Know Your Insurance

Master Policy vs. H06

The Importance of Loss Assessment Coverage

At most condominium and townhome communities, a homeowner's association (HOA) is equipped with an insurance policy that provides coverage for incidents that occur outside of a condominium or townhome homeowner's personal unit. This is commonly known as a master policy, and some condominium and townhome owners wrongfully assume it is adequate to account for all incidents that occur in a shared area of the property, like lobbies, common building surfaces and outdoor spaces.

However, if damages from an incident or occurrence exceed the limits of the HOA's master policy, all condominium and townhome residents may have to pay out of pocket for any losses, even if they were not at fault. To avoid this, loss assessment coverage is a critical add-on to your HO6 policy.

What is Loss Assessment Coverage?

Loss assessment, HO6 home policy insurance, coverage is an add-on to standard condominium and townhome master policies. It provides much-needed protection in instances where owners of a shared property are held responsible for a sizable portion of the costs associated with a covered incident/occurrence. Examples of this may include the following:

1. A major hailstorm occurs and causes $550,000 worth of damage to the condominium or townhome building. While the HOA has a master policy, it only covers $500,000 worth of damage, leaving all residents to pay out of pocket for the additional $50,000 of uncovered damage.
2. A bigger issue is the insurance carriers are requiring larger HOA deductibles with all master policies. A HO6 policy Loss Assessment Coverage can cover the deductibles at a reasonable cost per year.
3. Loss Assessment Coverage does not cover HOA assessments for maintenance, repairs, and upkeep to Association property. It must be a covered peril loss in the master HOA policy. These deductibles are only covered by the owner with their HO6 policy.

Simply put, loss assessment coverage provides a safety net for owners, ensuring they do not have to pay for incidents that occur to shared property and exceed the limits listed in the HOA's master policy. Additionally, loss assessment coverage can apply to property damage, liability, injuries that occur on condominium or townhome property or deductibles.

The amount of coverage you need will depend on the limits listed in your HOA’s master policy. To learn more, and to secure a policy that is right for you, contact several agents of your choice to get competitive quotes using your H06 letter as their guidance.

Please see the following page for coverage examples

Condo Associations

Ex. Our HOA sent me a letter stating they have increased the HOA policy deductible to $50,000 and to check with my HO6 carrier to be sure I have $50,000 of loss assessment coverage.

1. This is not correct. If the condominium association building has fifty units and the HOA has a loss exceeding $50,000, the owners need to pay the $50,000 deductible. This would be split equally by all fifty owners so each unit owner would pay $1,000. In this case, you would not be using your full loss assessment coverage. This would only apply to condominium associations.
2. We are seeing increasingly that the HO6 policy has a loss assessment limit to cover an HOA deductible. Coverage for an HOA deductible is different from a loss assessment if the HOA master policy does not have sufficient coverage. It is common to see loss assessment coverage for HOA deductibles to be $10,000 to $50,000. Just increasing loss assessment coverage in general does not mean you have loss assessment coverage at the same limit as your deductible coverage. Be sure to check with your carrier on this issue.

Townhome Associations

Townhome owners need the same HO6 home policy as Condo owners. The loss assessment coverage works much the same as in Condos. One substantial change for townhomes is a large increase in the HOA master policy percent deductible, or wind, hail, and water loss, in the association.

Ex. If the HOA master policy has a $50,000 deductible per roof surface or a percentage deductible per building for wind and hail losses, you need to look closer at the loss assessment deductible coverage limits.

1. **Example #1**. The HOA has a $50,000 deductible per building. If you have two units per building, the unit owners of that building could each be assessed for $25,000. You need to have loss assessment coverage to cover the deductible at a limit of $25,000 for occurrences not related to a percentage deductible, like wind/hail.
2. **Example #2**. The HOA has a percentage deductible of 5% for wind and hail losses per policy total. If you have two units in a building affected and the building is insured for $700,000 ($350,000 for each side), the deductible for a hail loss is 5% of $700,000 or $35,000. Each unit would need loss assessment coverage to cover an HOA deductible of $17,500.

