

### ***Make Your Interest Group Selection Now to Be Included on the New Mailing List***

To continue receiving a printed newsletter or to opt for electronic notification of the latest issue, you **must** choose a primary area of interest — if you have not yet done so. Go to [www.cpcusociety.org](http://www.cpcusociety.org), log in and click on “Interest Groups.” For assistance, call the Member Resource Center at (800) 932-CPCU, option 4. Of course, as a paid Society member, you have electronic access to all interest group newsletters.

## **Message from the Chair**

by Vernon K. Veal, CPCU, CLU



**Vernon K. Veal, CPCU, CLU**, is chair of the CPCU Society's Senior Resource Interest Group Committee. He retired following 40 years of service with State Farm. Veal's career involved underwriting, product development and project management; he drafted and implemented original versions of many commercial and personal lines policies in use today.

Veal is a past president of the CPCU Society's Central Illinois Chapter, and continues to serve as a member of various committees. He has served the CPCU Society for more than 20 years, including stints as director and regional vice president.

**G**reetings to you! On behalf of the Senior Resource Interest Group Committee, I wish “hope” for everyone in these days. Welcome to all our interest group members and other readers who are taking advantage of the new interest group member benefit — access to the information of every interest group for no extra fee beyond the regular annual dues.

Fellow Senior Resource Interest Group members, if you haven't already done so, log in to the CPCU Society's Web site and explore all the information available to you. As the saying goes: The times they are a-changin'.

CPCU Society President and Chairman **Marvin Kelly, CPCU**,

**MBA**, adopted the theme “CPCU — Embracing Changes” for the 65th Annual Meeting and Seminars in Denver, Colo., Aug. 29–Sept. 1. Wow! We are experiencing more change than anyone could have dreamed of last fall. With our economy souring, our leaders are challenged to “fix” it for the future. With investments declining and unemployment rising, many people share anxious times.

By the nature of “politics,” differing solutions must seek compromise to improve our economy. This has happened before and will again. We hope that you are doing well and are experiencing limited hardship, if any.

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# Message from the Chair

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With our insurance background, we hope that many made good decisions and are doing well.

Let's look at other changes that many of us may be experiencing in our society.

## Technology

First came computers, then the Internet, then e-mail and then cell phones took over. How are you doing with these technologies? Some of us probably have abandoned their use and others have taken hold of them and use each daily. Guess what? There are many new opportunities available now — blogs, texting, MySpace, Facebook, Skype, LinkedIn, Twitter and so forth.

Please remember, our grandchildren use most of these and can teach us — if we ask and want to learn. Our learning now includes webinars, online courses, newspapers online, and much more. We Google to find many answers. I hope you are embracing these changes.

## Identity Theft, Spam, Viruses

The more we learn and use new things, the more we hear about people who want to steal from us or destroy information. These problems expand and come from the "world." Caution is required for all of us. Security in many forms serves us as we use it.

## Digital Age

The technology that comes through the digital age centers on the computer. However, this digital change has given us progress in many other positive areas. We now hang TVs on walls, take and print our own pictures, listen to iPods for music enjoyment and drive cars that "think" for us.

Embracing change adds to our lives.

## Baby Boomers

Our senior CPCU Society members are being joined by the baby boomer generation, that is, those born between 1946 and 1964. The oldest boomers, now 63, are part of our "senior" age group. Much has been written about this group and how they differ from the generation that came before them. Our Senior Resource Interest Group will become a mix of these two generations. Wow! This is exciting. Together we will look forward to embracing changes within our Senior Resource Interest Group.

## Embracing Changes

Change constantly impacts our lives, including everyday areas such as health, exercise, travel and finances. The seniors in our CPCU Society and Senior Resource Interest Group are ever changing — with improvements in many ways. Volunteering continues for many as a way to enjoy ourselves and to provide service to our communities.

## Interest Group

We look forward to hearing from you about our Senior Resource Interest Group. What changes would you like to see and how can we be of more value to you? Let me suggest several ways you can help us:

- (1) We would love to receive some original articles by you for publication in our Senior Resource Interest



Group newsletter. Let us hear from you!

