Insurance For Your House And Personal Possessions

Deciding How Much You Need

If your house burns down or is destroyed by a violent windstorm, or if your possessions are stolen, you don't want to suddenly find out that your homeowners insurance policy pays less than you thought it would.

The information in this brochure may help you avoid such unpleasant surprises if you file a claim.

Here's what you can do to avoid being underinsured.

1. Find out how much it would cost to rebuild your home.

The amount of insurance you buy should be based on rebuilding costs, not the price of your home. The cost of rebuilding your house may be higher (or lower) than the price you paid for it or the price you could sell it for today. Your insurance agent or company representative generally can calculate rebuilding costs for you or you can hire an appraiser to do the job. Your local real estate agent will be able to give you the names of appraisers. The cost of rebuilding your house is based on local construction costs and the kind of house you have, including the type of exterior wall construction-frame, masonry (brick or stone) or veneer; the square footage of the structure; the style-ranch or colonial, for example; the number of bathrooms and other rooms; the type of roof and the materials used; and whether it was custom built. Other things that affect the rebuilding cost are an attached garage, a fireplace, exterior trim and a home's special features, like arched windows. A good way to get a ballpark estimate of the cost of rebuilding your house is too calculate the square footage and multiply it by local building costs per square foot for your type of house. For example, suppose your home is 2,000 square feet (1,200 square feet on the ground floor and 800 on the second floor) and that building costs in your community and for your type of house are $80 per square foot. The cost to replace your home would be approximately $160,000. You can ask a real estate agent or appraiser for average building costs in your area.

2. If you already have homeowners insurance, make sure you have enough. Most insurance companies recommend you insure your home for 100 percent of the cost of rebuilding it.

Few homes are totally destroyed but yours could be one of those few. If it's insured for less than 100 percent of the rebuilding cost, you run the risk of not having enough money to replace it with one of similar size and quality. Make sure your agent knows about any improvements or additions to your house since you last talked about your insurance policy. If you don't increase your limits to cover the cost of rebuilding the new deck, a second bathroom, a larger kitchen or other improvements that have increased the value of your home, you may save a little money on your insurance premium but you risk being underinsured. Depending on the kind of policy you have, if you don't have sufficient insurance, your insurance company may only pay a portion of the cost of replacing or repairing damaged items. Look at your policy to see the maximum amount your insurance company would pay if your house was damaged and had to be rebuilt. The limits of the policy typically appear on the Declarations Page under Section 1, Coverage, A. Dwelling. Your insurance company will pay up to this amount to rebuild your home. Some banks require you to buy homeowners insurance to cover the amount of your mortgage. If the limit of your insurance policy is based on your mortgage, make sure it's enough to cover the cost of rebuilding.

3. Make certain that the value of your insurance policy is keeping up with increases in local building costs.

If the limits of your policy haven't changed since you bought your home, then you're probably underinsured. Ask your insurance agent or company representative about adding an "inflation guard clause". This automatically adjusts the dwelling limit when you renew your policy to reflect current construction costs in your area.

4. Find out whether you have a "replacement cost" policy for the dwelling.
Most policies these days cover replacement cost for structural damage, but it's wise to check with your insurance agent or company representative. A replacement cost policy will pay for the repair or replacement of damaged property with materials of similar kind and quality. The insurance company won't deduct for depreciation-the decrease in value due to age, wear and tear, and other factors. If you own an older home, you may not be able to buy a replacement cost policy. Instead, you may have a modified replacement cost policy. This means that instead of repairing or replacing features typical of older homes, like plaster walls and wooden doors, with similar materials, the policy will pay for repairs using the standard building materials and construction techniques in use today. Insurance companies differ greatly in how they insure older homes. Some won't insure older homes for 100 percent of replacement cost because of the expense of re-creating special features like wall and ceiling moldings and carvings. Other companies will insure older homes for 100 percent of replacement cost as long as the dwelling is in good condition. If you can't insure your home for 100 percent of replacement cost or choose not to do so-in some cases, the cost of replacing a large old home is so high that you might not want to replace it with a house of the same size-make sure the limits of the policy are high enough to provide you with a house of acceptable size and quality.

5. Find out whether building codes in your community have changed significantly since your home was built.
Building codes require structures to be built to minimum standards. If your home were severely damaged, you might have to rebuild it to comply with the new standards. In some cases, complying with the code may require a change in design or building materials and may cost more. Generally, homeowners insurance policies won't pay for the extra expense but some insurance companies offer an endorsement that pays a specified amount toward these costs. (An endorsement is a form attached to an insurance policy that changes what the policy covers.)

6. Consider buying a guaranteed replacement cost policy.
A guaranteed replacement cost policy will pay whatever it costs to rebuild your home as it was before the fire or other disaster, even if it exceeds the policy limit. This gives you protection against sudden increases in construction costs due to a shortage of building materials, for example, or other unexpected situations but it generally doesn't cover the cost of upgrading the house to comply with building codes. A guaranteed replacement cost policy may not be available if you own an older home.

