

LONDON TERRACE

Towers News

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APRIL 2005

Major Disruption at 465

Our Superintendent, Owen O'Sullivan, discovered a plumber, employed by Bette Restaurant, who, without notification to or authorization by the management office or the superintendent's office, without any supervision by either the building or Con Edison, performed work on the building's main gas line. These actions caused gas to be released throughout the building, stove pilot lights to be extinguished and the loss of pressure in the gas risers. LTT contacted Con Ed (as we are legally obligated to do) and they came to 465. For safety reasons, Con Ed shut down the main gas line to the building.

The result was...and is...that no one in the 465 building, since February 1st, has had a working stove or oven. And they won't for some time to come.

Know this: There was nothing wrong with 465 or the gas lines before this happened. All of the damage was a result of the plumber's incompetence.

**refrigerator > YES
dishwasher > YES
microwave > YES**

Once the gas was shut off, LTT's plumber (Ideal Plumbing) attempted to repressurize the lines. That meant changing the valves on each stove in every apartment. After the valves were changed, Ideal tested all the residential riser lines and they have all failed the pressure tests.

While the plumbers were doing their work, Nancy Frawley was coordinating with: the BOD President, Steve Engel; the Board of Directors; Jim O'Connor, the President of DEPM; Stuart Saft, our General Counsel; the building's engineers; the President of Ideal Plumbing; construction companies and our insurance company.

Our goals were:

- **Assess the gravity of the situation.**
- **Come up with a plan to solve it.**
- **Manage the rest of the cooperative and minimize taking staff members from their regular duties.**
- **Pursue our legal options.**
- **Take the necessary steps with our insurance company.**

The owner of Bette's Restaurant, the general contractor and plumbing contractor were put on notice that they are prohibited from doing

any work in the building's common areas without the express approval of the management office...and to notify their insurance companies.

In order to restore gas service to the residents of 465, the gas risers must be replaced. Our plumbers are determining the least intrusive, least costly access path to the gas lines in each apartment line. After that has been determined, the construction crews we have hired will open the walls that house the risers. The opening will be approximately

one foot from the ceiling down to one foot from the floor and about two feet wide. The wall will be temporarily sealed until the plumbers come to remove the old gas pipes and put the new pipe in place. The temporary cover will be put back over the opening, waiting for the entire line to be done. When each riser is completely re-piped, the plumbers will then pressure test the replacement riser and seek approval from Con Ed and the NYC Department of Buildings to restore gas to each line as it passes the pressure test. When the riser is approved, the construction team will go back to rebuild the walls.

While our Superintendent, Owen, and the maintenance staff will be available for assistance with the effort in 465, we must continue to concentrate on the daily operations of the entire cooperative. To further that goal, Jim O'Connor, President of Douglas Elliman Property Management, provided LTT with two project managers, Jerry Green and Gary Weil. They have set up an office in the basement of 465 where they will coordinate the daily activities of the contractor and plumber and work. They will also coordinate with our Management Office to keep residents updated on the progress of the project.

Who is going to pay for all of this? We are seeking reimbursement from the insurance companies involved in this incident. The Board of Directors and the Management Office has been in constant contact with senior management at Douglas Elliman and our corporate counsel. We are exploring all of our legal options at this point in time. Seeking reimbursement from the various insurance companies is just one option but we will pursue all other remedies.

stove & oven

Who is Responsible? Making Repairs in Co-ops and Condos

Imagine this. Your contractor has finally completed the renovations to your kitchen - after taking three months! The special order wall and flooring tile match perfectly, and although you exceeded your budget, you are very pleased with the results. You leave for a trip and upon returning to your building, you are told by your doorman about the "flood" in your apartment and how lucky you are to have been away. Filled with anxiety, you rush to your apartment and look in horror at your kitchen. The flood is gone and, essentially, so is your tiling which has been destroyed during the repair of the pipes in the wall. You call the managing agent of the building to ascertain what happened and to confirm that the building will completely restore your formerly beautiful bathroom. You are told it will not. You then call your insurance agent to notify him or her of the damage and to file a claim.

