

AVAILABLE PROPERTY COVERAGE

Under our Catholic Mutual property coverage there are four options available for coverage on buildings: Replacement Cost, Actual Cash Value, Agreed Amount, and Liability Only. These options are available under the following conditions:

1. Replacement Cost: always allowed
2. Actual Cash Value: Structures that would certainly not be repaired if seriously damaged or not replaced if destroyed may have this coverage if authorized by the parish corporate board. The entire parish community must be informed of this coverage annually, usually with the year-end financial report.
3. Variable Agreed Amount: This coverage may be allowed by Bishop when warranted by extraordinary circumstances, in which case all of the requirements listed above for Actual Cash Value apply.
4. Liability Only: This coverage may be allowed by Bishop when warranted by extraordinary circumstances, in which case all of the requirements listed above for Actual Cash Value apply. Liability Only coverage will only be allowed for unused buildings, such as a closed church.

This document will discuss the amount of coverage under each method and their effect on charges and payment of claims. To help compare and contrast the various coverages, we will use the example of a building with a \$1,000,000 Replacement Cost, 20% Average Depreciation Percentage and a rate of \$3 per \$1,000 of coverage.

REPLACEMENT COST

Amount of Coverage

Replacement Cost is the normal method of coverage used under our certificate. Under this coverage, the building is valued at the cost of building a structure similar or identical to the current structure. At the time the building is originally valued, the replacement cost would be the cost of construction if it is a new building. Otherwise Catholic Mutual would have the building appraised. The appraiser makes a report of the types of material used in the structure and the features of the structure (thickness of walls, size of windows, etc.). Using current cost estimates for our region obtained from Marshall Stevens, an appraisal service, Catholic Mutual would determine the cost of building a similar or identical structure. That value would be the amount the building is valued at. This value will change each year based on changes in the current cost estimates.

Keep in mind that the value of the building is replacement cost, NOT market value.

Charge Allocation

Three main factors come into play when determining the property rate on a structure. The first is the material used in the building; is it brick or frame? If the building is frame it burns easier than a brick building and therefore the rate would be higher.

The second factor is the type of fire protection in the town/city the building is in. The type of water supply, distance from the fire department, and the makeup of the fire department (paid or volunteer) are among the items considered. A rural location will pay higher rates if they do not have a fire department nearby.

The third factor is susceptibility to storm losses. A frame or wood structure is more susceptible to damage from wind or hail than a brick or masonry structure would be.

These three factors are used to develop a rate. The rate is usually expressed as amount of charge per \$1,000 of coverage; in our example, \$3 per \$1,000 of coverage. This rate is then applied to the value of the building. In our example, the \$1,000,000 building would have a charge of \$3,000 per year.

Claims

Under Replacement Cost, the amount paid on any claim is the amount needed to repair the damages, less the \$500 deductible, up to the limit shown on the ledger page. If there were \$10,000 in damages, Catholic Mutual would pay \$9,500. If the building were completely destroyed, Catholic Mutual would pay to replace the building up to the amount shown on the ledger page.

ACTUAL CASH VALUE

Amount of Coverage

Under this method, the charge is based on Actual Cash Value, the Replacement Cost less an Average Depreciation Percentage. When the building is valued for purposes of determining the premium, the building and its contents are each assigned a depreciation percentage based on its age and condition. There would be separate depreciation percentages for the walls, the roof, stained-glass windows, pews, appliances, etc. The average of these percentages is the Average Depreciation Percentage. Average Depreciation Percentage is only used to determine value- it has little effect on determining claims. Looking at our example, the assessor reviewed the building and determined that the Average Depreciation Percentage for the building is 20%. The Actual Cash Value of the building would be \$800,000.

The Average Depreciation Percentage is fixed and is not modified in the future to reflect changes in the building. If a building had a 20-year-old roof when it was appraised, then received a new roof 5 years later, the Average Depreciation Percentage is not changed, even though the depreciation rate for the roof has decreased.

The amount of coverage is increased each year, just as it is under Replacement Cost. However, the amount of increase is not quite as high as it is under Replacement Cost because of depreciation. Looking at our example, assume the Replacement Cost

increases 1%. The new Replacement Cost of the building would be \$1,010,000. The new Actual Cash Value would be \$80,800 (\$101,000 less the 20% Average Depreciation Percentage.)

