

## LTL Released Values: Make Sure you Know the Rules

by

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*The purpose of this study is to expose the vast differences between carrier's liability limitations and exceptions rules and provide insight into how shippers and 3PLs can mitigate losses due to freight claim.*





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## Introduction

This white paper is written to educate those involved in LTL shipping about the variances in carrier liability for loss and damage claims. Many might believe that LTL carriers provide full coverage for lost and/or damaged shipments. That is not true. Across the industry, there is not a standard liability that carriers assume. Of the 33 LTL carriers evaluated, 15 of them did provide maximum liability coverage of \$25 per pound, at least for the highest rated commodity classifications.

Upon examination, carrier liability varies dramatically and there are many exceptions to liability coverage. All LTL carriers use what is termed “released liability”. This means, there is a limit on what a shipper will be compensated for damaged or lost shipments. Those liability limitations range from \$0.10 per pound to \$25.00 per pound.

This paper will reveal various liability limitations and exceptions that carriers use, as well as make recommendations relative to how shippers and third parties can minimize the potential unpleasant surprises if a freight claim is filed.

## FAK Ratings & Self-Insurance

Commodity classifications are one of the denominators in determining shipping charges. Classifications are determined based on a combination of value, liability, density, stow-ability and handling. While the exact formula isn't known, the largest single factor for class rating is density or the amount of cubic capacity a particular product may occupy during shipping.

The maximum liability by any LTL carrier is \$25.00 per pound. Thus every shipment, to some degree, has a limited liability placed on it by carriers. Many carriers provide a method to insure shipments for “extraordinary value”. These shipments are valued more than the liability limitation placed on the specific type of commodity. The cost of this insurance varies by carrier. But a price of \$3 per \$100 of excess value is common with national LTL carriers. Keep in mind that carriers also will assess a minimum charge for this insurance. Typically, the minimum is between \$50 and \$70.

Many times, shippers negotiate FAK class pricing with their carriers. FAK is an acronym for Freight All Kinds, meaning they negotiate a lower class for either all shipments (single FAK) or tiered classes for groups of classifications. Negotiating a FAK is common when trying to minimize the number of commodity classification corrections a carrier might impose and to receive a hidden form of discount. There are 18 commodity classifications and rates increase as the class goes higher.

In many cases, carriers impose liability limitations specifically for FAK pricing. Like most other items in a carrier's rules tariff, there is no standard liability limit imposed



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by carriers for FAK pricing. In fact, some carriers do and some do not limit their liability for FAK pricing. Rather than limit liability for FAK pricing, certain LTL carriers limit their liability based on the rules and specifications in the National Motor Freight Classification guide. To summarize, liability limits vary, and “caveat emptor (buyer beware) applies.

Most importantly, shippers need to:

- 1) Analyze the liability limitations of the carriers they use
- 2) Evaluate the FAK structure that has been negotiated
- 3) Understand the total financial impact of reduced liability

In essence, negotiating FAK pricing will reduce shipping rates and that needs to more than offset any reduction a carrier imposes on their liability for loss or damage claims. One must analyze the value of the commodities being shipped and the frequency of claims. In most cases, I would suggest that negotiating a FAK pricing structure will more than offset the potential claims, but not always. Plus, one needs to carefully analyze the FAK they are seeking.

For example, FedEx Freight and Saia release their liability at \$1 per pound for a FAK class 50 rating and \$2 for FAK class 55 rating. The average rate difference between class 50 and 55 is 6.8%. Thus for 6.8% higher transportation costs, the shipper can double the coverage a carrier will provide. They can extrapolate the potential number of claims and shipping budget to determine the best FAK option.

### Extraordinary Value

Most carriers offer increased liability over their stated limits for additional fees, much like insurance. Some carriers limit the amount of additional coverage you can buy based on specific commodities. For example, many carriers don’t allow or limit excess coverage on used merchandise or prohibited articles. Also, most carriers will not allow excess coverage on items with a released value dictated per the National Motor Freight Guide.

However, it is possible to purchase excess liability for items that are using FAK pricing. Often, it’s less expensive to purchase the excess liability than to use actual class rating. Excess liability, when available, ranges in cost. Below are examples.

Carrier	Cost/\$100 of Valuation	Minimum Charge
Old Dominion	\$0.60	\$45.00
FedEx Freight	\$3.00	\$62.00
UPS Freight	\$3.00	\$53.00
Estes Express	\$0.65	\$53.00
YRC	\$3.00	\$55.00

To request excess liability, each carrier requires shippers to follow specific instructions contained within their rules tariff such as noting the excess value requested on the BOL.



