Making Mitigation Mainstream
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 groups of policymakers and interested parties.

Primary emphasis is mitigation and market stability.
A Targeted and Multifaceted Approach to Increase 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)
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, a catastrophic windstorm event or rising floodwater damage.

The Results:
• 963 Residential Retrofit Credits have been claimed for the period 2008-2013 totaling $1,110,625.

Source: SC Department of Revenue
South Carolina Hurricane Damage Mitigation Program

Established within the SC Department of Insurance with guidance and oversight by an Advisory Committee.

Dedicated funding source with authorization to seek private funding/receive supplemental appropriations.

Charged with the development and implementation of a comprehensive and coordinated approach for hurricane damage mitigation. This includes education and awareness efforts designed to specifically address mitigation techniques.
Provides financial grants to assist residential property owners in retrofitting owner-occupied properties to make them less vulnerable to hurricane and severe wind damage.

Are you prepared?

Hurricane Season • June 1 - Nov. 30

803-737-6160
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 by a qualified inspector.

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
Mitigation Measures

- Roof covering
- Roof deck attachment
- Brace gable-ends
- Secondary water barrier
Mitigation Measures, Continued

- Opening Protection
- Exterior Doors

- Reinforcement of roof-to-wall connections
- Tie-downs
• SC Safe Home has awarded more than 4,800 grants totaling more than $20.8 million.

• About 41% of grant recipients qualify as low-income (non-matching grant eligible).

• Average age of the home Retrofitted:
  Age: 34 years
  Value:

• About 95% of grant recipients have selected to retrofit their roof.
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 **$83.4 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 and Hail portion of the 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
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 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 ≤$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)

<table>
<thead>
<tr>
<th>Example</th>
<th>Deductible Amount/Value of Home</th>
<th>Maximum Contribution to CSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jane</td>
<td>$10,000 deductible</td>
<td>$15,000</td>
</tr>
<tr>
<td>Sally</td>
<td>$6,000 deductible</td>
<td>$12,000</td>
</tr>
<tr>
<td>Tom</td>
<td>$100,000 (self-insured)</td>
<td>$100,000</td>
</tr>
</tbody>
</table>
**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.
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
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.
For more information, contact:

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