

The Assessment Story (Nightmare)

I just attended my annual association meeting and the association's board advised the members that the association was just hit with a \$1,500,000 judgment due to a skateboarding accident in the parking lot of the association.

That news was tragic and bad enough. Unfortunately, the really bad information was to follow. The association only had \$1,000,000 general liability coverage for this incident. Accordingly, the remaining \$500,000 will have to be satisfied pursuant to a "special assessment" levied on the membership. With 10 members in the association, each member will be assessed \$50,000.

My neighbor sitting next to me said: "thank goodness I have loss assessment coverage." I turned to my neighbor and said, "what is that?" I said my broker told me I have full coverage. As I found out, "full coverage" meant \$1,000 "loss assessment" sub-limit automatically included in my policy. Apparently, I could have purchased \$50,000, for under \$100.



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HOW WILL I COVER THAT UNEXPECTED LOSS ASSESSMENT?

WHAT YOU NEED TO KNOW:

Loss Assessment Coverage

What is Loss Assessment Coverage?

In brief, loss assessment coverage pays on your behalf your share of an assessment charged against all members as a result of a covered loss. This would cover the \$50,000 assessment set forth in The Assessment Story, assuming that the association had proper insurance in place.

When is the Loss Assessment Triggered?

Most loss assessment coverage is triggered where the item would have been covered under the association policy terms and conditions, but there were insufficient limits. Accordingly, an assessment would be triggered if the loss would not be covered under the association policy because: (1) it was excluded; (2) the association only provided defense and not indemnity coverage; or (3) the association policy lapsed.

Keep In Mind...

This is coverage YOU purchase from YOUR insurance company and has nothing to do with the association's insurance policy, sometimes referred to as a Master Policy.

Although this is coverage that you purchase, it is contingent on the association having proper coverage in place. When you live in a community association, you have chosen to share duties and obligations with others. Thus, you cannot blindly sit by and be completely confident that you are fully protected.

Not all "loss assessment" coverages are created equal. Specifically, just because your policy includes this coverage does not mean you are fully protected. For example, is it limited to a minimal amount such as \$1,000? If so, are higher limits available, and if so, how much? Some carriers provide coverage as high as \$50,000.

Our Recommendations

No. 1

Make sure your insurance professional has fully explained to you what your exposure is as a member of a community association.

No. 2

If he or she cannot, find one who can. Speak with your neighbors to find out whom they use for their homeowners' coverage and whether they have loss assessment coverage.

No. 3

Determine your comfort level when determining how much loss assessment coverage you need.

No. 4

Make sure your association has all the insurance it properly needs, not only to protect the association, but also to ultimately make sure you are adequately covered.