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## National Motor Freight Classification (NMFC) – Released Value

The NMFC is a guide that dictates one of 18 commodity classifications for products that can be shipped via LTL carrier. There is a direct correlation between commodity classification and carrier rate. The higher the classification, the higher the rate charged. As stated previously, classification is determined based on a combination of four criteria, density, value, stow-ability and handling. Within the NMFC, there are many items that are classified based on the density of the product and a few that are based on the value of the product, with a stated liability limitation tied to the classification.

The best example of this is computers, which are identified as Item 116030 within the NMFC. There are three classes for these items based on the carrier liability.

- Item 116030 Sub1 – Computers not exceeding a value of \$5/lb. Class 92.5
- Item 116030 Sub2 – Computers with a value of \$5 not exceeding \$10/lb. Class 150
- Item 116030 Sub3 – Computers with a value of \$10 not exceeding \$25/lb. Class 250

In essence, carriers are providing the shipper an option based on the liability they will cover. However, carriers will not allow one to use the lowest class and then purchase additional liability. Purchasing the additional liability would be far less expensive than the imbedded cost between these classes.

Let's assume a shipper is moving a 500 pound shipment of computers from Chicago to Los Angeles using Old Dominion Freight Lines with a 60% discount.

Product	Transportation Costs	Imputed Excess Value Cost*
Class 92.5 (\$5/lb. Liability)	\$505.36	
Class 150 (up to \$10/lb. Liability)	\$810.87	\$12.22/\$100 Value
Class 250 (up to \$25/lb. Liability)	\$1,351.34	\$8.46/\$100 Value
<i>*compared to class 92.5</i>		

In this particular case, adding extraordinary value coverage would be more economical since carriers charge approximately \$3.00 per \$100 value. However, because the NMFC dictates the valuation coverage, shippers are not allowed to do that.

### Exceptions

Carriers vary their liability and there are many commodity exceptions they incorporate into their rules tariffs. Nothing is standard and it is important for shippers to become familiar with their carrier's rules and exceptions, or face the consequences when a damage or loss claim occurs. While there are no standards, below are some of the more common exceptions carrier exceptions with regard to liability.



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### Shipments between US and Canada

Most LTL carriers who provide service to and from Canada have a provision in their rules tariff that limits liability, especially for shipments originating from Canada. Many carriers limit liability to \$2 per pound and often in Canadian dollars.

### Used

Many LTL carriers limit their liability to items which are used, reconditioned, refurbished or rebuilt. Such items often are released by carriers to a lower liability. For example, Old Dominion Freight Lines limits their liability on such shipments to \$0.10/lb., FedEx Freight limits these type shipments to \$0.50/lb. and UPS Freight limits them to \$1.00/lb.

### eBay, Amazon and Other E-commerce

Many carriers, similar to the limits placed on used items, have clauses that limit their liability for used merchandise purchased on sites such as eBay and Amazon.com.

### Spot Quotes

Many carriers stipulate specific released values in the event a shipment is moved under a "spot quote". Some carriers will specify the released value of spot quoted shipments with the quote, while other dictate their released liability in their rules tariff. Such limitation of liability can also apply to full load shipments and those governed by linear foot and cubic capacity rules.

### Pallet/Handling Unit

Some carriers limit their liability if the shipment is priced on a per piece basis, such as pallet pricing.

### Item Exceptions

Most carriers have provisions that limit their liability for specific items or articles. There is no standard and carriers who have such provisions list them in their rules tariff. Below are examples from various carriers of items with liability limitations.

Item	Released Liability
Cell Phones	\$3.00/lb.
Animal Feed Supplements	\$0.50/lb.
New Engines	\$5.00/lb.
Glassware	\$0.90/lb.
Metal Alloys	\$0.40/lb.
Paintings or Pictures	\$0.50/lb.
Printed Matter	\$0.50/lb.
Semi-Conductors	\$3.00/lb.
Incandescent Light Bulbs	\$0.10/lb.
Air Conditioners	\$2.00/lb.
Uncrated Machinery	\$2.00/lb.
Cigarettes	\$5.00/lb.



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### **Mexico**

For carriers who provide service to/from Mexico, they impose special liability limitations. Some carriers offer no liability if the shipment is in the possession of Mexican brokers, freight forwarders or Mexican carriers. Many carriers also have provisions of liability based on where the cargo loss happened (in Mexico or in the U.S.).