Insurance carriers will want to cover for the largest possible deductible. They do not separate loss assessment coverages. You will need to look at your HO6 coverage letter for the highest loss assessment deductible you would have to pay.

All In Coverage vs Bare Walls Coverage

Every HOA has different documents outlining what is covered by the HOA master insurance. You need to review and understand what your HO6 letter says. The HOA usually covers the unit as originally built, including the inside of the unit. This in “All-in” coverage. Or the HOA only covers the building up to the inside walls of the unit. This is “Bare Walls” or “Walls Out” coverage. For your HO6 policy, determine what limit you need for Dwelling Coverage A to be sure you have the correct coverage.

1. If you have All-in Coverage but the unit has changed since originally built, you may need some additional dwelling Coverage A limit for your upgrades. However, your master policy may cover upgrades. You will need to check your HO6 letter for this verbiage.
2. If you have Bare Walls Coverage, you need to determine the cost to rebuild the entire inside of the unit.
3. If the HOA has a lower limit of coverage for a water damage or sewer claim, you may need additional Dwelling Coverage A limit.

Water Damage Started in a Unit

If a leak starts in my unit, am I responsible for damage to other units? It depends if you are negligent in causing the water leak. If you are determined negligent, your HO6 policy pays for other units or the HOA common property under your liability coverage. If you are not negligent, each unit owner pays for their own deductibles and damage through their HO6 policy in conjunction with the master policy limits.

Date of Loss vs Date of Assessment

Date of Loss is the date the incident/loss occurred. ***Date of Assessment*** is the date the Association assesses the homeowners.

Effective August 1, 2024, Minnesota Statute 65A.3025 generally states –

- ***The homeowner at the time of the assessment is the responsible party.***
- ***The HO6 insurers must pay a loss assessment based on date of assessment, per policy in force/policy limits at the time of the assessment date.***

Statute 65A.3025 formal verbiage:

Sec. 10. **[65A.3025] CONDOMINIUM AND TOWNHOUSE POLICIES; COORDINATION OF BENEFITS FOR LOSS ASSESSMENT.**

Subdivision 1. **Definitions.**

(a) For purposes of this section, the following terms have the meanings given.

(b) "Assessable loss" means a covered loss under the terms of a policy governed by subdivision 2, paragraph (a) or (b).

(c) "Association" has the meaning given in section 515B.1-103, clause (4).

(d) "Unit owner" has the meaning given in section 515B.1-103, clause (37).

Subd. 2. **Loss assessment.**

(a) If a loss assessment is charged by an association to an individual unit owner, the insurance policy in force at the time of the assessable loss must pay the loss assessment, subject to the limits provided in the policy, notwithstanding any policy provisions regarding when loss assessment coverage accrues, and subject to any other terms, conditions, and exclusions in the policy, if the following conditions are met:

(1) the unit owner at the time of the assessable loss is the owner of the property listed on the policy at the time the loss assessment is charged;

(2) the insurance policy in force at the time of the assessable loss provides loss assessment coverage; and

(3) a loss assessment and the event or occurrence which triggers a loss assessment shall be considered a single loss for underwriting and rating purposes.

(b) If a loss assessment is charged by an association to an individual unit owner, the insurance policy in force at the time the loss assessment is charged must pay the assessment, subject to the limits provided in the policy, notwithstanding any policy provisions regarding when loss assessment coverage accrues, and subject to any other terms, conditions, and exclusions in the policy, if the following conditions are met:

(1) the unit owner at the time of the loss assessment is charged is different than the unit owner at the time of the assessable loss; and

(2) the insurance policy in force at the time the loss assessment is charged provides loss assessment coverage.

(c) For a loss assessment under paragraph (b), an insurer may require evidence documenting that the transfer of ownership occurred prior to the assessment before the insurer affords coverage.

