endorsement". A replacement cost policy will pay property damage claims on a replacement cost basis, but only up to the limits of coverage. Avoid policies with a replacement cost based on an actual cash value or "ACV". This translates to claims paid factoring in depreciation.

"Co-insurance" policies should also be avoided. They can cost you thousands of dollars in "co-insurance penalties". The insurance company charges these penalties to you if they can determine that you were not properly insured, according to your contractual obligations (policy language), after a covered loss. An "extra replacement cost endorsement" can increase your total building coverage by as much as 20%. This will provide a cushion in the event that you have a total loss.

For apartment complexes with multiple buildings, be certain your policy has "blanket coverage"; and you are not limited to "scheduled coverage".

Amount of Coverage

Generally \$100 to \$150 per square foot is adequate coverage. Consider \$100 as a minimum standard. Also, consider securing the services of a contractor who specializes in apartment construction, and one who has experience in building in your location(s).

Building Ordinance or Loss of Value Coverage

If you have a loss due to smoke or fire damage, "building ordinance" or "loss of value" clauses provide extra coverage for your apartment. Some buildings that experience even partial smoke or fire damage have to be completely torn down. This extra coverage amount would help with the costs of new regulations and/or ordinances imposed by the city for new buildings.

This additional coverage is commonly available at a 10, 25, 50 or 100 percentage basis. An increase of at least 10% is worth considering, particularly on older buildings.

Earthquake Coverage

It has been several years since the Northridge earthquake, and most recently the earthquake in China provided a reminder of what can happen. Simply put, earthquake insurance is another way to help protect your equity. Ask your carrier if they offer

earthquake coverage for your building(s). Some carriers don't offer earthquake but you can most likely secure it with a different carrier; even one that will cover just your earthquake coverage. You can even consider just partial coverage.

Workers' Compensation

Unless you do all the work on your apartment building(s) yourself, you need a Workers' Compensation policy. This is a separate insurance policy and this coverage is not provided by your apartment insurance policy. Many apartment owners think they do not need a Workers' Compensation policy because they only hire independent contractors or their resident manager performs all the work.

The state of California requires that all employers provide Workers' Compensation for their employees. Guess what? Anyone working at your apartment is considered an employee, regardless of the amount of time they spend on the premises. Any slip/fall accident without proper coverage could prove to be very costly; and without a policy you face the possibility of jeopardizing your assets.

If you only hire contractors and use vendors who have Workers' Compensation insurance, ask them to provide you with proof of insurance. ***It is best to never allow anyone to work on your property until they provide you with a current certificate of insurance.*** It is also a good idea to call the agent named on the certificate of insurance to verify the active dates of coverage.

[Call AOA now and take advantage of their NEW, LOW-COST group Workers' Compensation plan that is currently being offered. AOA members receive a 6% premium discount and small owners may even qualify for a reduced group minimum premium of only \$160 per year!]

Loss of Rents

This coverage helps to replace that monthly loss of income; but make sure the policy states "**actual loss sustained up to 12 months**". Some policies put a "cap" on such losses, by stating a specific amount of coverage available.

Liability

Considering the litigious environment here in California, \$500,000 is a "starting point". Your policy should have that as "bare minimum" liability coverage, with an emphasis on "Comprehensive Liability coverage".

You are better served with limits of at least \$1 million. Why not have a liability level which represents your "net worth"? You can raise your liability limits to reflect that level and if you have multiple apartment complexes, you can inquire about a commercial umbrella policy. Umbrella coverage can provide excess liability for all your locations, at less cost than increasing each location's liability.

You may also want to contact an asset protection attorney to review options such as incorporating and trusts.

Your policy deductible should be at least \$1,000, and ask for quotes at \$2,500, \$5,000 and for larger complexes, \$10,000.

Lastly, you will want to make sure your liability coverage has a "duty to defend" clause.

Reputable Insurance Companies

Make sure your policy is with a financially secure company with a history of claims integrity. Ask another apartment owner if they have ever had a claim? Ask them what their experiences were like? Do some research with rating agencies such as "A.M. Best" or "Moody's" or "Standard and Poors".

You will also be better served by an agent who is very much "hands on". Did he or she even look at your property or did the agent simply rely on staff members or third parties to inspect the property? The differences do have implications with how business is done and reflects various levels of quality.

Money Saving Tips

There are ways to reduce your premiums without reducing your coverage. Many companies offer a variety of discounts such as "claims free", "years in business", and "multiple units". There can be other discounts based on type of construction.

It is best to periodically review your policy(s) and make such inquiries at that time. Get creative - ask your agent if there is anything you can do that will reduce your overall insurance costs?

The above article was written by Ken Peters of Ken Peters Insurance Agency, Inc. Ken Peters has been specializing in apartment insurance since 1983. For more information or a free review and quote, Ken can be reached at 714.995.0585 or at kennithpeters.com.