- (2) We also look forward to finding a few people who would like to serve on the Senior Resource Interest Group Committee. Please log on to the Society's Web site, select Members, click on Volunteer for CPCU Society Service in the left-side menu and request to be a member of our committee. Or you can send an e-mail to me at [vvea@verizon.net](mailto:vvea@verizon.net).
- (3) And, do any of you have an interest in helping us by being an assistant editor of our newsletter? If so, please let me know.

These are three ways you can help — original articles, committee membership and assistant editor for our newsletter. We thank you in advance for volunteering.

We truly appreciate your membership in our interest group. We need you, and we want to serve you. Help us understand better ways to do this.

Until we share again, these are ... words from my chair — in your humble service! ■

# Collecting Insurance Memorabilia ... And Other 'Pack Rat' Ideas

by Theodore D. "Ted" Lussem, CPCU



**Theodore D. "Ted" Lussem, CPCU**, retired as president of Brooks-Lussem Insurance, an independent insurance agency in Des Moines, Iowa, in 2000. He has the unique distinction of having earned not only his CPCU, but all 19 designations conferred by the Insurance Institute of America. Lussem is a past president of the CPCU Society's Iowa Chapter and the Independent Insurance Agents of Des Moines. In 1999, Ted was named a CPCU Society Standard Setter, and in 2000, he was inducted into the Iowa Insurance Hall of Fame. In retirement, Lussem continues to be active in several organizations, including the Iowa Chapter.

I didn't start out to be a collector of everything that had the word "insurance" on it, but it did end up that way. Why the great interest and how did it evolve? Maybe the history of insurance was ingrained in me as a child growing up with a father who was the state agent in Iowa for the

Sun Insurance Office. I always knew that his company was the "Oldest in the World," and that held great meaning for me.

Back in the 1950s, when I started in this business, I put together a series of stories about the history of my employer, Hawkeye-Security Insurance Company. Published in the company's in-house newsletter, the *Live Wire*, the articles gave employees a sense of the roots of their company. (The Hawkeye Casualty Company and the Security Fire Insurance Company merged in 1950 to form Hawkeye-Security, one of the first "multiple line" carriers in our business.)

Those newsletter articles were just the beginning! As little pieces of insurance history passed my way, I kept them for whatever reason. And if I couldn't acquire them, at the very least — if they were paper — I made copies of them for myself. By the 1970s, when I owned my own agency, I really got serious about collecting insurance-related "stuff." I now had control of the walls in the office to put up whatever I felt was good. (And even if it wasn't, I still had control.)

One memorable item that I had framed was the copy of a 1945 "binder" for coverage that my original partner wrote on a funeral home. The agency still provides coverage on that risk today — and the binder is still on my wall.

Through the years, my collection grew and grew and grew. It got to the point that when I sold the agency

in 2000, I had a room that I called the "museum," which was completely filled with mementoes. There were quality items like "reverse glass" signs, metal signs, fire marks, auto tags and stock certificates, as well as trivial stuff such as pencils and coffee cups. I had kept everything that I had ever laid my hands on!

Well, now it is nine years later, and guess what happened to my museum? It is long gone. Although I dumped modern signs into the trash and sold some of the better stuff, I kept anything related to Iowa companies. From time to time, I still put on programs that focus on insurance companies and their roots. I have kept a relatively small auto tag collection, and I also have volumes of old policies that I'm able to keep without much space being needed.

I am currently treasurer of the Fire Mark Circle of the Americas (FMCA), an organization which brings together people interested in the origin and history of insurance

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*Ted Lussem, CPCU, describes some of his insurance mementoes during a presentation at the North Central Iowa Sub-Chapter Annual Meeting in June 2008.*

## Collecting Insurance Memorabilia ... And Other "Pack Rat" Ideas

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companies, their fire marks and all that pertains to the past of insurance. I have been a member for nearly 20 years. The FMCA keeps me in touch with other collectors who also don't know when to stop collecting. While the name would lead you to believe it is a group of snobs that only collect fire marks, nothing could be further from the truth. In addition to insurance agents and company personnel, members include firefighters, attorneys, teachers and many others.

If you have collected insurance memorabilia, or have an interest in joining 150 or so folks who do, you might look into joining the FMCA. For more information, go on to its Web site, [www.firemarkcircle.org](http://www.firemarkcircle.org). Without becoming a member, you can read about the history of fire marks (a lot of people think the firefighters wouldn't put out a fire with the "wrong" mark) as well as the list of the items that were sold this past November at its annual convention.

