

5 home insurance myths you may have fallen for

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It may not be required by law, like auto or health insurance, but you'll need home insurance to protect your family and household from a financial disaster in case another kind of disaster strikes. Your lender may insist that you have a policy.

As with other types of insurance, there are common misconceptions about the coverage you're buying when you pony up a premium year after year, such as believing your policy protects your home against every possible thing that could happen. In a couple of very familiar examples, most home insurance won't cover earthquakes or floods.

"People tend to think of insurance in black and white, like, 'If I have insurance, I'm insured. If I don't, I'm not,'" says Amy Bach, executive director of United Policyholders, an insurance consumer group in San Francisco. "But there's actually a lot more gray in home insurance coverage than people realize."

Read on as we expose five common and costly myths about homeowners insurance.

Myth: It's OK to exaggerate your losses

Some homeowners think when they file a claim they should overstate the value of damage to their home out of fear of being lowballed by their insurer.

Bad idea, Bach warns.

"As soon as your insurer thinks that you're padding your claims, the trust in the relationship goes away," she says, "and they're going to treat everything you say and claim with suspicion."

David Marlett, chair of the department of finance, banking and insurance at Appalachian State University in Boone, North Carolina, recalls hearing a story about a man who filed a claim after his TV was stolen during a break-in.

The policyholder described the set as a 60-inch, but that story didn't seem to add up to the insurance adjuster when he visited the home. "As he examined the table where the TV had been located, there was a dust ring where the TV used to reside. However, it was a very small ring, and clearly the TV had been much smaller."

This type of insurance finagling is nothing new, Marlett adds.

“Insurance adjusters have seen every trick in the book and investigate claims every day.”

Myth: Your in-home injuries are covered

Do you assume your homeowners policy will provide a payout if you’re injured at home? If so, the truth may hurt.

You would have to look to your health insurance company for help covering your medical costs, says Christopher Hackett, director of personal lines policy for the Property Casualty Insurers Association of America in Chicago.

The liability portion of a standard home insurance policy covers the medical expenses of guests who are injured on your property, but not you or any of your family members.

Policies even include limited “no-fault” medical coverage to foot the bill for a guest injured in your home. The no-fault protection — which can be worth up to \$5,000 — pays your guest’s expenses without tapping your liability coverage, according to the Insurance Information Institute.

“They don’t look at who may have been responsible for the conditions that led up to somebody injuring themselves,” Hackett says about the no-fault component.

But again, your family’s medical bills would be excluded.

Myth: Insure your home by market value

If you think you’re doing your wallet a favor by basing your coverage on the current market value of your house, think again.

You should instead insure your home for what it would cost to rebuild and replace it, Marlett advises.

That’s particularly important if you live in a hot market where prices are rising quickly.

“If you insured for the market value, you would be purchasing more insurance than needed to pay for the replacement of your home and wasting premium dollars,” he says.

If you live in a not-so-hot market, choosing replacement cost over market value coverage also makes sense. “If you live in an area with a depressed market value, it could cost far more to actually rebuild your home than what your home is worth if you tried to sell.”

Your insurance company can help you calculate what it would likely cost to replace your home in the event of a total loss.

Myth: A policy covers all of your stuff

Just as home insurance doesn’t necessarily protect against every type of calamity, your policy also may

not cover every one of your possessions.

This falls under the myth of: “I’ve got insurance, therefore everything I have is covered,” Bach says.

“There are a lot of ways in which that’s not true.”

Insurers place limits on coverage for certain possessions, such as jewelry and rare collections. You would likely need to purchase additional insurance in the form of an endorsement, also called an “add-on,” for those items.

“Most insurers will offer an optional endorsement so you can insure ... whatever valuable personal property that you may have for its full value, should it be stolen or lost in a fire or anything like that,” Hackett says.

Myth: Older homes are cheaper to insure

It’s wrong to assume that insurance premiums are cheaper for homes that have more years on them.

“Older homes tend to have ... construction techniques that tend to be more expensive to replace than what you see in modern-day construction,” Hackett explains.

You might see crown molding, hardwood floors, plaster and stained glass in an older home, compared with drywall and wood veneer floors in a newer residence, he adds.

Some insurance companies may refuse to cover an older home if it seems too costly to repair, Bach warns.

When determining what it will cost to fix or replace your home, an insurer will evaluate several factors, including the features of your home and the materials used to build it.

“It’s always good for a consumer to get at least a few quotes from a few different companies to make sure that they accept a competitive premium to insure their property,” Hackett says.