



Appellate Division Affirms Prospective Application of "Step Down" Legislation



Kevin E. Wolff
Partner
Tel: 973-631-6007
KWolff@CoughlinDuffy.com

The Appellate Division decision in Makroukalis v. Estate of Garcia, No. A-2800-07T2 (App. Div. Nov. 16, 2009), is the most recent in a series of cases considering the proper application of legislation enacted in 2007 ("S-1666") prohibiting "step down" provisions in commercial automobile policies. In Makroukalis, the plaintiff was injured in a motor vehicle accident while operating a tow truck for ABC Towing, Inc. ("ABC") on March 27, 2004, prior to the enactment of S-1666. ABC had in effect a commercial auto policy with Empire Fire and Marine Insurance Company ("Empire") that included a "step-down" provision limiting coverage to those who were "named insureds" under other policies.

In addressing whether S-1666 should be applied retroactively, which would have the effect of invalidating the "step down" provision, or prospectively, the Appellate Division considered two competing maxims. While "step-down" provisions limiting both UM and UIM coverage had been deemed valid and enforceable at the time the Empire policy was issued, S-1666 now explicitly prohibits the use of such "step-down" provision.

Despite a split in authority as to the *reason* why S-1666 should apply prospectively, the Makroukalis court unanimously found that the "step-down" provision in Empire's policy was valid and enforceable, and that S-1666 must be applied prospectively. Accordingly, whether the Legislature specifically intended that S-1666 apply retroactively (see Olkusz v. Brown, 401 N.J. Super. 496 (App. Div. 2008)) or whether S-1666 applies prospectively because it would be manifestly unjust to void the "step-down" provision in commercial auto policies since the accident occurred prior to the effective date of S-1666 when the "step-down" provision was deemed valid, (see Hand v. Philadelphia Ins. Co., 408 N.J. Super. 124, 146 (App. Div. 2009)), the Makroukalis court confirmed that S-1666 could not be given retroactive effect.

Based on the foregoing, S-1666 must be applied prospectively, commencing September 10, 2007. Any UM/UIM claim predicated on an accident that predates the September 10, 2007, adoption of S-1666 must be governed by the principle articulated in Pinto v. N.J. Manufacturers Ins. Co., 183 N.J. 405 (2005) wherein the Court held "step-down" provisions in business auto policies to be valid and enforceable.

If you have any questions regarding this issue, please contact Kevin Wolff, Jim Lisovicz or Kevin MacGillivray.



James P. Lisovicz
Partner
Tel: 973-631-6004
JLisovicz@CoughlinDuffy.com



Kevin MacGillivray
Partner
Tel: 973-631-6021
KMacGillivray@CoughlinDuffy.com

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New Jersey
350 Mount Kemble Avenue
Morristown, N.J. 07962
Tel: 973-267-0058
Fax: 973-267-6442

New York
88 Pine Street, 5th Floor
New York, N.Y. 10005
Tel: 212-483-0105
Fax: 212-480-3899