

Property Insurance

Expect Surcharges on Your Policy for L.A. Fires

EVEN IF you have a business or a home that was not affected by the recent wildfires in Los Angeles, you will likely see a surcharge to help pay for them on your next property insurance policy renewal.

The state-run California FAIR Plan, which is the market of last resort when policyholders are unable to find coverage from private carriers, expects its total loss from the Palisades and Eaton fires to come in at \$4 billion.

Under its charter and state law, if it exhausts its funds, the plan can surcharge all commercial property and homeowner's insurers in the state after approval from the state insurance commissioner.

Commissioner Ricardo Lara approved the FAIR Plan's request in early February to surcharge insurers a total of \$1 billion, which will be assessed depending on each insurer's market share. Under state law, those carriers are allowed to pass half of their assessment on to their policyholders in the state. It's unclear how much each policy

will be surcharged, but the fee will partly be based on the size of each policyholder's annual premium.

Without the assessment, the FAIR Plan would have run out of funds by the end of March and be unable to pay all of the claims from the fires, as well as claims from unrelated or future events and operating expenses, including the cost of increasing staff to respond to the disaster.

The state of play

The L.A. fires are one of the costliest natural disasters in the history of the country. Consulting firm Milliman estimates that the wildfires will cost \$23 billion to \$39 billion in insured losses.

As of Feb. 11, the FAIR Plan had paid out about \$800 million in claims, leaving it with about \$1.2 billion in cash on hand.

It has also tapped reinsurance, which is basically insurance for insurance companies. It has multiple layers of reinsurance, but it cannot access all of them until it spends

more of its funds on claims. It now has access to the first tranche of coverage worth \$350 million after it met its \$900 million deductible.

The FAIR Plan can access additional layers of reinsurance based on the claims incurred and outstanding reserves, up to a \$5.78 billion limit. To access all layers of available reinsurance, the plan would have to pay out about \$3.5 billion, including the \$900 million deductible, and copays. That's more than its cash on hand.

After accounting for its reinsurance package, the FAIR Plan expects to pay out \$2.3 billion of the remaining \$3.1 billion reserved for unpaid losses from the fires.

How it will affect your policy

To help the plan pay for the \$1 billion shortfall, it will surcharge each property insurer in the state based on their market share two years prior to the assessment.

The surcharge will likely be added during your next policy renewal. ❖



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Rising Builder's Risk Premiums

More Contractors Increase Their Deductibles

AS BUILDER'S risk insurance premiums rise, contractors are taking on more of the risk by increasing their deductibles, according to a new report.

Michael Cusack, executive vice president of insurance broker Alliant Specialty, told *Insurance Business* magazine that some contractors are willing to take on more of the risk if they have strong internal risk management protocols.

"Contractors are taking on more deductible risk and manage that risk effectively using in-house protocols, and the ones that can do that will be the most successful," Cusack told the trade publication.

However, increasing a deductible comes with risk, particularly if you end up having multiple claims.

There are a number of factors that are driving builder's risk premium rates.

What's driving higher rates?

- Claims costs are skyrocketing as the cost of rebuilding and materials has continued rising.
- Increasing litigation.
- Larger and larger liability lawsuit settlements and jury awards, and an increase in "nuclear" verdicts of \$10 million or more.

Considerations

Builder's risk insurance typically covers buildings and structures under construction along with the materials, supplies, and equipment.

It will also cover "soft costs" indirectly related with a delay in building being completed, such as lost sales, additional interest on loans and other costs.

Raising your deductible amounts saves money on your premium payments. The extra money can help you grow your business, invest in new equipment, and even increase your available cash flow.

But the best use of the extra cash is to create a contingency fund that you can draw on in case you incur a claim.

If you are comfortable assuming some additional risk, and have resources you can draw on if needed, talk to us about the possibility of raising your deductible.

If the savings are enough to cover the deductibles on one or two claims, it may be worth making the change.

To make taking on more risk financially viable, prioritize risk management and safety at your worksites.