The above scenario describes an uncertainty shared by many cooperative residents: Just who is responsible for making repairs within apartments and common areas? If you encounter a similar situation, will you have to fork over the money to repair the mess? As a frequently raised issue affecting cooperative living, this is the source of significant controversy and expense to many cooperative corporations and their shareholders.

Cooperative Obligations

In order to analyze the question of which party is responsible for making repairs to a cooperative apartment, it is essential to understand the relationship between a cooperative corporation ("Lessor") and a shareholder ("Lessee"). The resident of an individual cooperative apartment is not the "direct" owner of the apartment, but a shareholder in a corporation. The corporation, in turn, is the title or leasehold owner of the land and improvements constituting the cooperative property. Ownership of shares in a cooperative corporation entitles the lessee to a long-term proprietary "lease" that grants the shareholder the right to occupy an apartment.

The lease is signed by an officer of the cooperative corporation, as Lessor, and the shareholder, as Lessee, and contains, among other things, provisions regarding the responsibility for the repairs of both parties. The lease provides that the lessee is responsible for maintaining and repairing the interior of the apartment, while the cooperative corporation will be obligated to maintain and repair all other parts of the building. The lease contains four paragraphs dealing directly with repairs: Lessor's Repairs, Lessee's Repairs, Damage to Apartment or Building, and the Right of Entry paragraph.

The cooperative is responsible for keeping all of the building's equipment and apparatus in good repair. The cooperative must maintain all of the items except those portions that are expressly stated to be the responsibility of the shareholder pursuant to the lease agreement.

The shareholder is responsible for keeping the interior of the apartment (including interior walls, floors and ceilings, windows, sashes, sills, entrance and terrace doors, frames and saddles) in good repair. In addition, the shareholder must do all of the painting and decorating required for his apartment, including the interior of window frames, sashes and sills. He is also responsible for the maintenance, repair, and replacement of plumbing, gas and heating fixtures and equipment, as well as refrigerators, dishwashers, air conditioners, ranges and other appliances that are in the apartment. Any special pipes or equipment which he installs in the wall, ceiling, or under the floor are also his responsibility. These responsibilities do not include the gas, steam, water or other pipes or conduits within the walls, ceilings or floors, which is part of the standard building equipment. The shareholder is responsible for all lighting and electrical fixtures, appliances and equipment, including all meters, fuse boxes, circuit breakers, electrical wiring and conduits from the junction box at the riser into and through Lessee's apartment.

If the apartment or the building is damaged by fire or another cause covered by multiperil insurance policies commonly carried by cooperative corporations in New York City, the cooperative will be responsible for repairing or replacing the apartment, including the walls, ceilings, pipes, wiring and conduits using standard materials customary to

buildings of the type. The building is not required to repair or replace equipment, fixtures, furniture, furnishings or decorations installed by the shareholder or any of his predecessors or to repaint or replace wallpaper or other decorations in apartments or to refinish floors.

Access To Your Apartment

All cooperatives - including London Terrace Towers (paragraph 25) - has the right by the proprietary lease, to which you agreed when buying your apartment, to enter your apartment "at any reasonable hour of the day upon notice, or at any time and without notice in case of emergency" to make or facilitate repairs in any part of the Residential Unit or the Common Elements. This includes removing "such portions of the walls, floors and ceilings of the apartment as may be required for any such purpose."

In addition, the proprietary lease provides that, in order to do necessary repairs, "the Lessee (you) shall provide the Lessor (the cooperative and its Managers) with a key to each lock providing access to the Apartment, and if any lock shall be altered or new lock installed, the Lessee shall provide the Lessor with a key thereto immediately upon installation."

Covering the Gaps

Surprisingly, there is a gap in what the cooperative is obligated to repair and/or replace in the event of a loss, possibly even if the damage is caused by the operation and/or maintenance of the building. Generally, the cooperative would not be required to repair or replace anything beyond the actual structural interior (walls, ceilings) of the apartment. However, this gap can be closed by a homeowners insurance policy. Homeowners insurance can provide peace of mind for owners interested in protecting the place they live and the possessions that fill it. With a wide variety of coverage options to choose from, there is a policy to fit any and all budgets, providing financial protection in the tens of thousands to the millions of dollars.

