

## **Service Contracts**

Massachusetts consumers may consider purchasing a service contract to protect their personal property such as household appliances. A service contract may be beneficial if repair or replacement of personal property covered by the contract becomes necessary. Consumers may not realize what is and what is not covered by a service contract.

### **What is a Service Contract?**

Service contracts are a guarantee, negotiated and purchased separately from the sale of a product, that provide protection for defective parts, mechanical or electrical breakdown, labor, or other remedial measures, such as repair or replacement of the property or repetition of services.

Under Massachusetts law (**Massachusetts General Laws Chapter 175, Section 149M –X**), a service contract is a contract to:

- i. perform the service, repair, replacement or maintenance of tangible personal property; or
- ii. provide indemnification for service, repair, replacement or maintenance, for the operational or structural failure of an item due to a defect in materials or workmanship or normal wear and tear (which may or may not provide for incidental payment or indemnity under limited circumstances, for related expenses, such as rental and food spoilage).
- iii. A service contract may also provide for the service, repair, replacement or maintenance of tangible personal property for damage resulting from power surges and accidental damage from handling and may provide for leak or repair coverage to roofing systems on residential dwellings.

Service contract costs vary and, while contracts generally cover a one-year period, contract periods may vary as well. The contract also may contain optional coverage that is available upon payment of an additional fee. Consumers should consider whether you would be able to afford a repair if you did not purchase a service contract and/or any optional coverage for that period.

### **What is the difference between a service contract, a warranty, and an insurance policy?**

A service contract is not a “warranty” which is defined as a guarantee incidental to the sale of a product that is made solely by the manufacturer, importer or seller of the property or services (For example: a new washing machine may come with a 1-year manufacturer’s warranty).

A service contract is also not an insurance policy. If you decide to purchase a service contract to provide coverage for your property, compare it to your homeowner’s insurance policy to be sure you are not purchasing duplicative coverage. A service contract may be considered excess coverage which means that the service contract may not provide benefits for repairs that are covered by another insurance policy, warranty, or guarantee.

**Read Your Contract Carefully.**

1. What benefits and/or repairs are covered by service contracts? Service contracts may provide for the repair or replacement of a variety of tangible personal property such as household appliances like a washing machine or a refrigerator. The coverage and benefits of each service contract will be spelled out in the contract. Be sure to read the terms and conditions of the contract that you are considering to be certain it provides the coverage you need.

2. What are your responsibilities under the service contract? You may need to call the provider and the company will arrange for a repair person to come to your home. Alternatively, you may be allowed to choose your own repair person with the provider's prior approval. Make sure you know if the service contract will cover a repair before any work is started. In addition, check your contract to see if you are required to get a second opinion for a repair.

3. What does the service contract say about repairing or replacing parts? Most service contracts state that the decision to repair or replace a part is the service contract provider's decision. If the provider decides to replace a part, it usually gets to replace the part with an equivalent product. For example, if your washing machine breaks down and the provider decides to replace it rather than repair it, you may receive a new washing machine with similar functions, but not necessarily the same brand name as the one being replaced.

4. Is there a deductible? A service contract may require a deductible. If there is a deductible, verify whether it is for each service call or for each repair. For example, assume your deductible is \$50. If your stove and your clothes dryer malfunction and only one service call is made, are you required to pay \$50 or \$100 deductible? You may also be charged a fee for each service call. Make sure you know how much the fee is and when it will be charged.

5. Are there benefit limits for certain repairs? A service contract may have maximum allowable benefits for certain types of repairs. These limits may be per contract or per covered item. Make sure you understand what the benefit limits are in the contract and how they apply.

6. Is your service contract transferable? A service contract may or may not be transferable. Check the terms of your service contract for any restrictions on transferability. For example, if you sell your house, can you transfer the contract to the buyer? If so, make sure you know what procedure you need to follow.

7. Can you cancel a service contract? Under Massachusetts law, a service contract holder may cancel and return the service contract to the provider within certain time limits. Please note, there is no set time limit established by law so it is important to check the cancellation provisions in your contract. You may also be charged a cancellation fee. The right to cancel a service contract is not transferable and applies only to the original contract purchaser if no claim has been made prior to its return to the provider. Check your contract for cancellation provisions and procedures.

8. Can you get a refund if you cancel your service contract? If you qualify and you follow the cancellation procedure described in your contract, you may be entitled to a full refund of the contract fee or a refund of the contract fee attributable to the unexpired term of the contract.

## **Know Your Rights.**

1. All service contract providers doing business in the Commonwealth of Massachusetts must be registered with Division of Insurance. You may verify that a service contract provider is authorized to do business in Massachusetts by contacting the Division of Insurance.
2. To ensure the provider's obligations to its service contract holders, a provider must obtain insurance on the contracts it has issued, sold, or offered for sale in the Commonwealth. Should the provider be unable to fulfill its obligations under the contracts, the insurer will pay, on behalf of the provider, any covered sums the provider is legally obligated to pay, or in the event of the provider's non-performance, will provide the services which the provider is legally obligated to perform according to the provider's contractual obligations under the service contract. Service contracts are not protected by the Guaranty Association or the Insolvency Fund.
3. A sales person is allowed to promote, endorse or recommend the purchase of a service contract, but cannot require you to purchase a service contract as a condition of a loan or a condition for the sale of any property.
4. Although a service contract provider is not an insurance company, all providers and related service contract sellers, administrators and other persons engaged in marketing, selling or offering to sell service contracts in Massachusetts are subject to the provisions of the state's law against unfair or deceptive acts or practices in the business of insurance. If you have a complaint about a service contract provider or your service contract, please contact the Division of Insurance's Consumer Services Unit at (617) 521-7794, or file a complaint online at <https://www.mass.gov/file-an-insurance-complaint>.