7. Find out from your local government office whether your home is likely to be flooded.
If it is, contact your insurance agent or the Federal Insurance Administration at (800) 638-6620 and ask about the National Flood Insurance Program. Remember: Your homeowners insurance policy does not cover flood damage. If you buy a federal government flood insurance policy, consider insuring your home for 100 percent of replacement cost and buying insurance to cover the contents of your home as well as the dwelling.

8. Make a list of all your personal possessions.
This includes everything you and your household own in your home and in other buildings on the property, except your car and certain kinds of boats which must be insured separately. Among the things you should include are indoor and outdoor furniture; appliances, stereos, computers and other electronic equipment; hobby materials and recreational equipment; china, linens, silverware and kitchen equipment; and jewelry, clothing and other personal belongings.

9. Estimate the value of your personal possessions at current prices.
The total is the amount of insurance you would need to replace the contents of your home with new items if everything were destroyed.

10. If you already l have a homeowners insurance policy, find out how much insurance you have for the contents of your home.
The limit of the policy is shown on the Declarations Page under Section 1, Coverage, Personal Property. The contents limit generally is 50 percent of the amount of insurance on the dwelling but may be as high as 75 percent. On a home insured for $100,000, for example, the contents limit would be $50,000 (50 percent) or $75,000 (75 percent). Now compare the contents limit with the total value of the items on your list of personal possessions. If you think you're underinsured, discuss this problem with your insurance agent or insurance company representative.

11. Consider replacement cost insurance for your personal possessions.
There are two ways of insuring your personal possessions. If you have a homeowners insurance policy, find out whether claim payments for damage to your personal property would be based on replacement cost or actual cash value. Check your policy under Section 1, Conditions, Loss Settlement or ask your agent. As with insurance for the structure, a replacement cost policy pays the dollar amount needed to replace a damaged item with one of similar kind and quality without deductions for depreciation. An actual cash value policy pays the amount needed to replace the item, minus depreciation. Suppose, for example, a tree fell through the roof onto your eight-year-old washing machine. If you had a replacement cost policy for the contents of your home, the insurance company would pay to replace the old machine with a new one. If you had an actual cash value policy, the company would pay only a percentage of the cost of a new washing machine because a machine that has been used for eight years would be worth less than its original cost. That means that you would have to either buy a used machine or pay the difference between the amount your insurance company paid you and the cost of a new machine.

12. Check the limits on certain kinds of personal possessions, such as jewelry, silverware and furs.
This information is in Section 1, Personal Property, Special Limits of Liability. Some insurance companies also place a limit on what they'll pay for computers. If the limits are too low, consider buying a special personal property "endorsement" or "floater." An endorsement is an addition to your policy. A floater is a form of insurance that allows you to insure valuable items separately. Under a floater, you'll be able to insure these items for higher amounts than you can under a standard homeowners policy.

13. Now that you have a list of your personal possessions, keep the list up to date.
If you have a claim, the more information you have about the damaged items-a description of each and the date of purchase and purchase price-the faster the claim can usually be settled. Videotape or take photographs of rooms and their contents. Note where and when you bought each item and the price. Write down the brand names and model numbers of appliances and electronic equipment. Add new items as you buy them. Keep receipts with the list. Store the list, photos and other records somewhere safe off the premises-in a bank deposit box or with a neighbor or relative-so that they aren't destroyed if your home is damaged.

14. Be a wise consumer. Use the information in this brochure to find out how much insurance you need to avoid being underinsured.
Ask your insurance agent or company representative questions about your policy. Ask your agent to explain what factors were used to calculate the policy limits for the dwelling. If you don't understand the answers the first time, ask again. Check with friends. If you still have a problem or need more information, call NICH (National Insurance Consumer Hotline) at 1 800-942-4242.

Words you may need to know

Every effort has been made to define special terms whenever they are used in the text. For your convenience, however, several common insurance terms are defined below as well:

Actual Cash Value
The current value of property measured in cash, arrived at by taking the replacement cost and deducting for depreciation brought about by physical wear and tear, age and other factors.

Endorsement
A written form attached to a policy that alters the policy's coverage, terms or conditions.

Floater
A policy or endorsement that applies to moveable property whatever its location. The coverage "floats" or moves with the property.

Guaranteed Replacement Cost Insurance
Insurance providing for payment of the cost of replacing the damaged property without deduction for depreciation and without a dollar limit.

Inflation Guard Clause
Provision in a policy or endorsement that automatically adjusts the dwelling limit at policy renewal time to reflect current construction costs in your area.

Replacement Cost Dwelling Insurance
Insurance providing that the policyholder will be paid the cost of replacing the damaged property without deduction for depreciation, but limited by the dollar amount displayed under Section 1, Coverage, A. Dwelling on the Declarations Page of the policy.

Replacement Cost Contents Insurance
Insurance that pays the dollar amount needed to replace damaged personal property with that of similar kind and quality without deducting for depreciation.

Associates Inventory Services
Your Inventory Specialists
PO Box 50687
Billings, MT 59105
Phone: (406) 245-3676
Toll Free: 877-240-4647
Email: info@associatesinventory.com
Website: www.associatesinventory.com