Finding the Right Coverage

Homeowners coverage is basically divided into two categories: property insurance which protects items owned by the insured and liability insurance, which provides protection from actions brought against the insured.

Personal property coverage provides restitution for the loss of a home's contents due to fire, water damage, theft, or a myriad of other unpleasant scenarios. Coverage includes most types of personal property, but likely will not cover luxury items like jewelry, furs, antiques or fine art collections. Art mavens and diamond-lovers need not fear, proper protection for high-ticket luxuries can be obtained through policy riders.

Improvement and alteration coverage provides a financial safety net for home improvements. Most individuals believe that any improvements made to their apartments like new flooring, renovated kitchen, upgraded cabinets are covered under personal property protection. Again, this is not the case. When you live in a cooperative and you buy a unit with new floors or kitchen upgrades, you're responsible for it. For instance, if someone's bathtub overflows upstairs and water leaks down, damaging your new \$25,000 kitchen, the building is not responsible for the repairs to your bathroom.

If you don't have proper improvement and alteration coverage, you may have no alternative but to sue the person who caused the damage. Even that, however, can be a lose-lose situation. If the upstairs owner has liability insurance [and you successfully sue], you won't be able to collect on replacement cost. Meaning that the liability insurance might pay you an amount closer to the depreciated value of your kitchen rather than the remodeled value, creating a huge gap in the money received versus how much it will cost to actually replace the kitchen.

Replacement cost coverage can be an invaluable addition to any policy. For instance, if you bought a \$5000 Henredon couch five years ago and it gets destroyed in a fire, the insurance company will look at

Dear Fellow Shareholders,

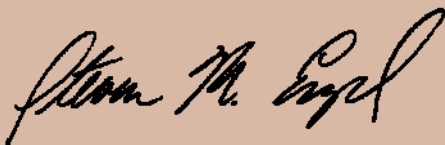
This is the first newsletter in many years in which the signature at the bottom of this column is not that of Nancy Frawley. Some significant changes have taken place at LTT since the last newsletter in December --and I have every reason to believe that these changes are going to help make LTT an even more wonderful home for all of us.

As was announced in February, Nancy Frawley is the new Managing Agent at LTT. In January, Nancy resigned from the Board of Directors and was hired by Douglas Elliman as a Managing Agent assigned to LTT. Jim O'Connor, the President of Douglas Elliman Property Management, approached the LTT Board when Kathy Stanis, our previous managing agent, announced her resignation. Jim asked that we consider his recommendation that Nancy would make a fine addition to Douglas Elliman and to LTT. While it is in a different capacity than the one that we were accustomed, the Board unanimously endorsed Douglas Elliman's choice and recommendation. Nancy's resignation triggered my being elected president of the Board of Directors and Board of Managers. It also provided for the Board electing Bob Kulikowski to both the Board of Directors and the Board of Managers to fill the vacancies left by Nancy's resignation.

The other major personnel change (which we previously announced in October) was the appointment of Owen O'Sullivan as our Superintendent. For those of you who have had the opportunity to meet Owen, you know that he is intelligent, friendly and responsive. If you have not yet met him, I hope that you do. He has been on the job for six months now and the Board believes that the revolving door in that position is finally at an end. Given the recent events in 465 regarding the gas lines (which are covered in this edition of the Newsletter) the Board is even more pleased that we have Owen and Nancy, both seasoned and knowledgeable about the LTT infrastructure.

I would like to close by saying that the staff and the Board makes every effort to do the best job possible on your behalf. We are not, however, infallible or geniuses (well, at least I'm not). If you think we have room for improvement or are making a misstep or have a suggestion, we want to know. I am happy to hear from you, as are your other Board members, and we will make our best effort to be responsive. I can most easily be reached at steve@ebmedia.com or leave a note with the 465 lobby attendant.

