Reserves and Insurance: Preparing for the Future

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Presented Sep 24, 2025

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What's Changing:

It's amazing, really. Due to the pressure to provide a cost-effective insurance product, insurers are being more careful to learn the actual risk a client or prospect presents. That means insurers care about what goes on inside the private space of a unit-owner's home (because fires and water leaks very quickly affect the common areas), and insurers care about the condition of the common areas (thus they are regularly asking for a copy of the current Reserve Study). If insurers find the association isn't doing its part to sustain and maintain the common areas, they realize their risk is higher. Deterioration driven by Mother Nature and Father Time are brutal opponents who don't care that your budget is "tight" or that you're trying to keep next year's assessments as close to this year's rate as possible. They are unstoppable. But they can be slowed down by good/timely maintenance, and their destructive effects can be offset by regular repairs and replacements. So see yourself as the hero for your association, keeping it strong and sustainable, guided by your insurance professional and Reserve Study professional towards responsible care of the association's common areas.

What Can You Do?:

Control what you can control: your maintenance, your last infrastructure inspection, your last Reserve Study, reducing known hazards (adjacent brush…). So:

- Perform timely maintenance. Demonstrate to your owners (and your insurance agent) that you care about the property and are keeping it in tip-top shape.
- Update your Reserve Study, and follow the plan to fund as recommended and repair & replace as recommended.
- Update your infrastructure report

- Gather documentation to show what has been done recently (and make sure those aligns with the projects listed in your Reserve Study.)
- Review online photos (association website, Google Street View, etc.) and "get ahead of" any that do not reflect well on your association. Expect your insurance underwriter to check!

Then highlight that you are funding Reserves according to the plan to your insurance professional, demonstrating that you can continue to maintain the property, and that you are a low-risk (preferred) account. Be able to say "No problems here!"

Conclusion:

Insurance payouts are only increasing. So premiums will increase. Do all you can to become a "preferred risk" account, which keeps you far from the disastrous position of being declined (non-renewed). Being a preferred risk account gets you the lowest premiums possible. All the work to prepare is well worth your time in premiums estimated to be 10–30% lower than those of average or high-risk accounts. Do your homework, and be the hero for your association!

Other Links:

Terri's company, Prendiville Insurance Agency can be reached here.

"Understanding Reserves" book (**updated for 2025**). Order single copies on Amazon here, or download chapter one for free here.

Want an experienced professional to help with your Reserve Study update, ensuring appropriate component selection, life estimates, pricing, and development of an appropriate Funding Plan custom designed for the needs of your association? Launch a free online proposal request by clicking here.

Looking for local expertise?
Click here to see our network of offices across the country (serving clients in all 50 states!).

ASSOCIATION RESERVES®

Planning For The Inevitable

FAQs

Disclaimer: We're grateful for all the questions shared during our live webinar sessions. Due to the high volume of inquiries, similar or duplicated questions may already be addressed in the FAQ section below. If your question requires a more detailed explanation or if you're seeking further information on the topic, we encourage you to contact your local Reserve Study provider — you can find their contact information [here].

Q: What is the difference between an Operating expense and a Reserve expense?

A: Most attendees seek clarity on this. The key rule: a Reserve expense must be a common-area responsibility, with a reasonably predictable life expectancy, and a cost that is "material" (significant) to the association, meaning commonly above 0.5% to 1% of the annual budget.

Q: What is the 3-part test for including something in the Reserve Study?

A: See above. Per national Reserve Study Standards, it must:

- Be a common-area maintenance responsibility
- Have a reasonably predictable life expectancy
- Have a cost that is "material" (significant) to the association, meaning commonly above 0.5% to 1% of the annual budget.

Q: How often should we update our Reserve Study?

A: National "Best Practice" is a With-Site-Visit update at least every third year, with No-Site-Visit updates annually in between. That's because all Reserve Study information (Reserve balance, conditions, costs, interest, and inflation) all drift from "the plan" within a year's time.

Q: Is 70% funded "good enough"?

A: Yes. Your target should be the 100% Funded level (Fully Funded), where the cash in Reserves is equal to the dollar value of deterioration at your property. But studies show that there is essentially no further reduction in special assessment risk once an association is above 70% Funded.

Q: What if our Reserve Study doesn't include a component we know we need?

A: Reach out to your local credentialed Reserve Study provider. It may be added if it passes the 3-part test. Timely updates ensure your plan is accurate through the years, helping you plan effectively for the care of your property.