Summary

Homeowner Associations (townhomes/condos/etc.) have master insurance policies. The association's insurance policy covers items per the Association documents and/or a Board resolution. As a homeowner, you need to be familiar with the association documents so that you know what the association covers and what you are responsible for. Each homeowner should have an HO6 policy and an HO6 letter that gives you coverage information for:

1. Items not covered in the Master Policy – ***You want to review this EVERY year***. The insurance climate is VOLATILE with all the environmental issues. What is going on all over the country affects you. Insurance is constantly changing, and you want to make sure your HO6 is keeping up with the changes – especially the water, wind/hail deductible percentage deductibles. This is susceptible to change every policy renewal. This is why the HO6 letter that you receive at renewal is a critical piece to communicate with your agent.
2. The Master Policy deductible coverage and information – This is listed on the HO6 letter sent out yearly.
3. Wind/Hail deductible - of the total policy building values divided by all units involved equally.
4. Personal Property – This is subject to what you bring into the home and the personal deductible you are comfortable paying if there is a loss of your personal contents.

5. Homeowner Displacement – this is a selected coverage that you may get, or may come with your policy, which states how long they will pay for living outside your home while your unit is being reconstructed. There is usually a time limit and dollar amount set with this coverage. Please know that rebuilding a unit and getting in the proper materials is becoming much more difficult given our current inventory situation. A one-year displacement option is recommended.

The Association's current master policy period is set in the HO6 letter. Each year the association finalizes the renewal, and then sends homeowners communication in November. This information includes the HO6 document/ letter. When a homeowner receives this letter, they need to send it to their personal agent and review coverage. The letter will suggest Loss Assessment that would cover the Master Policy Deductible and the percentage Wind/Hail deductible, but you need to discuss this with your agent. Most homeowners have a HO6 deductible of $500-$1,000. If you are properly covered, in theory, your cash out of pocket would just be your chosen deductible.

Recommendation . . . It's worth a bit more money for a policy/agent that is knowledgeable and knows association master policies, so that they can guide you.

Why do I have to pay a loss assessment / insurance deductible if the damage is an HOA responsibility to maintain and replace, such as roofs?

When there is an occurrence/loss of any kind, whether inside, outside, or both, this falls under an insurance claim and no longer pertains to who is responsible for maintaining/replacing the item. For example – if the association would normally replace roofs – scheduled in the Reserve Study – but they are damaged before that occurs by a wind/hail loss – now the replacement of the roofs falls under the Insurance Claim process instead of a scheduled reserve replacement. This would now include the HO6 policy as well as the master insurance policy. Your HO6 policy, if properly covered, will pay for the Association's Master Policy's deductible for the claim minus whatever personal deductible you have set.

How would this affect future replacement costs for roof replacement and Monthly Association Dues?

The answer is not simple or straight forward. The Reserve Study works as a plan for replacement items such as roofs, and it has tentative schedules for these items. We use the Reserve Study tool to determine if the association reserves are properly funded. Questions that impact the net result of an insurance claim on the Reserve Study include . . . How many years were left until the roof replacement was scheduled in the Reserve Study? Does your association have any loans payable? Has the association taken on paying for any limited common elements which affect the Reserve Study?

1. Example – A Board decided to pay for replacement driveways with reserve funding. In most townhomes it is a limited common element, and each owner should pay for their own. When the association had a claim for roof replacement, they reallocated this funding to the driveways to be fully funded because it was not included in the previous Reserve studies. This scenario results in no change in association fees.
2. Example – An association replaced the roofs 5 years ago, and they were damaged by hail. The life expectancy of the roofs was 45 years. Reserve Study funding had only been collected for 5 years. Covid impacted investment interest. This scenario resulted in little change to the Reserve Study – not being able to lower dues despite the insurance claim.

Insurance is one of the most complicated items out there. Every company puts different limits and restrictions within policies, handles claims differently, and has more than confusing language. I cannot urge you enough to find an agent that knows and works with many condo/townhome associations. You need to re-evaluate your policy every year. Also ask questions to learn as much as possible. Insurance is about 40% of most associations operating budget, and it will only get worse with the current insurance climate.