Have a wonderful Spring.



Steve M. Engel
President, LTT, Inc.

This and That at London Terrace Towers

- **Please do not post notices of any kind in the elevator or the residential hallways.** Personal notices about items for sale, sublets, professional services, etc., with the approval of the management office, are allowed to be posted on the laundry room bulletin boards
- **The lobby luggage carts are available for all resident's use.** They may not be taken off the premises, except to a waiting car in front of your lobby. They are not to be used for the purpose of moving...or monopolized by individuals. In consideration of your neighbors, please return it to the lobby as soon as you are finished.
- **Dog walking services are employed by many residents.** Dog walkers MUST sign in with the lobby attendant each time they come to the building and must have a written authorization on file by the resident to be allowed access to the apartment. As a result of complaints by residents, many of whom are afraid of dogs, dog walkers are not allowed to bring leashed dogs that belong to nonresidents into our building. The ONLY exception is if the dog walker is carrying one small dog.
- **All residents must give a complete set of their apartment keys to the Management Office for emergency use.** This is a requirement of both rental tenant and shareholder leases. Copies of the keys can either be kept in the lobby in a locked box or in the Management Office. If a member of the staff is called to open your door as a result of lost or forgotten keys and we have your keys, the resident will be charged for a minimum service call. If the Management Office does not have a copy of the resident's keys, including those for a second lock installed by the resident, and the resident is locked out, the resident must call a locksmith. If the staff must gain access to a resident's apartment as a result of an emergency and does not have a copy of the resident's keys, the resident is responsible for all associated costs up to and including the replacement of the door and all locks.
- **Mr. Kim, owner of the Heartland Deli and Sushi Cafe, is offering a 10% discount to London Terrace Towers residents.** They are located at 230 Ninth Avenue at 24th Street. Free delivery! Tel 212-645-3070. Identify yourself as a LTT resident.
- **The 470 West 24th Street Sun Deck opens April 1st - Hours are 9AM until 8PM (April & May hours)**
- **Jeff and Andrea, residents of the Gardens and LTT Health Club members, have opened BONGO FRY SHACK,** located at 240 Ninth Avenue (between 24th and 25th Streets). They serve fresh New England seafood and are offering a 10% discount to LTT residents whether you eat in or have it delivered! Bring your LTT ID!

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Contact Edward Maichin at: d1maichin@aol.com

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London terrace towers!

New LTT Manager

Shortly before Christmas, our longtime manager, Kathy Stanis, accepted a position at another company. A search was launched for her replacement and candidates were considered from a variety of sources. Jim O'Connor, President of Douglas Elliman Property Management, contacted Nancy Frawley, President of the BOD for the last eight years, and asked her to consider submitting her name for consideration for the position. When Nancy indicated she would be interested, Jim consulted with the other members of the BOD and Board of Managers.

Recognizing that Nancy had more than a passing familiarity with the issues, history and residents of LTT, the Boards of Directors and Managers gave their complete endorsement of the idea. and Nancy was hired by DEPM. Nancy spent the first weeks becoming familiar with DEPM's personnel, internal systems and attending school for her Real Estate License (as part of DEPM's program to offer additional assistance to its clients). Since February 1st, Nancy assumed the position full-time.

Nancy can be reached at 212-675-2000 or Nancy.Frawley@ellimanpm.com



BOD Changes at London Terrace Towers

At the Board of Director's meeting held on January 11, 2005, several changes took place. After a decade as a member of the BOD and eight years as President, Nancy Frawley resigned.

Steven Engel (465) was elected unanimously as President of both the Board of Directors and Board of Managers. Steve was first elected to both Boards in 2002. Steve owns and operates Engel Brothers Media, a film production company. They are best known for its high-quality television adventure, science and travel documentaries as seen on PBS, National Geographic Channel, Discovery Channel, Turner Broadcasting, Thirteen/WNET-NewYork and more!



