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David Monaghan, CPCU  
Government Affairs Counsel

March 14, 2018

Senator Jeff Longbine  
Chairman, Senate Financial Institutions and Insurance Committee  
State Capital Building;  
300 SW 10<sup>th</sup> Ave. Room 341-E  
Topeka, KS 66612

Re: American Family Insurance's opposition to Senate Bill 362

Mr. Chairman and Members:

American Family Insurance insures approximately fifteen percent of the homes and twelve percent of the private passenger automobiles in the state. We offer insurance products through some 175 appointed producers who reside throughout the state.

We oppose Senate Bill 362. Insurance policies routinely apply depreciation factors to both materials and labor in determining the value of damaged property at the time of the loss. This makes sense because both materials and labor make up the value of property. Senate Bill 362 would separate the expense of labor from material costs, and prohibit insurance contracts which depreciate labor.

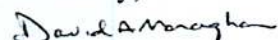
The legislation appears to be based on the false premise that the value of labor never depreciates. If this was true, the labor originally used to construct or manufacture any item would remain forever, no matter how old or worn out the item becomes. In reality, after a period of time, many items have little or no value.

Depreciation of labor costs is commonly used in contexts beyond insurance. For example, in evaluating a property's value for purposes of taxation, federal and state law recognize that both the labor and material costs of property are depreciable.

Insurance policies are also priced to reflect depreciation of both materials and labor. Senate Bill 362's prohibition on depreciating the expense of labor would significantly increase claim costs and such additional costs would be borne by policyholders in the form of higher premiums

We urge you to oppose Senate Bill 362. Thank you for the opportunity to provide this information to the committee.

Sincerely,



David Monaghan