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Is Your Home Properly Insured?

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The Three Most Important Questions to Ask Your Insurer

NEW YORK, August 3, 2009 — For many people, their home is still their greatest investment. To protect their investment against theft, tornados, fires, hurricanes and other disasters, homeowners should review their insurance regularly to make sure they have enough coverage to rebuild the house and replace personal possessions, according to the Insurance Information Institute (I.I.I.).

“With home values falling in many parts of the country, some consumers may think they can reduce their homeowners insurance coverage. Doing this, however, could result in a homeowner being dangerously underinsured,” warned Jeanne M. Salvatore, senior vice president and consumer spokesperson for the I.I.I. “The real estate value of a

home is very different from the rebuilding cost.”

To properly insure your home, the I.I.I. recommends that you ask your insurance agent or company representative three key questions:

1. Do I have enough insurance to rebuild my home?

Your policy needs to cover the cost of rebuilding your home at current construction costs. Quite simply, you should have enough insurance to fully rebuild your home in the event that it is completely destroyed. Keep in mind, the cost to rebuild your home is not based on the price you paid for your home, the real estate value in today’s market or even the cost of new construction. Rebuilding costs are usually higher than new construction costs. Demolition and debris removal can further add to

rebuilding costs. Also, if you have made alterations or upgrades to your home, alert your insurance company so that these improvements are also properly insured.

When planning for rebuilding, consider the following coverages:

REPLACEMENT COST

Most homeowners policies cover replacement cost for damage to the structure. A replacement cost policy pays for the repair or replacement of damaged property with materials of similar kind and quality.

EXTENDED REPLACEMENT COST

This is designed to protect the policyholder after a major disaster when the high demand for building contractors and materials can push up the normal cost of reconstruction. This optional

coverage provides an additional 20 percent or more over the limits in your policy.

INFLATION GUARD COVERAGE

This coverage automatically adjusts the coverage limits when you renew your policy to reflect current construction costs in your area. Find out if your policy includes an inflation guard clause or whether you have to purchase the coverage separately.

ORDINANCE OR LAW COVERAGE

An endorsement (add-on) to a homeowners policy that pays a specified amount toward the additional expense of rebuilding your home to comply with ordinances or laws, often building codes, that did not exist when the home was originally built.

WATER BACK-UP

This coverage insures your property for damage from sewer or drain back-up. Most insurers offer it as an endorsement to a standard policy.

FLOOD & EARTHQUAKE INSURANCE

Standard homeowners insurance provides coverage for disasters such as fire, lightning and hurricanes. It does not include coverage for flood (including flooding from a hurricane) and earthquake.

Flood insurance is available through the federal government's National Flood Insurance Program (NFIP), but can be purchased from the same agent or company representative who provides your homeowners or renters insurance. A few private insurers also offer primary flood insurance. Make sure to purchase flood insurance for both the structure of your house and its contents. There is a \$250,000 limit on the structure and \$100,000 for contents. Keep in mind that after signing up for an NFIP flood policy there is a 30-day waiting period before it takes effect, so do not wait until the last minute. If you want to purchase coverage over and above that offered by the NFIP policy, some agents and companies also offer excess flood insurance.

Earthquake coverage is available in the form of an endorsement from private insurance companies and, in California, also through the California Earthquake Authority (CEA). Cost of insurance is based on factors including the type of home and its location.

2. Do I have enough insurance to replace all of my possessions?

Most homeowners insurance policies provide coverage for your personal possessions of approximately 50 percent to 70 percent of the amount of insurance you have on the structure of your home. So if you have \$100,000 worth of coverage on the structure of your home, you would be covered for \$50,000 to \$70,000 worth of the contents of your home, depending on the specific policy.



In order to determine whether this is enough coverage, you can create a home inventory—a detailed list of everything you own and the cost to replace these items. The I.I.I. provides free, online software at Know Your Stuff in order to help with this task.

You can insure your possessions in two ways: for their actual cash value or their replacement cost.

Actual cash value is the amount it would take to repair or replace your belongings, minus depreciation.

For example, if your six-year-old sofa is destroyed in a fire, the settlement you receive from the insurance company would be for only a certain percentage of its original value, as this value has depreciated due to age and wear. Replacement Cost is the amount it would take to replace your belongings with items similar type and quality, without deducting for depreciation. So, in the case of the six-year old sofa, you would receive the full price for replacing your sofa with a new one of comparable value and quality—minus your deductible and up to the limits of your policy.

Some standard home insurance policies automatically cover the contents of your home (i.e. personal belongings) on an actual cash value basis, so make sure to check your policy carefully. Replacement

cost policies cost about 10 percent more, but provide more extensive coverage. Make sure you review

with your insurance agent or company representative which type of coverage is best for your particular situation.

3. Do I have enough insurance to protect my assets?

Homeowners insurance does not just protect the structure and contents of your home, it also provides liability protection, which covers you

against lawsuits for bodily injury or property damage that you or your family members cause to other people. This coverage pays for both the cost of defending you in court and court awards—up to the limit of your policy.

Most standard home and renters insurance policies provide at least \$100,000 of liability coverage, however, additional liability protection is available. Make sure you have enough insurance to protect your assets and finances. You can increase the amount of liability coverage in your homeowners policy to \$300,000 or \$500,000. And, if you need additional protection, you can purchase an umbrella or excess liability policy. These policies cost about \$200 to \$350 for \$1,000,000 of additional liability protection and there is a requirement that a certain amount of underlying coverage already be in place—generally about \$300,000. Umbrella policies also provide broader coverage for claims involving libel and slander.

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