

## *Making Sense of Extra Expense*

*By Brent Anderson*

The definition of “extra expense” is exactly what common sense would expect. Extra expense means more money out of pocket than expected.

With respect to aircraft ownership, some examples of extra expense are when your mechanic says,

- “We found some corrosion and fatigue cracks that need to be repaired, so your downtime for this annual is going to be a little longer.”
- “We found signs of an overheated condition on some turbine blades and need to do some further inspections.”

Also, extra expenses could occur when you hear the “tick, tick, tick” during landing and realize it’s the prop striking the runway because you forgot to put the gear down.

You get the idea; expect to pay extra money when the unexpected happens. We buy insurance for the unexpected, but what we will examine here is a specific type of insurance coverage called Extra Expense for Substitute Aircraft. It is coverage that can be confusing, can be very different from one policy to the next, and is difficult to properly assess when an insurance claim is filed.

Typically, “Extra Expense” is not a coverage available for purchase but is included as an extra coverage that is generally found in the policy section titled “Additional Coverages,” “Expansion Endorsements,” or “Aircraft Extension of Coverage.” These extra coverages are provided by most insurance companies for the more desirable or preferred accounts. They expand or broaden the existing coverage in your policy. You will find these “extras” in nearly all policies for turbine-powered aircraft flown by professional pilots and in some policies for owner-flown turbine aircraft.

The typical substitute aircraft insurance definition for “Extra Expense” is as follows: “Extra expense for substitute aircraft provides reimbursement of rental costs incurred in renting or chartering aircraft temporarily needed to replace a specified scheduled aircraft withdrawn from use due to a physical damage loss covered by the policy. ...” This sounds great as long as we go no further. But we’re not done with our explanation of “Extra Expense.” So before you go out and rent or charter a new model aircraft to travel in at the insurance company’s expense, we need to look at some typical coverage conditions.

When you see the words “due to a physical damage loss covered by the policy,” it means extra expense coverage is unavailable if you’re dealing with downtime to repair corrosion, fatigue cracks, or an engine overheated condition caused by a hot start, since these are not covered losses.

If the aircraft is damaged by a gear-up landing, assuming all other pilot and aircraft criteria are in order, you have a *covered loss* by the terms in the policy. Extra Expense coverage becomes available but with some restrictions and limitations. Normally, these include waiting periods, limitations on the number of days, and dollar limitations imposed within the coverage endorsements.

Within the limitations, you will also find wording that will generally restrict the dollar amounts available, so you will only be reimbursed for the cost differential between the operating costs of the owned aircraft and the cost of the rented or chartered temporary replacement aircraft. The intent is to only fund that “extra” amount you would be required to pay that is over and above the operating cost of your aircraft. To qualify as a replacement aircraft, there is an expectation the rented or chartered aircraft will be comparable to your aircraft in size, weight, and performance.

To help you achieve a better understanding of how the “extra expense” coverage may work for you, we will set up an example, using the aforementioned gear-up loss, and do a comparison of several policy endorsements — through their wording, restrictions, and limitations — to see how each endorsement may impact the amount you can expect to be reimbursed by the extra expense coverage. One of the example endorsements may fit your policy. We will use the Beech King Air B200 as the owned aircraft for this example and a commercially chartered Beech King Air B200 as the substitute aircraft. The date of loss is Jan. 1 for two reasons: to make counting of days easier and the pilot was suffering from a severe headache from a New Year’s party the night before, which was a contributing factor in the gear-up landing. Downtime for repairs: 120 days.

Insurance Company A:

Title: Extra Expense for Temporary Substitute Aircraft Endorsement.

Total Limit: \$100,000. Per day limit: \$3,000. Days waiting required: 0.

Insurance Company B:

Title: Expansion of Coverage; Extra Expenses

Total Limit: \$5,000. Per day limit: \$250. Days limited: 60. Days waiting required: 7.

Insurance Company C:

Title: Broad Coverage Endorsement; Extra Expense for Renting Substitute Aircraft

Total Limit: \$300,000. Per day limit: \$5,000. Days limited: 60. Days waiting required: 5.

Insurance Company D:

Title: Broad Coverage Endorsement; Extra Expense for Renting Substitute Aircraft

Total Limit: \$10,000. Per day limit: \$1,000. Days limited: 30. Days waiting required: 10.

Insurance Company E:

Title: Physical Damage Coverages; Extra Expense Payments, Temporary Substitute Aircraft

Total Limit: \$300,000. Per day limit: \$5,000. Days limited: 60. Days waiting required: 0.

Insurance Company F:

Title: Broad Coverage Endorsement; Extra Expense for Renting Substitute Aircraft

Total Limit: \$30,000. Per day limit: \$1,000. Days limited: 30. Days waiting required: 7.

Now that we have established our policy coverage limits, we can move on to the actual costs that we are expecting to be reimbursed for using the replacement aircraft. Keep in mind there will be an established limited number of days for you to file your claim and document your expenses, so be sure to check your policy.

You will most likely be expected to document the following:

Date of trip, departure, and all stops, as well as flight time and rates paid for the substitute aircraft.

Name of charter or leasing company paid.

Total cost paid for each trip with copies of receipts.

Next you must provide your estimated flight time that would have been required to make the same trip in your owned aircraft and the cost for making the same trip. This should include all direct operating costs such as fuel, oil, hourly maintenance costs, engine and prop reserves, pilot expenses, and any costs you normally would have incurred if you had flown your own aircraft on this trip.

