



Make it a Policy to Get Your Home Adequately Insured
By Kathy Kristof
Los Angeles Times

High temperatures and drought conditions are combining to boost fire risks in much of the country. That makes it more important than ever to ensure that your fire insurance is adequate.

Home values and construction costs have risen significantly in recent years, and that means homeowners who haven't updated their insurance policies could have grossly inadequate coverage.

Others simply underestimate the cost of rebuilding. And some misunderstand the terms of their policies, realizing too late that they're not covered for a significant loss.

"One of the things we discovered in the 2003 San Diego fire was how many people were underinsured," said Larry Arnold, a partner at the Newport Beach law firm of Cummins & White.

"What so many people don't realize is how dramatically the cost of rebuilding rises when an entire neighborhood goes up. What might normally cost \$100 or \$200 a square foot to rebuild could cost \$300 because there just aren't enough contractors to go around."

Worse yet, where homeowners were once protected from inadequate coverage with so-called "guaranteed replacement cost" policies that promised to replace a home regardless of the price, this type of coverage has gone the way of the full-service gas station in recent years, said Candysse Miller, spokeswoman for the Insurance Information Network in Los Angeles.

There are a few such policies around, but they're hard to find and expensive.

Now, most policies cap their coverage -- even on "extended replacement" policies -- to a percentage of the structural limits. In other words, a policy that promises \$100,000 in structural coverage may pay as much as \$125,000 or \$150,000, but not more.

If the house can't be rebuilt for less than the policy limit, the homeowner will have to come up with the remaining amount.

"If you have renovated a kitchen or bathroom, the question you have to ask yourself is did you call your insurance agent to see whether this changed the cost of rebuilding," Miller said. "If not, you may have to forget those granite countertops and rebuild with Formica."

Moreover, most policies limit coverage for contents to a percentage of the structural coverage. So, if the structural limits are inadequate, it's possible that the contents limits are too.

Miller suggests that homeowners review their policies once annually. Here are key things to look for.

Structural coverage

The "dwelling" limit on the policy -- theoretically the maximum amount the insurer would pay if the house were destroyed in a covered calamity -- should amount to at least \$100 to \$200 in coverage for each square foot in your home, experts said.

In other words, adequate coverage for a 2,000-square-foot home would range between \$200,000 and \$400,000. Homeowners who have wood (rather than composition) cabinets, granite countertops, or custom tile or carpets should estimate on the high end of that scale.

Building codes

If your home is more than 20 years old, it's important to know whether your policy will pay to upgrade to today's building code standards, Arnold said.

That's because policies typically pay to replace your structure precisely as it was before. If building standards have tightened, requiring more structural reinforcement, automatic sprinklers or other costly upgrades, the homeowner could be on the hook for a significant amount of the bill.

If you have an older home but no "building code" coverage, add it, Arnold suggests.

Separate structures

Detached structures on your property may not be covered if you use them for business purposes. For example, if you rent out your guesthouse or have a detached garage or office that you use for business, you'll need to check your policy carefully to ensure that they are covered.

You can buy riders to get these structures covered -- or get more coverage if your limits are inadequate -- at a fairly nominal cost.

Personal property

The standard policy pays 50% to 75% of the dwelling limit to reimburse homeowners for the furniture, clothing and other personal items that they lost in a disaster. The catch is that the policyholder has to establish what they lost and what it costs to replace.

For that, you need a home inventory, Arnold said. "Most people remember the big stuff, like the television and the DVD player, but do you know how many CDs or DVDs you have? Do you know how many shirts you have in the closet? You're never going to

remember all the utensils you have in a kitchen drawer, but it's really expensive to replace them."

There are two options: a written inventory or a video. Because writing every item can be ponderous, Arnold suggests that you walk through the house with a video camera, panning every room and then sticking the camera's nose into every drawer, closet and cabinet.

Narrate as you go, explaining what you're looking at and roughly what it cost to buy.

Other limits

People with expensive jewelry, tools or electronic devices should know that most policies have separate limits on coverage for more than a dozen items, including computers and cash. It's easy and inexpensive to buy extra coverage for your racing bikes or silverware collection.

Reprinted courtesy the Los Angeles Times