Bob Kulikowski (465) was unanimously elected to fill the vacant seat on the Board. Bob had been the Board of Directors designee to the Board of Managers for the previous three years. Bob is the Director of the NYC Office of Environmental Coordination. While OEC's work is not always visible to the public at large, what they do affects all New Yorkers. They work with City agencies to ensure that the environmental impacts of City projects are disclosed by decision-makers, coordinate the City's efforts to reclaim brownfields (property that is not being redeveloped because it is or might be contaminated) and help neighborhoods by getting property cleaned up and back into productive use.

Only the Best for London Terrace

On February 14th, Longtime London Terrace Towers resident, Bruce Sussman, got a Valentine he won't easily forget. His dog, India, became the first-ever Glen of Imaal terrier to win best of breed at the Westminster Dog Show.

India, whose full name is Royalty's Star Over Coleraine, owes this award to Bruce as it was he that was instrumental in getting Glens their American Kennel Club recognition. Bruce first fell in love with the dog's distinctive head, cropped ears and turned-out feet while working on a London musical. He now shares his apartment with three generations of Glen of Imaal terriers.

The breed was named for a valley in the Wicklow Mountains of Ireland, where it was developed centuries ago. Its job was to rid the farm of vermin and for hunting fox and badger. Called turnspit dogs, their job was also to

turn meat on a spit over an open hearth.

Bruce, formerly best known as Barry Manilow's collaborator (who does not know "Copacabana?") may now be best known as India's dog-walker. **He told me that, after all his years in show business, he is stopped constantly on the street by those who recognize - India!**



nancy.frawley



LTT in the News

Reprinted from the NYTimes, Jay Romano, January 9, 2005

Last month, a Housing Court judge in Manhattan issued an opinion that cooperative lawyers have been waiting for since May 2003. In a case entitled London Terrace Towers Inc. v. Davis, Judge Gerald Lebovits ruled that when a tenant shareholder violates his proprietary lease by engaging in "objectionable conduct," a co-op board has the power to terminate that lease without a vote of the shareholders and without being second-guessed by the courts.

"We've all been wondering what would happen if a co-op board wanted to terminate a shareholder's proprietary lease without a vote of the shareholders," said Stuart M. Saft, a Manhattan lawyer who is chairman of the Council of New York Cooperatives and whose firm represented London Terrace Towers, which is at 465 West 23rd Street. "Now we know."

To understand the significance of the London Terrace decision, it is necessary to understand a case that preceded it -- the Pullman case. In June 2000, the shareholders of a co-op at 40 West 67th Street, in accordance with its proprietary lease, voted to terminate the tenancy of David Pullman, a tenant shareholder, on the grounds of "objectionable conduct." That conduct included making alterations to his apartment in violation of house rules, refusing to allow an inspection and filing lawsuits against the co-op, its management and other shareholders.

Although the shareholders voted 2,048 to 0 to direct the board to terminate Mr. Pullman's tenancy, a State Supreme Court judge ruled it was the court's job to determine whether objectionable conduct had occurred. But that ruling was reversed on appeal, first by an appellate court and then, in 2003, by the Court of Appeals, the state's highest court. They held that given the unanimous shareholder vote, the board's action was protected by the business-judgment rule and could not be second-guessed.

But left unanswered was whether a board could terminate a tenant shareholder's proprietary lease on its own, if that was all the lease required. The London Terrace Towers case, decided on Dec. 2, provided the answer.

In a written opinion, Judge Lebovits noted that the cooperative alleged that M. Davis, a tenant shareholder, engaged in objectionable conduct throughout his tenancy. (The coop said Mr. Davis used the stairwell and hallway to store personal belongings, rigged the stairwell doors to remain unlocked, spray-painted furniture in the hallway and allowed two fires to start in his apartment.) The judge noted that before voting to terminate the lease, the board gave him a chance to respond, and that Mr. Davis "does not deny the objectionable conduct."

Judge Lebovits wrote that since the board's vote "was made validly, in good faith, and with the scope of the board's authority," his job was to determine "whether a co-op board has the authority to terminate a shareholder-tenant's lease, or whether a shareholder-tenant has the right to have a court" decide that question.

