

WHY HAS OUR REPLACEMENT COST GONE UP SO MUCH!!??

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If you live in a Homeowners Association, then the odds are that last year your Earthquake Insurance premium almost doubled, your deductible doubled, and the insurance companies would only offer you half of the coverage they offered you before. Your Association also probably had to special assess the owners to pay for the huge Earthquake Insurance premium. NOW, when rates and deductibles are finally going down, your premiums are still going up! What gives??



The simple answer is that construction costs estimates have risen dramatically in the wake of the 2005 Hurricanes and California Wildfires of 2006. Unfortunately, due to the dramatic increase in premiums last year, HOAs could not afford to increase their estimated replacement costs, despite pressures from the Insurance Commissioner to do so.

In a June, 2007 news conference, California Lt. Gov. John Garamendi, the former insurance commissioner of California urged the state's residents to *"review your policy today. You can't wait. It might be out of date because of rapidly increasing reconstruction costs."* And the insurance agents and brokers are trying to do just that. Now that rates have started to drop, they are scrambling to bring replacement cost estimates up to par.

Sobering Words...

According to The Associated General Contractors (AGC) of America:

"After years of minimal cost increases, prices of many construction materials skyrocketed from 2004 to mid 2006. Labor costs...have risen at similar rates for construction and for the private sector as a whole."

"A combination of steadily rising gross domestic product (GDP) in the United States, an upturn in both residential and nonresidential construction, and demand from fast growing economies such as China and India led to sharp price escalation for numerous construction inputs in 2004. From December 2003 to December 2004 there were increases of 20 – 49 percent in the PPIs for steel mill products, diesel fuel, copper and brass mill shapes and gypsum products."

"Damage to oil and gas production facilities caused by Hurricanes Katrina and Rita produced even larger increases in the cost of diesel fuel, asphalt, and plastic construction products. High energy and transportation costs, in turn, pushed up the price of energy-intensive and imported materials, including cement and copper ore."

-October 2007 AGC's Construction Inflation Alert

Why hasn't my Fire Insurance limit gone up?

Catastrophes have a much more dramatic effect on an area. With fires, you typically have very few homes damaged, but in an Earthquake, you could have a massive amount of destruction in a very large area in a matter of minutes. In addition, most State Farm or Farmer's Insurance fire policies offer an endorsement called Guaranteed Replacement Cost which will pay the cost to rebuild your Association even if it exceeds the policy limits (percentage restrictions may apply). Earthquake Insurance carriers,

however, do NOT offer this coverage. They will not pay more than the policy limits. So those limits have to be as accurate as possible.

Also, keep in mind that contractors rates are not subject to regulation. After an earthquake, a contractor that charges \$150 per square foot today could charge \$300 per square foot tomorrow.

How do we ensure that we have adequate coverage?

Keep in mind that insurance agents and brokers are trained to collect information from the Association and from county records that they then input into computer modeling software to estimate the replacement cost of a building. Their goal is to insure your Association at the most accurate figure possible.

The surest way, however, of insuring your property to value is to hire a professional appraisal company or general contractor who specializes in estimating current replacement costs.

Is Earthquake Insurance worth the high premium?

Being that your home is likely your most valuable asset, consider the following question. How much do you pay for your car insurance on a monthly basis? Would you pay the same amount of money per month to insure your home?

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