### **Expedited (Out of Network)**

Carriers offering expedited services where they use outside carriers to execute, often have liability limitations.

### **NMFC**

Where the National Motor Freight Classification provides released value rating, such valuation must be stated by the shipper at the time of shipment. In no case, shall the carrier's liability exceed the value as shown on the shipping order, Bill of Lading or invoice value, whichever is lower. Further, the shipment will be subject to the lowest released value in the Classification when either of the two following circumstances exists:

- 1) Shipper or shipper's agent fails to enter the released value of the property on the shipping orders and bills of lading at time of shipment.
- 2) Shipper or shipper's agent enters a released value which exceeds the "highest value" class as provided for the article(s) in the NMFC.

### **Per Package**

In general, carrier limits of liability are expressed in terms of dollars/pound/package, meaning if partial cargo damage or loss occurs, the carrier will be liable based on the weight of the package and not the entire shipment. Furthermore, carriers do not include the weight of pallets, skids or other conveyance accessories in the weight.

Example: A 20 piece shipment weighing 1,050 pounds (pallet weighs 50 pounds). If the maximum carrier liability is \$25.00/lb., the carrier would be liable for \$25,000 (subject to carrier's maximum liability per occurrence). However, if one carton is damaged or lost, the carrier's liability would equal \$1,250 (50 pounds x \$25.00) regardless of the total value of the shipment.

### **Minimum Charge Maximum**

At least one carrier notes a maximum liability of \$50.00 for minimum charge shipments, regardless of weight.

### **Corrected Bill of Lading**

Carriers do not allow for corrected bills of lading that are issued specifically to change the carrier's liability after a cargo loss or damage situation.



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## Shipper Options

The carrier liability for cargo damage and loss runs the gamut. There are no standards for released values and exceptions. More importantly, most of the terms relative to carrier liability exists within their rules tariffs. Some are contained within the NMFC, but the majority is in the rules tariffs.

It is extremely important for shippers to understand each carrier's rules tariff and liability limitations. Otherwise, they may face the potential of not fully recovering the value of shipments when lost or damaged. Rules tariffs are typically contained on the carrier's web-sites, but not always. Shippers can ask carriers to provide the most recent edition (they can change anytime) and then find the provision that stipulates what liability the carrier is willing to accept and what the shipper must do, to abide by its rules. There is no standard name for the provision. These provisions can be listed under maximum liability, released value, carrier liability or elsewhere.

Once the shipper is familiar with the carrier's liability, they can then assess whether to "self-insure" and/or even change the pricing provisions. For example, if the shipper has negotiated a FAK 50 and determined that the carrier's liability is only \$1.00 per pound and the product averages \$10.00/pound value, the shipper might wish to negotiate class rates or move to a higher FAK.

The shipper then calculates the savings realized from the pricing strategies and how much that saves in comparison to the claims exposure. In many cases, negotiating pricing that limits liability will, over the long term, pay dividends. I call this self-insurance. After all, no one wants to use a carrier that is going to lose or damage shipments all the time. However, things happen and the shipper can track or project the financial results of various price/liability combinations.

One other important strategy to deploy would be to enter into a solid transportation contract with the carrier that spells out pricing, surcharges and carrier liability. If the shipper chooses this option, they need to be very specific about the liabilities and whether the contract supersedes the carrier's rules tariff. Obviously, this is a negotiation and carriers might expect to exchange some pricing for liabilities beyond what is in their rules tariff.

## Conclusion

I have to admit that I have never read my full homeowner's insurance policy. I know that there are a lot of exceptions and probably liability limitations throughout. I guess I don't do that because I feel there isn't a lot I can do about those, other than perhaps find an insurance company that has fewer exceptions.

LTL carriers should and do exercise the right to limit their liability exposure on shipments. In order to provide affordable service, they have to minimize claims exposure. Furthermore, LTL carriers are exposed to all types of shipments in all types of situations.



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While I wish there were more standards around the liability issues, there aren't. When it comes to carrier liability, it's "caveat emptor", or let the buyer beware. Really the buyer should be educated.

Shippers must be familiar with the carrier rules for which they engage service. Granted, the rules are lengthy, cumbersome and hard to find, but they are a part of this business. Shipping managers need to know what their carriers will and won't do and the resulting costs.

There are ways to self-insure or secure trading off pricing for liability. There are also contract mechanisms you can use to ensure you have the protection you need. If you are using a 3PL, make certain you know what liability is being covered.

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