Referring to the Court of Appeals decision in the Pullman Case, Judge Lebovits ruled that "the court may not decide whether competent evidence of the shareholder-tenant's alleged objectionable conduct exists to support the board's terminating his tenancy." Instead, he noted, "the board's vote itself provides that competent evidence." Maria Beltrani, the lawyer for the coop, said that Mr. Davis has agreed to leave the apartment by January 15.*

Arthur I. Weinstein, a Manhattan coop lawyer, said that while the ruling is clear, provided the power to terminate is granted to the board in the lease itself, boards should be careful. The courts, he said, will almost certainly ensure that boards act in good faith, that the tenant shareholder has an opportunity to defend himself and that the complaints are not trivial.

"Proceed with caution," he said.

*Note: The eviction was delayed until March.

Who is Responsible? Making Repairs in Co-ops and Condos

the depreciated cost when they send their check. In that five years, the couch would have depreciated by nearly 50 percent, meaning you will have to shell out at least \$2,500 of your own money to replace the couch.

Loss of use coverage covers the costs incurred by you and your family if you are forced to live elsewhere during the reconstruction of your apartment. Without this coverage, those costs come out of your own pocket. A comprehensive personal liability policy is perhaps the most important coverage to have.

Personal liability coverage protects homeowners and household family members against lawsuits resulting from injuries to people or damage to property. Say you go away on vacation and accidentally leave the toilet running. Water overflows and damages your downstairs neighbor's apartment. If his insurance company pays off, they'll knock on your door to try and get their share back. It happens all the time. With personal liability insurance, you are protected against whatever claims are launched your way.

How Much Coverage is Enough?

For many people, buying insurance seems like a waste of money. Why spend for a rainy day that might never come? This kind of thinking, however, can lead to disaster. It just can't happen to you? It can. And if the worst happens, you want to be covered. Buying basic coverage is a start, but for those who are serious about protecting their possessions as well as their financial security it's important to investigate all contingencies. Experts believe the bare minimum coverage for a cooperative owner should be \$25,000 each for personal property, improvements, alterations, and contents with \$300,000 for liability. A bare-bones policy like this would cost only a few hundred dollars a year.

Experts also recommend purchasing as much loss of use coverage as possible. Don't skimp on the coverage. To keep your costs down, go for a higher deductible. Getting the right amount of coverage means that you must make a careful examination of your possessions. Tally up your possessions by room, adding estimated values. Creating as complete a list as possible will prove invaluable should the home's contents need replacing. Thorough documentation pays off, many insurance brokers recommend keeping photos and videotapes of your property in off-site safe-deposit boxes in case disaster strikes at home.

Holding on to receipts for big-ticket items also helps. Estimates are very subjective. Keep receipts. The better your record keeping, the better off you'll be.

Keeping Current

Keeping your policy up-to-date is another important factor in protecting your co-op. That perfect policy you bought in 1998 might not be so perfect now. Having the proper insurance means not only buying a little peace of mind, but protecting your family and yourself from a future no one can predict.

If you do not yet have insurance, it's time to get it. You can ask your neighbors who they use or call the office for the names of companies who insure cooperatives.

For many people, buying insurance seems like a waste of money. Why spend for a rainy day that might never come? This kind of thinking, however, can lead to disaster. It just can't happen to you? It can.

@ellimanpm.com

We are always looking for new topics of interest for the newsletter. If you have any issues you would like to see addressed or ideas on articles, please email your suggestions to nancy.frawley@ellimanpm.com

Health Club

Spring Training by Wing Kee Kwok, A.F.P.A.

After the winter months, it is time to get back in shape and get ready for the Summer!

During the past year, we have been making the Health Club and Pool better. One generous member, **Sally Hunt**, of the 410 Building, had kindly donated the improvements at the Women's Locker Room. By the time you read this, ladies should be enjoying the rejuvenated facility. The Health Club and the Locker Rooms had also been painted. During the coming months, we will continue making the facility better to serve all of us.