If you don't use a computer or just want to visit about the "good old (insurance) days," give me a call. You can reach me weekdays until 11 a.m. Central time at what was my agency, where I'm still "employed" part time. The number is (515) 243-4289. ■

## THE SENIOR RESOURCE INTEREST GROUP

PRESENTS

### FINANCIAL EDUCATION AND COUNSELING IN THESE CHALLENGING TIMES

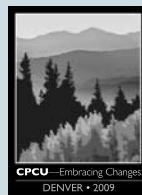
**Monday, Aug. 31, 2009 • 1:30–3:30 p.m.**

**Daniel J. Eck, CPA, CFP**, of Ernst & Young LLP, will discuss the present state of employee financial education and counseling programs at large companies as well as topics of current concern. Be sure to invite your CPCU and non-CPCU friends to attend this highly informative session with you!

### SENIOR RESOURCE INTEREST GROUP DINNER

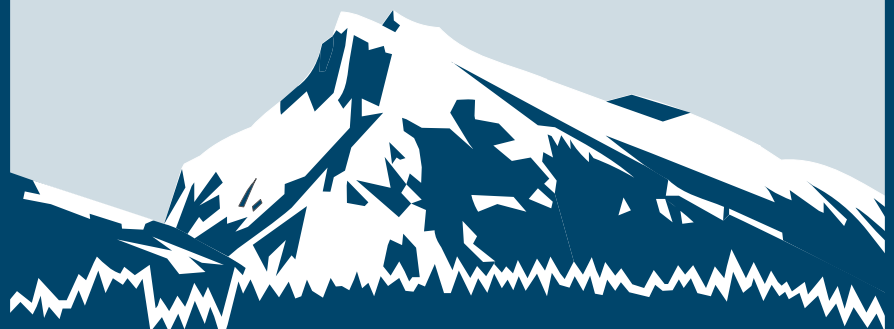
**Monday, Aug. 31, 2009 • 5:30–9 p.m.**

All are invited to attend the Senior Resource Interest Group dinner, to be held off-site at Sullivan's Steakhouse in downtown Denver. The cost per person is \$45. Tickets are required and may be purchased in advance when registering.



**CPCU Society  
65th Annual Meeting and Seminars  
Denver, Colo.**

Visit [www.cpcusociety.org](http://www.cpcusociety.org) for more Annual Meeting and Seminars highlights.





# Turning 65? A Primer on Medicare

Judith A. Brannon, CPCU, ARe, AIAF, API, ARP



**Judith A. Brannon, CPCU, ARe, AIAF, API, ARP**, retired in 2004 as a vice president from GuideOne Insurance after 36 years of service. She earned a bachelor's degree in insurance and an MBA from Drake University. Brannon has been president of the CPCU Society's Iowa Chapter, served as a CPCU Society governor and is a member of the Senior Resource Interest Group Committee. In 2006, she was inducted into the Iowa Insurance Hall of Fame. Brannon currently serves as president of a nonprofit agency, a volunteer for the State Health Insurance Assistance Program (SHIP), and a part-time worker for Iowa's Senior Health Insurance Information Program.

**S**o you're turning 65 and wondering about Medicare. The first thing you need to know is how and when to enroll.

- If you already are drawing Social Security when you turn 65, a Medicare card will be sent to you automatically.
- If you are not drawing Social Security when you turn 65 (if you are still working or just waiting until you reach the age at which you can draw full Social Security benefits), you must apply for Medicare. Two or three months before your 65th birthday, call your local Social Security office and find out what documents you will need to bring with you to apply for Medicare. These may include a birth certificate, military discharge papers, perhaps marriage and/or divorce certificates, etc. Then go to the Social Security office to apply.

Medicare becomes effective the first of the month in which you turn 65, unless your birthday falls on the first day of the month, in which case your Medicare coverage becomes effective the first of the previous month. For example: If your birthday is May 5, Medicare becomes effective May 1; if your birthday is July 1, Medicare becomes effective June 1.

## What to purchase

If you are still working at age 65, enrolled in your employer's health plan and your employer has more than 20 employees, your employer must continue to cover your health insurance just like it covers employees under age 65. In this case, sign up

for Part A of Medicare. If you have worked 40 or more quarters during your lifetime, Part A is free of charge. Your employer's health coverage will be primary, and Medicare will be secondary. You may be able to delay signing up for Part B; ask Social Security to put this in writing for you. If you delay enrolling in Part B because you are working at age 65, when you retire, be sure to sign up for Part B.