By conducting regular safety training, providing personal protective equipment and strictly enforcing safe work practices, you can reduce the risk of on-site accidents. One other major risk to contractors is theft and vandalism.

Protecting against theft, vandals

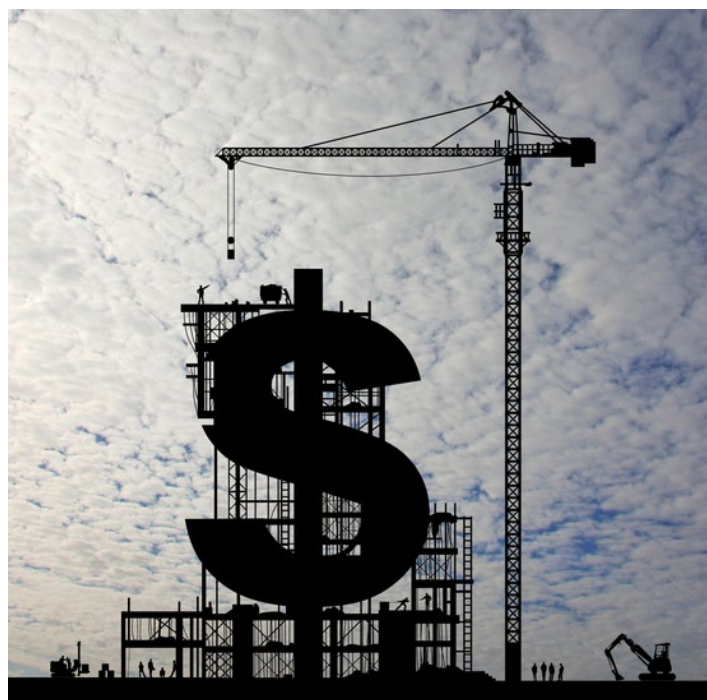
There are cost-effective solutions to increase site security and reduce risks, such as:

- Online cameras and smart sensors on the job site can enable continuous monitoring for unauthorized access, unlawful activities, CO2 levels and real-time water leak detection systems like WINT's water intelligence platform.
- Adequate lighting is much cheaper to procure, and built-in motion sensors can help save energy (while deterring potential trespassers to the site).
- GPS tracking tags on vehicles, equipment and even valuable materials can make it easier to recover them if they are stolen.
- Mobile applications for your workforce management can be helpful in creating ongoing, interactive safety training and risk-reporting programs to reduce the risks of human error and negligence.

Talk to us first

Builder's risk premium calculations can be complex, and taking the step to increase your deductible has to be done with forethought and care.

Call us to review your policies before renewal and we can do a deep dive into your policy and risk management practices to see if increasing your deductible is a good move for you. ❖



Include Medicare in Your Retirement Plans

Medicare takes a little time to understand

As you approach age 65, familiarize yourself with its coverage options, costs, and limitations.

Certain features of Medicare can affect health care costs and coverage.

Some retirees may do okay with original Medicare (Parts A and B), others might find it lacking and decide to supplement original Medicare with Part C, Part D, or Medigap coverage. In some cases, that may mean paying more for health care than you initially figured.

How much do Medicare Part A and Part B cost, and what do they cover?

Part A is usually provided with no charge; Part B is not. Part A is hospital insurance and covers up to 100 days of hospital care, home health care, nursing home care, and hospice care. Part B covers doctor visits, outpatient procedures, and lab work. You pay for Part B with monthly premiums.¹

It's best to prepare for the copays and deductibles linked to original Medicare. In addition, original Medicare does not cover dental, vision, or hearing care, nor prescription medicines or health care services outside the U.S. It pays for no more than 100 consecutive days of skilled nursing home care. These out-of-pocket costs may lead you to look for supplemental Medicare coverage as a way of paying for extended care.^{2,3}

Medigap policies help Medicare recipients with some of these copays and deductibles.