Q: How do we convince reluctant board members or homeowners to fund Reserves?

A: In most cases, you don't need to "convince" the homeowners. It's their duty to pay the rate of homeowner assessments that the board sets. For board members (and in the associations where homeowners vote to "approve" the budget"), remind everyone that deterioration is real, maintenance and replacements are expensive, and it is the board's responsibility to budget for the sustainability of the association. Frankly speaking, remember that you have no control over the expenses. Mother Nature and Father Time ensure that everything is in a constant state of deterioration. Your only choice is if you pay the cost of that deterioration evenly, on an ongoing basis, or in periodic unsettling special assessments.

Q: Can we use Reserves for preventive maintenance?

A: Yes—if it significantly extends the life of the component and passes the cost threshold. Routine care still belongs in the Operating budget. Discuss further with your local credentialed Reserve Study professional.

Q: What happens if our Reserve Fund is over 100% funded?

A: Do not pause contributions. Your provider may recommend a slightly reduced rate of Reserve funding in order to gradually deplete that surplus over time.

Q: Can Reserve funds be borrowed or used for emergencies (like insurance premiums)?

A: Sometimes. Check with your legal counsel to see if it is prohibited by your Governing Documents or State law. If borrowing is allowed, ensure all borrowed Reserves are restored in a timely manner. Some states (e.g., CA & WA) require any borrowed Reserves to be repaid within a specified (relatively short) period of time. It is inappropriate to expend Reserves for Operating expenses (like insurance premiums). Operating Fund shortfalls are an indication that your assessments need to be raised.

Q: Why are actual project costs sometimes higher than what's in the Reserve Study?

A: Often the culprit is an old Reserve Study (not for the current year). Reserve Study costs are estimates prepared to the best ability of the provider. If you find some costs in your Reserve Study were understated, challenge your Reserve Study provider with that news and request a revision or commission an update.

Q: What is Percent Funded and how is it calculated?

A: Percent Funded is a relative measure of Reserve Fund strength:

(Actual Reserve balance / Fully Funded Balance) × 100

Note that the Fully Funded Balance is the cash value of all the Reserve component deterioration at the association.

Q: Can we delay Reserve projects or substitute alternatives like patch repairs?

A: Yes—but with caution. It may lower costs short-term but often leads to higher future expenses or safety concerns. It is best to discuss with your local credentialed Reserve Study provider to discuss phasing, delays, or interim repairs.

Q: Do different vendors produce different Reserve Study results?

A: Yes, even under national standards. Differences may arise due to assumptions about maintenance, cost sources, professional judgment about the amount of deterioration, and the selection of a Funding Goal (Full Funding is a conservative goal, Baseline Funding is an aggressive/risky goal, and Threshold Funding can be any level in-between). Please discuss differences and strategies with your local credentialed Reserve Study provider.

Q: How should boards handle underfunded Reserves without alienating homeowners?

A: Transparency and clear communication are key. Explain that prior underfunding has created a “legacy burden” that needs to be confronted. Explain that the ongoing cost of deterioration has exceeded Reserve Funding, and the association needs to increase Reserve Funding to prepare for upcoming projects. Homeowners may have enjoyed lower assessments for years, but that assessment structure was unsustainable.

Q: Can a homeowner or board member prepare a Reserve Study themselves?

A: In most states, they can. But it’s never recommended. Lack of expertise and lack of independence are significant obstacles. Reserve Funding is commonly 15-40% of an association’s total budget. For a budget line item that large, an understated funding recommendation can result in deferred maintenance or special assessments that cause home values to drop far in excess of the cost of a Reserve Study. Boards should rely on credentialed professionals.

Webinar Questions Asked by 2025 Attendees

General Reserve Questions

Q: **Who does an infrastructure inspection?**

A: An architect or engineer. There is a different background of experience, different credentialing, and these are performed to different industry standards than Reserve Studies. See below:

REPORTS	Engineer/Architectural	Reserve Study
Credentials	Professional Engineer (PE) or Licensed Architect (AIA)	Reserve Specialist (RS) or Professional Reserve Analyst (PRA)
Conclusions	Structural Integrity	Budgetary & Cash Management
Contents *(Terms, Calculations & Disclosures)*	Controlled by Engineering or Architectural Standards	Controlled by CAI's National Reserve Study Standards
Cyclical Projects	Excluded	Included
Intrusive/Destructive testing	Included	Excluded
Frequency	Every 5-10 years	Every 1-3 years
Cost($)	10x that of a Reserve Study	Varies by property type