If you are working at age 65 and your employer has 20 or fewer employees, it is the employer's option whether to continue to cover you on its employee health insurance plan. Talk to your employer.

**What if your health insurance comes from your spouse's employer? Then the questions are whether your *spouse* is working when you turn 65 and the number of employees working for your spouse's employer.**

If you are already retired when you reach age 65 (and are not covered by a working spouse's insurance), you must sign up for Medicare Parts A and B. If you delay enrolling, there are monetary penalties and a delay in effective coverage. If you are retired and still have employer-provided health insurance coverage as a retiree, Medicare is primary and your employer coverage is secondary.

For those fortunate enough to have employer-provided health insurance available to them as retirees, this may be all you need. It is important to understand your employer-provided benefits and costs so you can make

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# Turning 65? A Primer on Medicare

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an informed choice about continuing with the employer-provided coverage or leaving it. Once you have opted out of employer coverage, you might not be permitted to re-enroll.

## Entering the World of Medicare

You have two ways to get Medicare coverage. One option is “Original Medicare” — Parts A and B — and, if you like, a Medicare supplement to pay for the co-pays and deductibles in original Medicare. The other option is to purchase your coverage through a private insurance company via a Medicare Advantage plan. In this case, you still enroll in Medicare Parts A and B (through Social Security, which handles Medicare enrollments) and you still pay for Medicare Part B, but your Medicare benefits are paid by the insurance company which writes your Medicare Advantage plan.

**Medicare Part A:** Covers inpatient hospital stays, skilled nursing facilities (following a hospitalization), home health care and hospice services. Coverage is provided at no charge to those who have worked at least 40 quarters.

**Medicare Part B:** Covers doctors’ services, outpatient hospital and emergency room care, home health care, durable medical equipment and other services or supplies. Coverage costs \$96.40 (2009) or more per month, depending on income.

## Medicare Advantage Plans

As a general rule, Medicare Advantage plans have lower premiums than Medicare Supplements, which can range

from \$100 to \$200 per month or more, depending on the plan chosen and the person’s age. Some Medicare Advantage plans have a zero premium; however, Medicare Advantage plans have co-pays for doctor visits and hospital stays, which a person who uses original Medicare and purchases a Medicare Supplement may not have to pay.

Here’s another generality: Medicare Advantage plans tend to be more cost effective for people who are healthy and use relatively few healthcare services. Medicare Supplements can be more cost effective for those who use healthcare services frequently.

Medicare Advantage plans come in several varieties. Among the common choices are HMOs, PPOs and Private Fee for Service plans (PFFS). You already may be familiar with HMOs and PPOs offered as employer plans. With an HMO, benefits are paid only if you see a provider who is “in-network,” unless it is an urgent or emergency situation. With a PPO, benefits paid when you see an “in-network” doctor are more than benefits paid if you see an out-of-network physician. Private Fee for Service plans have no contracts with physicians or other providers. Instead they publish their schedule of reimbursement, and any doctor/other provider willing to accept these terms is acceptable.

Other Medicare Advantage plan types are Special Needs Plans (SNPs) and Medical Savings Account Plans (MSA). **Important:** If you decide a Medicare Advantage plan is for you, check with your physicians and hospital to determine whether they are in network (for HMOs or PPOs) or whether they will accept the plan in which you want to enroll (for PFFS

plans). Acceptability of these plans among medical providers varies widely.

Medicare Advantage plans will provide coverage for anyone who has enrolled in Medicare Parts A and B and who lives in the plan’s service area, except for people who have end-stage renal disease. There is no other health underwriting. You may enroll in a Medicare Advantage plan when your Medicare first becomes effective, and there are annual opportunities during which you may enroll, switch plans or disenroll from Medicare Advantage plans.