For our example, we will assume the following flights made in the chartered Beech King Air B200 at a rate of \$1,400 per flight hour used:

Day 2 (after the loss of our aircraft):	3.0 hour trip	\$4,200
Day 6	2.5 hour trip	3,500
Day 10	3.2 hour trip	4,480
Day 21	2.0 hour trip	2,800
Day 30	2.5 hour trip	3,500
Day 31	6.0 hour trip	8,400
Day 32	4.8 hour trip	6,720
Day 45	3.8 hour trip	5,320
Day 46	4.0 hour trip	5,600
Day 52*	3.0 hour trip	5,100
Day 68	5.0 hour trip	7,000
Day 81	4.0 hour trip	5,600
Day 101	3.8 hour trip	5,320
Day 121	2.8 hour trip	3,920

Total hours used over the past 121 days: 50.4. Total cost to the insured: \$71,460.

\*King Air not available. Used Cessna Citation CJ1 at \$1,700 per hour; equivalent to 3.6 flight hours in our King Air. After day 68 remaining flights are in the King Air again.

In this next step, we provide the direct operating costs as though the trips were conducted in your own aircraft. Include any expense you would normally incur had you conducted

the flights in your aircraft. You should include fuel, hourly maintenance costs for parts and labor, and any hourly time-life component such as engine and prop reserves, landing fees, supplies for catering, etc. Any expense that you pay even though you did NOT make the flight should not be included. Examples of expenses paid even if the flight was not conducted are insurance, actual cost of the aircraft and interest on loans, and annual inspections. As a general rule, if it is an expense incurred to fly the aircraft, include it. If it is an expense incurred even if the aircraft does NOT fly, exclude it.

After reviewing our costs, we arrive at a per hour direct operating cost of \$1,014 per hour.

Based on the per hour cost of our charter, \$1,400, less our direct operating expenses of \$1,014, we arrive at a per hour “EXTRA EXPENSE” of \$386 per hour. Whew!

What about the use of the Cessna Citation? Is this a comparable aircraft? In this case, the higher speed of the Citation would offset the higher per hour cost and would likely be acceptable to the insurance adjuster. There are 50.4 hours flown, which is equal to 51 hours in our own aircraft after adjusting for the faster Citation. The extra expense incurred is the total expense of the charter or rental, \$71,460 less the direct operating costs we would have incurred, 51 hours x \$1,014 per hour = \$51,714. Therefore, the maximum extra expense we could recover is \$71,460 – \$51,714 = \$19,746. There would be no expense recovered from any substitute aircraft that did not exceed the direct operating cost of our aircraft.

Now let’s examine how each insurance company’s policy would pay us for reimbursements under their “Extra Expense” coverage.

Company	Total Limit	Per Day Limit	Days Limited	Waiting Days	Total Recovered
A	\$100,000 Limit Not Exceeded	Limit \$3,000 Not Exceeded	No Days Limited. All Flights Eligible	No Waiting Days	\$19,746
B	\$5,000 Limit Not Exceeded Due to Daily Limit	Limit \$250 Exceeded on 10 Flights	60-Day Limit. 10 Flights Eligible	Seven-Day Wait. First Two Flights Not Eligible - \$500	\$2,000
C	\$300,000 Limit Not Exceeded	Limit \$5,000 Not Exceeded	60-Day Limit. 10 Flights Eligible	Five-Day Wait. First Flight Not Eligible -\$1,158	\$12,506

D	\$10,000 Limit Not Exceeded Due to Daily Limit	Limit \$1,000 Exceeded on Two Flights	30-Day Limit. Five Flights Eligible	10-day Wait. First Three Flights Not Eligible -\$2,965	\$1,737
E	\$300,000 Limit Not Exceeded	Limit \$5,000 Not Exceeded	60-Day Limit. 10 Flights Eligible	No Waiting Days	\$13,664
F	\$30,000 Limit Not Exceeded	Limit \$1,000 Exceeded on Two Flights	30-Day Limit. Five Flights Eligible	Seven-Day Wait. First Two Flights Not Eligible - \$2,123	\$2,737

As you can see, there is actually a big difference in what may appear to be small disparities in policy wording. Another factor that can greatly affect the amount you will recover is how well you work with your adjuster to establish the direct operating costs of your aircraft. Obviously, the higher your direct operating costs the less extra expense you will be reimbursed. Most adjusters are helpful in this area, but they often rely on operating costs reported by Conklin & de Decker, a Massachusetts-based company. Conklin & de Decker taps several data resources to prepare aircraft cost reports for many types of aircraft.

If your insurance company uses Conklin & de Decker reports, we suggest you ask for a copy of the report that applies to your aircraft. Check the report to see if it truly compares to your aircraft's actual financial experience history. Such factors as fuel costs and labor rates can vary greatly in different parts of the United States. The variants are not always accurately reflected within that type of accounting report. In our own example, we found a difference of \$250 per hour in direct operating costs that could have reduced our reimbursement by more than \$12,000. Work closely with your insurance agent and the adjuster to arrive at a fair valuation. Our hope is you will never use your "Extra Expense for Substitute Aircraft" coverage, but when you do, be sure you understand what is truly available to you within the policy. ➔