Additional Living Expenses Coverage In Homeowners Insurance

Forbes

There's a battle raging over "ALE" and it has nothing to do with beer. ALE is the acronym for additional living expenses coverage. It's the money you'll need to live elsewhere if forced from your home due to fire or any disaster covered by your homeowners insurance policy.

ALE coverage pays for expenses beyond your "normal" costs at home. It is supposed to reimburse you for the extra costs to maintain the lifestyle you had before. That can include hotel bills, restaurant meals, emergency clothing, laundry service, pet boarding, storage, furniture rental for items you're accustomed to having, and much more.

ALE is typically found under the "loss of use" section in a home insurance policy.

California is the epicenter of this battlefield. It pits dispossessed homeowners against insurers they view as being tightfisted in paying ALE at a time when infernos devastated the Golden State.

The numbers tell the story, but don't describe the anguish: 8,600 wildfires just this year; 10,000 "structures"—mostly homes—destroyed; 4.3 million acres of ash. And the newly homeless? More than 102,000 people evacuated due to fires in the Los Angeles area alone in late October.

"People who lose their homes have enough to worry about without insurance company foot-dragging and delays," says California State Sen. Bill Dodd, who represents the scorched wine county near Napa. "They've paid their premiums and must be made whole."

The year 2020 was California's worst yet for fires, according to CoreLogic, a property-data analytics company. And 2017 and 2018 had set previous records. This leaves thousands of Californians living in trailers, motels or with relatives, while the state experiences a never-ending shortage of contractors and supplies like lumber and cement.

Homeowners wanting to go home confront debris removal and the cumbersome bureaucratic process of obtaining building permits at a time when their computers and documents may be gone.

The money to rebuild in this high-priced state—where an average home sells for $700,000 and the cost of rebuilding has risen nearly 10% in the last year—is also a challenge unless the insurance policy specifically includes “extended” or “guaranteed” replacement value for the house structure.

On Nov. 5, 2020, California Insurance Commissioner Ricardo Lara issued a mandatory one-year moratorium that blocks insurance companies from nonrenewing or canceling residential property insurance policies. This should help about 2.1 million policyholders who have been affected by the 2020 wildfire season.

This Witch’s Brew Haunts Both Government and Insurers

It’s a witch’s brew that haunts both state government and insurance companies alike. Last year, angry ex-homeowners took to the streets waving signs with spiteful slogans that blamed home insurers such as Allstate, Nationwide and State Farm because their two-year ALE limit had expired after the North Bay fires in California in 2017.

The state is on their side . . . sort of. A law sponsored by State Sen. Dodd now requires property-casualty insurers doing business in California to pay for homeowners’ living expenses for no less than three years. But the law isn’t retroactive and leaves a lot of furious people without their homes.

What’s a “Normal Standard Of Living”?

So, just how much money, for how long and under what circumstances will your home insurance company pay when you’re uprooted and can’t go home?

Many standard homeowners insurance policies, like the one offered by the NJM Insurance, have an open-ended clause stating that “payment will be for the shortest time required to repair the damage . . . or settle elsewhere.”

The ALE amount is supposed to be enough so that “your household can maintain its normal standard of living.” Renters’ policies can also cover ALE.

But don’t expect an unlimited stay at the Four Seasons. The homeowner and insurer will negotiate exactly what the latter will cover.

“The yardstick is a similar kind of home or apartment to yours,” says Insurance Information Institute spokesperson Janet Ruiz, who is based in California.

The insurance company is likely to set a specific time frame for completion of the repairs, so don’t expect three years as opposed to the usual two years in places where contractors and supplies are available.

Home insurance policies often set time or dollar limits on ALE in the contract and sometimes both. “Some specialty carriers have no time or dollar limit for high net-worth clients, but only a few provide unlimited ALE,” says Ruiz.

What if your home is only partially damaged? “For those victims the rub is whether it’s safe to reinhabit,” says Amy Bach, executive director of San Francisco-based United Policyholders, an advocacy group for those who are insured. There may be smoke residue, damage within the walls or dangerous materials like asbestos that were exposed by the fire.

“You need to know if your property has been properly cleaned or if your insurer is trying to take a shortcut,” she warns.

Additional Living Expenses Are Limited for Temporary Evacuations

There are limits on ALE in instances where your home isn’t damaged but your whole community was required to evacuate. This is the situation that confronted hundreds of thousands in California due to firestorms, as well as the power outages and water shortages that followed. In this case, the state requested that insurers allow these displaced homeowners to receive extra coverage for ALE rather than the normal two weeks contained in most policies.

This could happen anywhere there are high winds, or in suburbs where forests inch right into backyards. You’ll find this coverage in the “Civil Authority Prohibits Use” section of the insurance contract. But a simple loss of utilities, such as an ice storm knocking down a power line or a planned power outage, “would not trigger ALE,” says Ruiz.

Other Limits to Additional Living Expenses

So, what else won’t ALE cover? The answer: a lot. With floods haunting the Gulf Coast and earthquakes shaking the West Coast, don’t expect help from your average homeowners insurance policy.

ALE is only activated for disasters that are “covered perils.” An earthquake isn’t covered under most homeowner’s insurance, so additional living expenses aren’t covered after quake damage. You’d have to purchase a separate policy or rider to your regular insurance coverage, such as earthquake insurance from the California Earthquake Authority.

But hurricane winds would qualify for ALE coverage under home insurance.

The most glaring omission for additional living expenses coverage is flooding. The Federal Emergency Management Agency (FEMA) says that 90% of this country’s natural disasters involve flooding and the odds are twice as high of being drowned out rather than burned out. Even a homeowner in parched California is more likely to deal with a flood than flee from a wildfire.

While it’s easy to purchase flood insurance from FEMA, ALE isn’t given to flood victims. And there are limits to the amount of FEMA’s coverage: $250,000 for the home itself, and nothing for living expenses while it’s under repairs. Private flood insurance policies may include ALE, but you have to search for them or add a private flood policy to your FEMA coverage for an additional cost.

Check your homeowner’s insurance policy for your ALE coverage limit. You can increase the limit if you think it wouldn’t be enough, especially once you add up hotel bills, meals and all the other potential extra costs if you can’t live at home.