## Medicare Supplements

If you elect to receive your Medicare benefits through original Medicare, at your option, you may purchase a Medicare supplement policy. These policies, sold by private insurance companies, have been standardized by law since Jan. 1, 1992. Currently, in most states, there are 12 plans available — labeled A through L. In addition, there are high-deductible versions of Plan F and Plan J. Each of these plans is designed to pay some or all of the gaps in Medicare coverage. Gaps include deductibles and coinsurance; excess charges; and some non-covered items. Because the company cannot add to or modify the benefits in any way, a Supplement Plan F (for example) covers exactly the same benefits regardless of which insurance company writes it.

When you first enroll in Medicare Part B, you have a guaranteed right to buy a Medicare supplement policy from any company, without underwriting. This “open enrollment period” starts when you are 65 or older and enroll in Medicare Part B for the first time, and it lasts six months. While you may apply for a Medicare Supplement after your

open enrollment period, at that time a company may underwrite your application for health conditions and may refuse coverage.

A Medicare Supplement policy pays benefits only if you are enrolled in original Medicare. It does not pay if you choose to receive your Medicare benefits through a Medicare Advantage plan.

## **Your Next Decision — How to Obtain Prescription Drug Coverage**

Prescription drug plans, also known as Part D, provide coverage for prescription medications. These plans are written by insurance companies. Some Medicare Advantage plans include prescription drug coverage, but there are also stand-alone prescription drug plans which may be purchased by someone covered by original Medicare or enrolled in a Medicare Advantage plan which does not cover prescriptions.

You may purchase a prescription drug plan if you are enrolled in Medicare Part A or Medicare Part B — or both. You may enroll during the month in which you turn 65, the three months preceding your birthday month or the three months following your birthday month. Later, there is an Annual Election Period between Nov. 15 and Dec. 31 each year, at which time you may enroll, disenroll or change plans for the following year.

**If you enroll in Medicare Part A while still employed, you can delay enrolling in a Prescription Drug plan without penalty if your employer-provided health coverage includes “creditable” drug coverage. “Creditable” means the coverage is at least as good as that provided by a Medicare Prescription Drug Plan.**

If you do not enroll in a Prescription Drug Plan when you are first eligible, you will have to wait until an Annual Election Period to have another opportunity to enroll in a plan, and when you enroll you will pay a Late Enrollment Penalty (LEP) in the form of an increased monthly premium. You will not have a LEP, however, if you had continuous creditable drug coverage. Creditable means the coverage is at least as good as that provided by a Medicare Prescription Drug plan. Many employer plans have creditable drug coverage. Those receiving care from Veterans Administration are considered to have creditable drug coverage.

In each state there are many Medicare Prescription Drug plans from which to choose. There is no, one “best” plan. The best plan for you as an individual is the one that covers your medications with the least number of restrictions and at the lowest cost. To find the plan that best suits you, go to [www.medicare.gov](http://www.medicare.gov) and select “Medicare Prescription Drug Plans.” You will enter your own medications, and the Web site will compare them to the formularies of all plans writing in your state and will show you available plans in order of least overall cost for you specifically.

## **Need More Help?**

For more information, order a copy of *Medicare & You* 2009 from the Centers for Medicare & Medicaid Services at [www.medicare.gov](http://www.medicare.gov), or by calling 800-MEDICARE (800-633-4227).

For individual questions or counseling, contact your State Health Insurance Assistance Program (SHIP).

A trained counselor will assist you by providing information or answering questions. This confidential service is free of charge. Your state’s SHIP contact information can be found under “Find helpful phone numbers and Web sites” on [www.medicare.gov](http://www.medicare.gov).

There is a State Health Insurance Assistance Program (SHIP) in every state. SHIP counselors are trained to help people by providing unbiased information about Medicare, including Medicare Advantage plans, Medicare Supplements and Prescription Drug plans. SHIP counselors do not sell any products and their services are free. In many states, SHIP is part of the Insurance Division or the Department of Elder Affairs. Your state’s SHIP will be listed on the back of your *Medicare & You* 2009 booklet, and contact information can also be found on [www.medicare.gov](http://www.medicare.gov). ■

# New Interest Group Member Benefit

by CPCU Society Staff

Beginning Jan. 1, 2009, every Society member became entitled to benefits from every interest group for no extra fee beyond the regular annual dues, including access to their information and publications, and being able to participate in their educational programs and functions.

To take full advantage of this new member benefit, go to the newly designed interest group area of the Society's Web site to learn more about each of the interest groups and indicate your primary area of career interest. You will also see options to receive your interest group newsletters.