Q: **Regarding infrastructure inspection, how does that differ than Capital Improvements? Or is it an infrastructure components? Infrastructure is not a term used in any Reserve study I have seen.**

A: An infrastructure inspection is an evaluation of how your property is aging, and if it is presenting any "early warning signs" of some significant deterioration. A Capital Improvement is an addition to your property that previously did not exist. I expect you'll be seeing more recommendations for (and funding for) periodic infrastructure inspections in your future Reserve Study updates.

Insurance Questions

Q: **What's the reality of our insurance company providing us recovery if our area has one of those drastic events like NorCal or SoCal fires and our whole complex is wiped out?**

A: First, let's hope that doesn't happen. But, if it does, the community would look to the conditions included in their insurance policy to determine how things will be covered. An insurance policy is a contract between the carrier and the insured. If the "drastic event" (for example a wildfire) is a *covered cause of loss* under the contract, and the community buildings are *covered property* under the contract, then the contract should provide that the carrier will pay to replace that property in an amount up to the limit listed in the policy. In simple terms, if you have appropriate coverage with a reputable carrier, the reality is that your complex should be made whole again.

Q: What can be done when there is no insurance carrier willing to insure a common element property with a (state) approved policy?

A: By "state approved", I am making the assumption that you are referring to an "admitted" carrier. If no admitted carriers are willing to insure the property, then you must turn to the excess and surplus lines market (E&S). These carriers do not have to go through the same rate approval process that admitted carriers have to go through, and have much more flexibility of rate, among other things. This allows them to be more agile in a difficult market and to price for risks that have high risk factors. If there are no admitted carrier options, the E&S market is a great next step. Many of these carriers have excellent ratings and are just as reputable as admitted carriers. The last resort would be your state sponsored (in CA, the "FAIR" plan), which generally offers policies when other carriers will not, but the coverage is both expensive and limited.

Q: Our insurer refuses to talk to us in advance of delivering the next year's percentage, three months into our fiscal year, with one week to expiration and tells us that's the only way. Does this sound strange?

A: Unfortunately, not only does it *not* sound strange, but it also sounds familiar. My experience lately has been that many carrier underwriters wait until the last minute to get renewal quotes out. However, boards and managers are generally not dealing directly with the underwriters from the carriers – they are working with an insurance agent or broker who should be regularly communicating the status of the request – even if that communication is "we are still waiting on the carrier". Is it frustrating? Absolutely. Is there anything we can do about it? As far as getting the information faster, that is out of our control (yours AND mine). But we can be prepared when it arrives. Discuss in advance potential premiums, deductibles and coverage amounts. Be available for a last-minute meeting or email to approve the proposal or pre-approve a "not to exceed" amount so that one board member or the manager can take on the approval responsibility, especially if the proposal comes in on a weekend or evening.

Q: As a small HOA of 25 single family homes, what can we expect in the way of increased premiums for 2026?

A: Without more information, this really is impossible to answer. Things that can impact your premium include community age, location, amenities, and loss history. Adding these components together will indicate a "temperature" – the lower the temp, the less potential of a drastic increase. A very low temperature could see maybe a 10% increase while lately very high temperatures can see increases over 100%.

Q: Claim against insurance for injury, how does it affect policy?

A: It depends. Was the injury caused by something that the association could have controlled (like a trip and fall on raised concrete)? Was the association aware of the issue and ignored it? Or was it something new and they immediately corrected the problem? Was there a payout for the injured party? How much was the payout in relation to your annual premium? I have seen injury claims have zero impact and others have ended up with the policy being cancelled.

Q: How closely are insurers looking into service providers that come on site regularly? i.e.; pest control, gardeners etc.

A: As far as the association's insurance carrier being concerned with service providers, I don't see much concern at all except for one: security patrols. For that type of service, carriers want to know if the guards are armed and often require a copy of the insurance certificate for the security company showing that the association was listed as an additionally insured party.

Q: Why won't carriers or insurers look at the real condition of roof and just go by age? Many condos do maintain the roof and are in good condition, but are forced to re-roof just because of the age.

