

# Omnibus Coastal Property Insurance Reform Act of 2007

2007 S.C. Act No. 78

- A *comprehensive, market-based approach* to address the availability and affordability of coastal property insurance.
- Result of a *collaborative effort* between a bipartisan group of policymakers and interested parties.
- Primary emphasis is *mitigation* and *market stability*.





## A Multi-Pronged Approach

- Mitigation Through Consumer Empowerment and Buy-In
  - Incentives to fortify (Tax Credits for Fortification Measures)
  - Help with fortification costs (SC Safe Home)
  - Consumer education/ outreach (SC Safe Home)
  - Rewards for fortification efforts (Mitigation Credits/ Discounts)
  - Planning for post-disaster out of pocket costs (Catastrophe Savings Accounts)

*The above items will be the focus of this presentation.*





## A Multi-Pronged Approach: Other Key Provisions

- Market Stability
  - Tax incentives for insurers that write new coastal business with wind
  - Wind Pool reform
  - Annual public hearing; coastal property insurance market status report
  - Post-disaster emergency powers
  
- Additional Consumer Initiatives
  - Tax credit for high premiums
  - Additional notice before a cancellation or nonrenewal





# Tax Credits for Fortification Measures

## ■ Credit for Retrofit Supplies

- Applies to the state sales or use taxes paid on purchases of tangible personal property used to retrofit one's legal residence
- 6% of the purchase price
- Maximum Credit = \$1,500

## ■ Credit for Retrofit Project Costs

- Applies to the costs to retrofit one's legal residence (for property tax purposes) to make it more resistant to losses due to a hurricane, catastrophic windstorm event, or rising floodwaters
- Maximum Credit = \$1,000 or 25% of the total costs incurred, whichever is less





# Tax Credits for Fortification: Qualifying Measures

## ■ Qualifying Fortification Measures:

- Roof covering construction
- Roof attachment
- Roof-to-wall connections
- Secondary water resistance
- Opening protection



- Fortification measures or retrofits must increase the structural resistance to hurricane, catastrophic windstorm event, or rising floodwater damage.





## Tax Credits for Fortification Measures: The Results

**800** Residential Retrofit Credits have been claimed since CY 2008, totaling **\$930,792**.\*

Calendar Year	# of Credits	Total Claimed
2008	84	\$149,570
2009	155	\$168,364
2010	217	\$230,753
2011	214	\$232,419
2012	130	\$149,686



\*Source: SC Department of Revenue; CY 2013 figures not available due to filing extension period.





## SC Safe Home Program

- South Carolina Hurricane Damage Mitigation Program
- Established within the Department of Insurance; Governed by an Advisory Committee
- Dedicated funding source with authorization to seek private funding/ receive supplemental appropriations.

**SCSAFEHOME**





## SC Safe Home's Charges

- Charged with implementing a comprehensive and coordinated approach for hurricane damage mitigation.

### *Home Safety and Preparedness Expo*

Sponsored by:

SCDOI, The Home Depot, and  
Channel 2 (WCBD-TV)





## SC Safe Home's Charges

- Provides financial grants to assist residential property owners in retrofitting owner-occupied properties to make them less vulnerable to hurricane damage.



**Are you prepared?**  
Hurricane Season • June 1 - Nov. 30

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**803-737-6160**





## SC Safe Home Grants

- **Eligibility Requirements**
  - Primary legal residence of property owner;
  - Assessed or insured dwelling value of \$300,000 or less; and
  - Undergone an acceptable wind certification and hurricane mitigation inspection.
- **Grant Allocations**
  - Dollar-for-Dollar matching requirement
  - Maximum grant allocation is \$5,000
- **Low-Income Homeowners**
  - Matching requirement waived for otherwise eligible low-income homeowners
  - Dwelling must be valued at \$150,000 or less





## SC Safe Home Mitigation Measures

- Roof covering
- Roof deck attachment



- Brace gable ends
- Secondary water barrier





## SC Safe Home Mitigation Measures, Continued

- Opening protection
- Exterior doors



- Reinforcement of roof-to-wall connections
- Tie downs





## SC Safe Home Grant Awards

- SC Safe Home has awarded **3,478 retrofit grants totaling \$15.11 million** since 2007.
- About **60%** of grant recipients qualify as low-income (non-matching grant eligible).
- Average Home Retrofitted:  
Age: **27 years old**  
Value: **\$91,786**
- More than half of grantees selected to retrofit their roof.





## SC Safe Home Grant Awards: The Result

- According to FEMA, society saves \$4.00 for every \$1.00 spent on mitigation. SC Safe Home has reduced South Carolina's potential loss and reconstruction costs from a future catastrophic event by more than **\$60.44 million**.
- Homeowners that select to replace their windows with impact resistance systems and hurricane shutters have reported **savings up to 29% in their energy costs**.