Sold by private companies, these health care policies can pay a share of certain out-of-pocket medical costs (i.e., costs greater than what original Medicare covers for you). You must have original Medicare coverage in place to purchase one. The Medigap policies being sold today do not offer prescription drug coverage.⁴

Part D plans cover some (but certainly, not all) prescription drug expenses

Monthly premiums are averaging \$40 this year for these standalone plans, which are offered by private insurers. Part D plans currently have yearly deductibles of no more than \$590.⁵

Creating a Medicare strategy is integral to your retirement preparation

Should you try original Medicare for a while? Should you enroll in a Part C HMO with the goal of managing your overall



out-of-pocket health care expenses? There is also the matter of eldercare and the potential need for interim coverage if you retire prior to 65. Discuss your concerns about Medicare in your next conversation with your financial professional.

1. [Medicare.gov](https://www.medicare.gov), 2024
2. [Medicare.gov](https://www.medicare.gov), 2024
3. [Medicare.gov](https://www.medicare.gov), 2024
4. [Medicare.gov](https://www.medicare.gov), 2024
5. [CMS.gov](https://www.cms.gov), 2024

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EEOC's New DEI Guidance Explained

THE EQUAL Employment Opportunity Commission, together with the Department of Justice, recently issued new guidance that significantly reshapes the legal landscape for workplace diversity, equity and inclusion programs.

This comes on the heels of a series of executive orders issued by President Trump that direct federal agencies to eliminate what the administration characterizes as “illegal DEI” practices.

On March 19, the EEOC and DOJ issued two technical assistance documents meant to clarify how Title VII of the Civil Rights Act applies to DEI programs. While the documents reflect long-standing principles of anti-discrimination law, they also take a narrower view of what DEI initiatives are legally permissible.

For employers — especially those with formal DEI programs — this development creates new legal exposure, murky compliance territory and growing uncertainty around what is now permissible.

While the guidance outlines several potentially unlawful DEI practices, this ambiguity puts employers in a difficult position because the line between compliant and noncompliant practices is often hard to draw.

Below is a practical breakdown of what’s changed, what remains unclear and what senior leadership should consider doing now.

The guidance

The agency said DEI policies, programs or practices may be unlawful under Title VII if they involve “an employment action motivated — in whole or in part — by an employee’s race, sex, or another protected characteristic.”

The guidance also emphasizes that protections apply equally to majority and minority groups.

Steps employers can take

Given the legal uncertainty, the law firm Fisher Phillips recommends that companies consider the following actions:

- Engage legal counsel to review DEI-related policies, training materials and communications. Focus on areas such as hiring, promotion, compensation, training, mentorship, internships and affinity group policies.
- Shift from targeted DEI initiatives to programs that promote skill-building, access and inclusion for all employees. Emphasize transparent, merit-based advancement and development opportunities.
- Ensure workplace programs emphasize workplace culture, professional development and merit-based access to opportunities.
- Update your training to reflect the latest EEOC guidance. Make sure that decision makers understand that DEI efforts cannot involve preferences or separate treatment based on protected traits.

Bottom line

The new guidance is a major shift in how the EEOC will approach regulating workplace discrimination. For employers, this means a narrower path for legally compliant programs and greater exposure to discrimination claims from any employee group.

If you have a workplace DEI program, it’s imperative that you revisit it and adjust it accordingly. ❖

Main Changes

Based on various legal interpretations of the guidance, the following are some of the most significant changes:

No exceptions for diversity goals – The guidance states there is no “diversity interest” exception under Title VII.

Affinity and resource groups must be open to all – Employers cannot restrict participation in affinity groups based on race, sex or similar traits.

No segregated programs – Holding training or other programs that separate participants by race, gender or other protected categories is likely unlawful.

No quotas – The EEOC reiterated that hiring or promotion quotas, or any form of “balancing” the workforce based on demographic traits, is discriminatory.

There is no “reverse discrimination” – Title VII protects all employees, regardless of group status. It does not require a higher burden of proof for claims from majority-group employees.