Currently, there are 14 interest groups: Agent & Broker; Claims; Consulting, Litigation & Expert Witness; Excess/Surplus/Specialty Lines; Information Technology; International Insurance; Leadership & Managerial Excellence (former Total Quality); Loss Control; Personal Lines; Regulatory & Legislative; Reinsurance; Risk Management; Senior Resource; and Underwriting.

The future addition of new interest groups, such as the following, is being considered: Actuarial & Statistical; Administration & Operations; Client Services; Education, Training & Development; Finance & Accounting; Human Resources; Mergers & Acquisitions; New Designees/Young CPCUs; Nonprofits & Public Entities; Research; Sales & Marketing; and The Executive Suite.

Update your selections on the Society's Web site or by calling the Member Resource Center at (800) 832-CPCU, option 4. Members can also order printed newsletters for nonprimary interest groups at an additional charge. ■

The **Agent & Broker Interest Group** promotes discussion of agency/brokerage issues related to production, marketing, management and effective business practices.

The **Claims Interest Group** promotes discussion of enhancing skills, increasing consumer understanding and identifying best claims settlement tools.

The **Consulting, Litigation & Expert Witness Interest Group** promotes discussion of professional practice guidelines and excellent practice management techniques.

The **Excess/Surplus/Specialty Lines Interest Group** promotes discussion of the changes and subtleties of the specialty and non-admitted insurance marketplace.

The **Information Technology Interest Group** promotes discussion of the insurance industry's increasing use of technology and what's new in the technology sector.

The **International Insurance Interest Group** promotes discussion of the emerging business practices of today's global risk management and insurance communities.

The **Leadership & Managerial Excellence Interest Group** promotes discussion of applying the practices of continuous improvement and total quality to insurance services.

The **Loss Control Interest Group** promotes discussion of innovative techniques, applications and legislation relating to loss control issues.

The **Personal Lines Interest Group** promotes discussion of personal risk management, underwriting and marketing tools and practices.

The **Regulatory & Legislative Interest Group** promotes discussion of the rapidly changing federal and state regulatory insurance arena.

The **Reinsurance Interest Group** promotes discussion of the critical issues facing reinsurers in today's challenging global marketplace.

The **Risk Management Interest Group** promotes discussion of risk management for all CPCUs, whether or not a risk manager.

The **Senior Resource Interest Group** promotes discussion of issues meaningful to CPCUs who are retired (or planning to retire) to encourage a spirit of fellowship and community.

The **Underwriting Interest Group** promotes discussion of improving the underwriting process via sound risk selection theory and practice.



# Top 10 Reasons to Purchase the Rental Car Damage Waiver

by William C. Wilson Jr., CPCU, ARM, AIM, AAM



**William C. Wilson Jr., CPCU, ARM, AIM, AAM**, is the director of the Independent Insurance Agents & Brokers of America's Virtual University. He is the former director of education and technical affairs for the Insurors of Tennessee and, prior to that time, he was with the Insurance Services Office Inc. Wilson is a graduate of the Illinois Institute of Technology with a bachelor's degree in fire protection and safety engineering. He is a committee member of the Agent & Broker Interest Group. Wilson is a former member of the CPCU Society's Board of Governors and past president of the CPCU Society's Mid-Tennessee Chapter.

**Editor's note:** This article is reprinted with permission from the Insurors of Tennessee and the Independent Insurance Agents & Brokers of America BIG "I"® Virtual University. Copyright 1998, 2008. This article originally appeared in the CPCU Society's September 2008 issue of the Agent & Broker Interest Group newsletter.

## Abstract

*Although most damage waiver fees are considered outrageous, the insured is best advised to purchase the waiver for short-term rentals. This is not only in the best*

*interest of the insured, but also the agent since an inadequately covered loss may result in the loss of an account or worse, an E&O claim.*

**A**lthough most collision damage waiver (CDW) or loss damage waiver (LDW) fees are considered outrageous, **the insured is best advised to purchase the CDW/LDW** for short-term rentals. This is not only in the best interest of the insured, but also the agent since an inadequately covered loss may result in the loss of an account or worse, an E&O claim.

