



Homeowners Insurance: Do You Have Enough Coverage?

By Sandra Block

Determine whether you have enough homeowners' insurance to meet your needs. Many homeowners are shocked, after major damage, to find that their insurance policy doesn't cover them or doesn't pay for all or even most of their loss. To prevent this from happening to you, review your homeowners' insurance policy and check that the types of losses and amounts of coverage meet your needs.

A standard homeowners' insurance policy includes:

- **Hazard insurance.** This covers physical damage or loss involving your property and possessions (as required by mortgage lenders).
- **Liability insurance.** This covers injuries to people on your property or caused by members of your household (including pets).

Review the details and amounts of both hazard and liability coverage in your homeowners' insurance policy using the guidance below. Then, make any necessary adjustments by contacting your insurance representative or shopping around for a better or cheaper deal.

Hazard Insurance

The list of damage and disasters commonly covered by hazard insurance is surprisingly long: physical damage to your property and its contents caused by fire and smoke, wind, hail, lightning, explosions, volcanoes, riots and vandalism, theft, water damage, and similar events.

Nevertheless, that list doesn't cover everything that could happen. Check the boilerplate section of your policy called "exclusions." Flooding and earthquakes are commonly excluded from coverage – even though many homeowners assume otherwise. It's also typical for policies to exclude damage caused by mudslides, police activity, power outages, sewer backups, dry rot, or vermin, among other things.

If Necessary, Add Coverage

Insurance companies often don't want to sell you coverage for high-risk, high-expense types of damage, but you can buy extra coverage from your insurance company or from

another source (as is common with flood and earthquake insurance). The key is to buy added coverage for hazards that can cause huge damage (like sewer backups), or that are big risks in the area where you live – like earthquakes in parts of California, hurricanes along the Gulf Coast and Eastern Seaboard, or sinkholes in parts of Florida.

How Much Will You Get to Rebuild?

Let's take the most unlikely (but scary) scenario: A fire or other hazard ruins your house. You might expect your insurance company to pay for it to be rebuilt, just as it was, but what will actually happen depends on the terms of your policy.

The norm: replacement cost coverage. If your house is destroyed, the amount you receive to rebuild under a standard policy, with “replacement cost” coverage, will be a set dollar figure, which you'll see in the policy. That figure was calculated in advance, using the information you provided to the insurance company about the house's size, location, number and type of rooms, building materials, amenities, and more when you first got the policy.

However, when disaster strikes, this figure could be way off the mark, particularly if building costs have gone up, a widespread natural disaster increases demand for contractors, you have remodeled and not updated your insurance, or your house has historical features that will be hard to recreate.

The ideal: guaranteed replacement coverage. If you look hard (and pay more), you may find a policy that guarantees payment of 100% of your repair or rebuilding costs, without any limits. This rare creature is called a “guaranteed replacement cost” policy. If your house has historical features that are hard to reproduce, finding such a policy will be especially difficult.

To be avoided: actual cash value coverage. If your insurance policy pays the “actual cash value” of your house, you should start looking for new coverage. Cash value policies are sometimes pushed on people with older houses or ones with an inadequate water supply (a fire danger). You'll get the house's replacement cost minus any depreciation or wear and tear that it's suffered since being built – for example, they might deduct for a roof that needed to be replaced – which means you are almost guaranteed not to have enough to rebuild.

Check Coverage for Living Costs and Personal Possessions

In addition to checking your policy for how much you'll get to rebuild your home, check the fine print for these items as well:

- **Living costs while your home is being rebuilt.** This is called a “loss of use” provision and often includes hotel bills and restaurant meals for a certain period of time; one year is a standard provision, but if you can get coverage for two, that

- would be better. Some policies place a dollar limit (instead of a time limit) on your living expenses, often 20% of the total insurance on your house.
- **Replacement costs for personal possessions.** Much like the different amounts of money you can get for the house itself, there are different levels of coverage for the stuff inside. Some policies offer “replacement value,” meaning the actual cost of buying a new item. Others offer “actual cash value,” which is the amount you could get by selling your possessions after taking depreciation into account (think “how much can I get for it on eBay?”).
 - **Coverage for expensive items.** Your policy will probably apply separate limits (usually between \$1,000 and \$2,000) for big-ticket items such as jewelry, cameras, sports equipment, musical instruments, electronics, furs, firearms, coins, or silver that are damaged or stolen. If you want more coverage, pay for endorsements insuring each big-ticket item for its appraised value. These extra endorsements will also cover your items in the case of “accidental disappearance” (insurance-ese for “you lost it”).

Liability Insurance

Liability insurance compensates for two things:

- **Medical payments to others.** This pays the medical bills of people from outside your household who are accidentally injured while on your property or by you or a household member, including a pet, whether on your property or elsewhere.
- **Personal liability.** If you’re sued, this covers both your legal fees and any amounts a court orders you to pay to someone who was injured or whose property was damaged by someone in your household (human or animal).

Standard homeowners’ policies traditionally provide around \$100,000 in liability coverage. You can easily imagine how someone’s medical bills could top that amount, and if you’re sued you could end up paying even more. Rather than putting your house at risk of being sold to pay a court judgment, make sure your liability coverage is at a realistic level – between \$500,000 and \$1 million.

Check Your Deductible

A deductible is the amount you must pay after a loss before your insurance company steps in. Most homeowners agree to a \$500 deductible (for the hazard portion; liability insurance doesn’t normally carry a deductible).

However, raising your deductible can be a great financial move. It not only allows you to significantly reduce your premium costs, but also prevents you from being too quick to call your insurer for coverage. The more claims you make, the more likely the insurer is to raise your premiums or cancel your policy.

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