Charges

The rate charged for an Actual Cash Value building is the same as the rate used for Replacement Cost. (Refer to the above section on charges under "Replacement Cost" for a discussion of rate determination.) The Actual Cash Value is used to determine the amount of charge. In our example, the charge would be \$2,400 (\$800,000 Actual Cash Value, rate \$3 per \$1,000 of coverage).

Claims

Depreciation also comes into play when claims are reviewed. Each claim paid is reduced by a depreciation percentage for the item damaged (not the Average Depreciation Percentage), as well as the deductible. If a roof has a 30-year life and is 15 years old at the time of the claim, Catholic Mutual could deduct 50% from its payment, depending on its condition. If the door in the same building is 1 year old, the claim may be paid in full. Normally, Catholic Mutual does not fully depreciate losses.

When a loss occurs, an adjuster will review the item(s) damaged and decide the amount of depreciation for each individual item. If a claim occurred and \$10,000 in damages was incurred, Catholic Mutual would first review the damaged item(s) to determine the amount of depreciation. Assume 10% depreciation. Catholic Mutual would pay \$8,500 on the claim (\$10,000 - \$1,000 depreciation - \$500 deductible).

If the building is completely destroyed, the Actual Cash Value of the building, less the deductible, is the amount paid by Catholic Mutual.

The savings involved in lowering the coverage to actual cash value oftentimes do not offset the effect of depreciation, particularly on a major loss. Looking at our example, the charge at Actual Cash Value is 80% of the charge at Replacement Cost, but some claims may only be paid at 60% due to depreciation. The parish would be responsible for the remainder of the damage. In our example, the parish would save \$600 a year in charges (from \$3,000 Replacement Cost to \$2,400 Actual Cash Value). A loss of \$1,500, assuming a depreciation of 40%, would wipe out any savings for that year. A \$10,000 loss at the same depreciation amount would eliminate almost 7 years' worth of savings. This is the risk that is taken with Actual Cash Value.

VARIABLE AGREED AMOUNT

Amount of Coverage

The parish is allowed to cover its buildings at a value that may be as little as 10% of the Actual Cash Value of the building. In our example, the building could be insured for as little as \$80,000 (10% of the \$800,000 Actual Cash Value).

Under this coverage the amount insured is not increased annually as it is under the other two methods. The amount of coverage will remain the same until an election is made to change it.

Rates

Lowering building values to less than Actual Cash Value can result in a graduated rate increase. This rate increase occurs because the majority of claims that occur are small and would not be affected by the decrease in value. Without the rate change, Catholic Mutual could be paying the same amount on claims they would be paying if the building was at Actual Cash Value, but receiving proportionately less in charges.

Claims

Claims are paid on an Actual Cash Value basis; see the claims section under 'Actual Cash Value'. The Agreed Amount is the maximum amount that can be paid on any claim. If the building is totally destroyed, the Agreed Amount less deductible is paid by Catholic Mutual.

LIABILITY ONLY

Liability Only coverage means just what it says—liability coverage only, no property coverage. The building would not be covered for any type of property damage, such as fire damage or roof damage from a windstorm. The only claims that would be covered are liability claims, such as someone getting injured on the property. This coverage would only be desired for an unused building, such as a closed church.

SUMMARY

The following tables will summarize the effects of the different kinds of coverage on the building in our example.

Building, \$1,000,000 replacement cost, 20% Average Depreciation Percentage, Rate of \$3 per \$1,000 of coverage.

<u>Method</u>	<u>Amount of Coverage</u>	<u>Rate</u>	<u>Charge</u>
Replacement Cost	\$1,000,000	\$3 per \$1,000	\$3,000
Actual Cash Value	800,000	\$3 per \$1,000	2,400
Agreed Amount, 50% of ACV	400,000	\$4.20 per \$1,000	1,680
Agreed Amount, 10% of ACV	80,000	\$12 per \$1,000	960
Liability Only	0	not applicable	0

Payment of a \$10,000 claim, 30% depreciation on the damaged item.

<u>Method</u>	<u>Claim</u>	<u>Depreciation</u>	<u>Deductible</u>	<u>Payment</u>
Replacement Cost	\$10,000	None	\$500	\$9,500
Actual Cash Value	10,000	\$3,000	500	6,500
Agreed Amount, 60% of ACV	10,000	3,000	500	6,500
Agreed Amount, 10% of ACV	10,000	3,000	500	6,500
Liability Only	10,000	0	0	0