This is becoming increasingly the case as rental car companies charge ever-higher fees and penalties for occurrences not covered by most auto policies. The following are 10 reasons to purchase the rental car damage waiver:

- (1) **Loss Valuation.** The value of a rental car, according to virtually all rental agreements, is determined solely at the discretion of the rental company and may be significantly different from the "ACV" basis used by most auto policies. The ISO Personal Auto Policy (PAP) covers the lesser of the "actual cash value" of the vehicle or the amount "necessary" to repair or replace the damaged property.

The rental agreement may very well contractually obligate the insured to reimburse the lessor for the "full value" (whatever that is) of the vehicle. Under the current PAP, the "betterment" clause may result in the insured being significantly underinsured relative to his/her obligations under the rental agreement.

- (2) **Loss Settlement.** As implied above, there may very well be disagreement over the value of the vehicle or the amount charged for labor and materials to repair the property — depending on the PAP edition, the Appraisal clause may be invoked by the insurer with its accompanying costs covered partially by the insured.

More importantly, the PAP insurer has the right to "... inspect and appraise the damaged property before its repair or disposal" — the rental company may choose to effect the repairs immediately, potentially resulting in a lack of PAP coverage because of failure to comply with the condition cited above.

In a recent claim involving farm equipment under a similar policy provision, the insurer denied coverage when the farmer had the property repaired immediately in order to minimize lost production and the insurer never had the opportunity to appraise the damage.

- (3) **Loss Payment.** The rental agreement may require immediate reimbursement for damages and it is not uncommon for the rental company to charge the insured's credit card. This can create a significant debt, "max" out the card's credit limit (perhaps shortening a vacation or business trip), result in litigation, etc.

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# Top 10 Reasons to Purchase the Rental Car Damage Waiver

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## (4) Loss Damage Waivers. (LDW)

The rental agreement usually requires reimbursement for more than collision, making the insured responsible for ANY “loss” in value beyond normal wear and tear regardless of fault. Obviously, the PAP must include collision coverage on at least one insured-owned vehicle for collision coverage to transfer to the nonowned auto.

If the rental agreement includes a Loss (not just Collision) Damage Waiver (LDW), the policy must also include comprehensive coverage to protect the insured. Even so, keep in mind that the insured’s contractual liability under the rental agreement may be almost absolute, so it’s possible the PAP may not respond to all losses.

*(Note: Likewise, the PAP might respond to losses not covered by the LDW, such as use off paved roads; use while intoxicated; use by unlisted drivers, such as valet parking (see below), etc. Therefore it is important to have BOTH PAP and LDW coverage.)*

- (5) **Indirect Losses.** The insured most likely will be responsible for the rental company’s loss of rental income on the damaged unit. The PAP has, at best, daily and maximum caps for this indirect loss and, depending on the edition date, an unendorsed policy or proprietary company form may pay only for loss of income resulting from theft.

In addition, many rental companies will not divulge their fleet utilization logs for competitive reasons or their

rental agreements may make the renter responsible for loss of use without regard to fleet utilization rates. If so, the renter may be charged even though unused rental vehicles are sitting on the lot. In one case, a renter was hit with a \$2,000 loss of use charge, far more than what her PAP covered.

Most alarmingly, rental car companies are increasingly inclined to charge for “diminution of value,” an indirect loss that is not covered by the PAP’s physical damage section (nor most credit card coverages). We have seen documented examples of these charges for amounts of \$5,000 and almost \$8,000 and heard of one that was allegedly \$15,000 on an upscale SUV rental.

## (6) Administrative Expenses.

The rental contract may make the insured liable for various “administrative” or loss-related expenses such as towing (e.g., one insured was charged for a 230-mile tow), storage, appraisal, claims adjustment, etc. None of these expenses are typically covered by the PAP.

- (7) **Other Insurance.** The PAP says it is excess over: (1) any coverage provided by the owner of the auto (does “coverage” include rental car company self-insured plans?), (2) any other applicable physical damage insurance, and (3) any other source of recovery applicable to the loss — CDW/LDW, travel policies, credit card coverages, etc. (What if the credit card coverage says it’s excess over the auto policy?) The potential controversy over

who pays what is obvious and can result in litigation.

In addition, keep in mind that many states (e.g., Md., Minn., N.Y., Tenn., etc.) have statutes, proprietary forms, and/or case law precedents that may govern this and other rental car exposures. For example, the PAP is primary rather than excess for nonowned autos loaned or rented by a dealer, but not rental agencies. Another state makes the PAP primary only if the auto is rented without purchasing a damage waiver. Another state only modifies the PAP with regard to liability for rental cars, not physical damage. Another state makes no exceptions for any nonowned autos, including rentals.