A: That is a great question. Looking at it from the carrier point of view, most roofs of a certain age come with certain problems. As with anything, there are exceptions to the rules – like immaculately maintained roofs. If your carrier refuses to accept a roof because of its age, I recommend providing inspection reports from a qualified professional showing that replacement isn't needed. As discussed, many carriers are only providing "actual cash value" for older roofs, but if you have properly reserved funds for replacement, you should be able to combine Reserve Funds with insurance funds and replace a damaged roof (if it was an insurable loss).

Q: I am managing a property that was recently placed in the E&S market following a unit fire. The Association now faces a $100,000 deductible per unit, with a total of 145 units. This level of exposure raises concerns about the viability of coverage under the current policy. Could you clarify how far back insurance companies typically review loss history on loss-run reports? Additionally, is there any anticipated relief or adjustment for associations in situations where premiums have increased significantly, as in this case—from $47,000 per year to $252,000 per year?

A: Generally, carriers are looking at loss histories for the last five years. Once you have a "clean" loss history, you may be able to get back into the preferred market and potentially see some premium relief. However, there are no guarantees. I'll go back to the "control what you can" suggestion – do what it takes to prevent additional fires. Get creative – invite the fire department out to provide education to residents (especially kids), have a fire drill, share fire prevention tips (the NFPA has several here) and remember to share what you have done with your insurance professional.

Q: **Is it a bad idea to file a claim if the agent advised against it? We have fire suppression system that failed and caused less than our deductible worth of damage. ($50,000) By insisting on filing a claim, it has alerted the insurance carrier to the failure of a system that is present in multiple buildings.**

A: If the cost to repair the damage is less than the deductible, I would not file a claim. There would clearly be no insurance proceeds and, as you said, it alerts the carrier to the system failure, which could result in future claims being excluded.

Q: **How do we find an insurance company in our state that does the things you are talking about. We can't get ahold of these people to discuss. (We're in FL)**

A: The Community Associations Institute has online resources to find credentialed professionals in every state here.

Q: **How do you recommend we address insurance carriers that are requesting information that is homeowner responsibility? Do we need to start keeping records for homeowner-maintained items as well?**

A: I believe it is good practice to start keeping records for certain homeowner-maintained items. As discussed in the webinar, those items could result in damage to the structure, which is what the carrier is worried about. If carriers are asking for documentation and you do not provide it, it is likely that the carrier will decline or cancel coverage.

Q: **What is good amount for Umbrella Policy for small 55+ community with 2 pools/spas and sport courts?**

A: There may be state requirements for how much liability insurance certain communities must maintain, so at minimum you should comply with those statutes. Because of the age of your residents and the amenities you describe, purchasing liability insurance in excess of state requirements depends on the risk tolerance of the board of directors. One school of thought is to purchase as much as you can afford ($20 million, $50 million, more?). Another is to just purchase the minimum required in your state with the thinking that a community will only be sued for as much as a policy could pay out. I tend to prefer the "as much as you can afford" option.

Q: **We have 160 units. Our complex is 40 years old. Each owner is responsible for their own electrical panel which resides in each individual unit. Each owner is responsible for their own panel, not the HOA. We cannot make an owner replace their panels. How will we be affected by that?**

A: If the panels within the individual units are on the list of "recalled" panels, they should be replaced. If they are not, most insurance carriers will not insure the structures due to the risk of fire, regardless of whose responsibility it is to maintain the panels. Consult with your insurance professional and attorney to determine the best course of action. Many times, your governing documents provide that if an owner does something – or doesn't do something – that results in a premium increase or cancellation of insurance, that owner (or owners) will be responsible for the resulting difference in premium. Presenting the owner with a hefty reimbursement assessment is often the catalyst for getting them to upgrade their electrical panel.

Reserve Component Questions

Q: Our HOA is only responsible for roads. How risky is that?

A: It just means that when it is time to resurface or seal your roadway system, there will be no "painting" or "roofing" funds to give you some "margin" in case the project happens above budget or earlier than anticipated. It means you'll have to be more careful to ensure that your budgeting for these two major projects is on-track. But I caution you… there are likely other Reserve projects, such as an entry monument sign, a gate, common area lighting, mailboxes, etc. Please discuss with your local credentialed Reserve Study provider.

FL Specific Questions

Q: Florida requires "Milestone Inspections" every 10 years. Is that sufficient or what frequency are insurers looking for when it comes to infrastructure inspections?

A: That should be sufficient. A general rule of thumb is every 5-10 years.