We have also added a number of new pieces of exercise equipment at the Health Club. The number of Cardio Equipment has been increased. Some older Treadmills have been replaced with newer models. We also added a few more popular Elliptical Cross Trainers. It has been proven that Cardio workouts are the best mean for burning calories.

The new Torso Rotator Machine for training the oblique muscles works perfectly with the Ab Cruncher! To complete for training of the shoulders, we now have a new Lateral Raise Machine. The old Cable Crossover has been replaced by an updated model with multiple pulley positions. This is one piece of equipment that can train the entire body. The Biceps Curl Machine has also been replaced by one that has a more flexible handle grip. If you want to have a demonstration of these machines, as well as all the other machines, please contact the Staff on duty. We are more than happy to show you how to utilize of these machines to the maximum.

If you have been working out at our Health Club for a while and have been training the entire body at each session, you may want to try a program at the next level. Generally, muscles are divided into the following groups: chests, back, biceps, triceps, shoulders, legs and abdominal. At the more intense level, you can train either one or two body parts at each session. The more common theory is to combine the body part training according to the motions. For example, training the chest and biceps muscles at the same session is recommended, since the exercises for these two body parts utilize the "pressing" motions. Similarly, the back and the triceps are trained together for the "pulling" actions. Leg, shoulder and abdominal muscles are independent of each other and can be trained together or separately at each session. I, myself, train the abdominal muscle every day and other parts once a week. This program generates a more intense training and a better "rest period" as well. Please do remember to start and end each training session with cardio workout and stretching which serve as good "warm-up" and "cool down" for each training session. The Staff on duty or I will be happy to help you to develop a program that will be suitable for you.

Gym Hours: Monday through Friday: 6:00am - 10pm, Saturday & Sunday: 8am - 8pm. Pool Hours: (closed Wednesdays) Monday, Tuesday, Thursday, Friday: 6:30am - 10 pm, Saturday & Sunday: 9am - 6:45pm.

health insurance cost

Health Savings Accounts

Mark Petti

Starting in 2005, there will be a powerful new tool available to help with medical expenses and health insurance cost. It is called the Health Savings Account (HSA).

HSA's were created by the 2003 Medicare bill and are designed to help individuals save for future qualified medical and retiree health expenses on a tax-free basis. Think of it as a health care IRA, where you can use the money now.

HSA's allow consumers to put away pretax money for certain medical expenses not picked up by their insurance, including eyeglasses and contact lenses, dental care and over-the-counter and prescription-drug costs. To open an account, usually available through banks that work with insurers, a consumer must have an insurance policy with a deductible of at least \$1,000 for a single's policy or at least \$2,000 for a family policy. Part of the idea is to encourage consumers, facing big upfront costs, to think carefully about what medical services they need and who should provide them. Unlike "flexible spending accounts," which also use pretax funds, HSA funds unused in any given year can be carried over to later years.

Some important features of HSA's are:

- HSA's can be owned by adult individuals, children cannot establish their own HSA's.
- HSA's are portable and have no income limits on who can contribute.

- Used in conjunction with a "High Deductible Health Plan"
 - Can be an HMO, PPO or indemnity plan
- Contribution to HSA can be made by the employer or the individual, or both
 - If contributions are made by the employer, it is not taxable to the employee
- If taken for "Qualified Medical Expenses," distributions are tax-free. Qualified medical expenses can include, but are not limited to;
 - Premiums for employer-based coverage
 - COBRA continuation coverage
 - Any health plan coverage while receiving unemployment compensation
 - Medicare premiums and out-of-pocket expenses (Part A, Part B, Medicare HMOs, new prescription drug coverage), but not Medigap Premiums
 - Qualified long-term care insurance premiums

As with any new product or service, HSA's may hit glitches, as consumers, banks and insurers figure out the details on just how these new accounts are supposed to work.

Mark A. Petti, a shareholder in the 405 building, is Financial Planner with MAP Advisory Services, Inc. (a Registered Investment Advisor). Website: www.mapadvisoryservices.com