Needless to say, since the PAP Out of State condition says the policy will comply with state laws, it can become virtually impossible to know whether the PAP will respond on a primary or excess basis in a given state while on a trip ... yet another reason to rely on the rental company’s damage waiver.

In one final example, a consumer was given a loaner vehicle from a Cadillac dealer while his car was being serviced. He proceeded to total the vehicle in an accident to the tune of \$37,000. His PAP insurer refused to pay on the basis that the PAP provided excess coverage over the dealer’s garage policy, offering only to pay a portion of the dealer’s deductible. The garage insurer paid the entire claim, then subrogated against the PAP insured by filing a lawsuit.

When the insured turned the suit in to his PAP insurer, the claim was denied under the liability section of the PAP, citing the care, custody or control exclusion. While this involved a dealer loaner auto, the same result could have been reached in this state if the auto was a rental.

**(8) Excluded Vehicles & Territories.** The PAP normally does not provide physical damage coverage for motorcycles or other nonauto/pickup/van vehicles (e.g., motorhomes) and use of covered vehicles is limited to the U.S., its territories and possessions, Puerto Rico, and Canada. (The rental agreement may also exclude operation outside a specific geographical area, in which case the PAP could provide coverage not provided for under an LDW.) In addition, if the insured is renting a trailer (U-Haul, camper trailer, etc.), PAP coverage is typically limited to only \$500–\$1,500. The insured usually has no choice but to rely on the rental company's damage waiver for coverage under these circumstances.

**(9) Excluded Uses & Drivers.** The PAP may have limitations on use of vehicles that are not otherwise excluded by the rental agreement damage waiver — for example, some older editions of the PAP (and perhaps some proprietary company forms) provide no physical damage coverage for the business use of nonowned pickup trucks or vans. Also, the PAP may include an

exclusionary endorsement for certain individuals or may apply only to designated individuals that can be covered by listing them on the rental agreement. In contrast, the damage waiver usually only applies to designated individuals (with certain omnibus “insureds” such as spouses), so having both a PAP and the damage waiver can again be advantageous.

One often overlooked issue where a large coverage gap might exist is using valet parking at a hotel or restaurant during a trip. Agents often rent cars while on vacation or at a business convention. The ISO PAP covers physical damage to nonowned autos if you have physical damage on at least one declared auto. However, this coverage extends only to a nonowned auto “while in the custody of or being operated by you or any ‘family member’ ...”

If the rental car is being valet parked, it's certainly not being operated by you. The question is whether it is still technically in your custody. Does custody mean possession or entrustment? Is the rental car in your custody from the moment you rent it or only when you have physical control? It's a matter of law and contract interpretation. That's why it is probably not a good idea to valet park a rental car.

The Catch-22 is that, even if you purchase the rental car damage waiver, most rental agreements void the coverage if the vehicle is being driven by an unauthorized driver.

Typically the only authorized drivers are those identified by name on the rental agreement and perhaps a spouse or co-worker. Hotel or restaurant valets? Unlikely.

**(10) Additional and/or Future Costs.** The PAP will most certainly include a deductible in the range of \$100–\$500 or more. In addition, payment for damage to a rental car may result in a significant premium increase (if not a nonrenewal) via surcharges or loss of credits.

## Conclusion

When making recommendations to customers, it is best to advise that they purchase the rental car damage waiver and use their PAP as a backup. It is also suggested that agents take their own advice.

## Disclaimer

The above information is based on the ISO standard Personal Auto Policy in force in most states at the time of publication and typical rental car agreements. Be aware that these contracts may vary from state to state and there may be statutory exceptions (e.g., the State of N.Y.) that may govern. In addition, these provisions can change at any time, so it is important to review the laws and contracts in effect in your jurisdiction at any point in time. Due to the brevity of this article, we cannot analyze every possible loss exposure and exception to the general guidelines above.

**Note:** Readers can view additional Independent Insurance Agents & Brokers of America BIG “I”® Virtual University articles at <http://www.iiaba.net/vu.nonmember/default.htm>. ■



# Senior Resource Interest Group

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