## Mitigation Credits and Discounts

- Premium Discounts for Mitigation Measures

- Applies to Wind & Hail Portion of Policy
- Commercial Property Insurance and Personal Lines Property Insurance
- No statutory amount or minimum

- Disclosure of Availability

- Disclosure at Policy Issuance, Renewal
- Availability and range of each premium discount, credit, or rate differential

*SC Safe Home grant recipients have reported premium reductions of up to 24% from their insurance carriers post-fortification.*





## Catastrophe Savings Accounts

- Allow South Carolinians to prepare for the financial impact of a catastrophic storm using tax-free dollars.
  - Qualified Catastrophe Expenses = expenses paid or incurred by reason of a major disaster that has been declared by the Governor to be an emergency through Executive Order.
  - Examples: insurance deductibles or other uninsured portions of a loss.
- Any state or federally-chartered bank can set up a CSA, but it must be labeled as a “Catastrophe Savings Account.”
  - Must be a regular savings or money market account.
  - No comingling of funds permitted.





## Catastrophe Savings Accounts

### ■ Contribution Limits Depend on Insurance Deductible

- If deductible is  $\leq \$1,000$ ... up to \$2,000
- If deductible is  $> \$1,000$ ... up to \$15,000 or twice the deductible (lesser of two)
- If taxpayer self insures... up to \$250,000 (not to exceed home's value)

Example Scenarios	Deductible Amount/ Value of Home	Maximum Contribution to CSA
Jane	\$10,000 deductible	\$15,000
Sally	\$6,000 deductible	\$12,000
Tom	\$100,000 (self-insured)	\$100,000





## Of Note

- Entire amount does not have to be contributed in one year, but the total contributions for all years cannot exceed maximum.
- Interest earned on the account is not taxable for SC income tax purposes if left in the account or withdrawn for Qualified Catastrophe Expenses.
- Contributions and interest earned are still subject to federal taxes.
- Withdrawals for Qualified Catastrophe Expenses are not subject to state income taxes. The taxpayer is responsible for keeping records to verify that withdrawals were properly used to pay qualifying expenses.





## Limitations on Tax-Favored Status

- Withdrawals for ineligible expenses are taxable and subject to an additional tax of 2.5%.
- Some exceptions apply, depending on the situation.
- Withdrawal Permitted Without Payment of 2.5% Additional Tax:
  - Taxpayer is 70+ years;
  - Account holder no longer owns a legal residence; or
  - Death of account holder.





## Exceptions to Limitations on Tax-Favored Status

### ■ Withdrawal Permitted Without Any State Taxation:

- Taxpayer is 70+ years old and the CSA's contributions were based on the individual's insurance deductible.

*Example: Beth has a \$2,000 deductible and contributed \$4,000 to her CSA. By the time she reached 70, the CSA had earned \$500 in interest. Beth can withdraw the entire balance of \$4,500 without it being treated as ordinary income for state income tax purposes or payment of the 2.5% additional tax.*

- Death of account holder if the person receiving the account is the surviving spouse.

■ Once a taxpayer 70+ years old makes a nonqualified (but nontaxable) withdrawal, no further contributions to a CSA are permitted.





# Implementation Considerations

- Tracking/ Evaluation of Efficacy
- Bank Buy-In
- Consumer Education/ Buy-In
  - New requirement for insurer notice requirements enacted in 2014 via the Competitive Insurance Act (2014 SC Act No. 191)
  - Effective for policies issued or renewed beginning January 1, 2015

### Catastrophe Savings Account

Ameris Bank's Catastrophe Savings Account is endorsed by the South Carolina Department of Insurance.

**What is a Catastrophe Savings Account?**  
Catastrophe Savings Accounts allow you to set money aside, state income tax-free, to pay for qualified catastrophe expenses.


- Interest Bearing Savings Account
- Free Internet Banking and Telephone Banking
- Quarterly Statements
- Maintain a minimum daily balance of \$300 and we'll waive the \$9 quarterly maintenance fee
- Funds deposited or withdrawn to pay for qualified catastrophe expenses may be tax-deductible and interest earned may be tax-deferred.

Please consult your tax advisor or reference [doi.sc.gov/faqs/pages/CatSavingsAcct.aspx](http://doi.sc.gov/faqs/pages/CatSavingsAcct.aspx) for more information and tax deductibility.


**Facts About Ameris Bank.**

- 40 year history of being a strong, stable and sound community bank
- \$3 Billion in assets and traded on the NASDAQ under ABCB
- 60 locations throughout SC, GA, FL, and AL. For a complete listing visit [amerisbank.com](http://amerisbank.com).

**Ameris Bank**

 **SCSAFEHOME**

South Carolina Department of Insurance



Our Catastrophe Savings Account requires a \$300 minimum balance to open. A minimum daily balance of \$300 must be maintained to earn interest. For information about the program, information regarding tax deductibility and restrictions on the usage of funds please contact your Insurance Advisor, Tax Advisor and the South Carolina Department of Insurance website regarding Catastrophe Savings Accounts ([doi.sc.gov/frequently-asked-questions](http://doi.sc.gov/frequently-asked-questions)). Ameris Bank is not affiliated with the South Carolina Department of Insurance.





*As with any tax matter, and for specific questions, including which type, if any, is suitable for an individual situation and how opening an account would affect that individual's tax liability, taxpayers should consult a tax professional.*





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