

Are home warranty policies worth the cost?

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A home warranty can protect your home's heating, electrical, cooling and other systems from expensive problems that regular home insurance doesn't cover.

That means if your water heater fails, a home warranty – legally known as a service contract – could save you hundreds of dollars in repair costs.

"The companies that offer service contracts provide them for a fixed fee to service, repair or replace typical household systems and appliances that fail due to normal wear and tear," says Arthur Chartrand, counsel for the National Home Service Contract Association (NHSCA) in Olathe, Kan.

According to the NHSCA, a basic home services contract usually covers the following:

- Ductwork
- Dishwasher
- Electrical system
- Garage door opener
- Garbage disposal
- Heating system
- Interior plumbing
- Oven, stove and range
- Water heater

But some consumer experts say you should think twice about purchasing a home warranty. Although there is a potential for price savings, home warranties themselves cost hundreds of dollars a year.

"People could use their money to build up their emergency fund," says Amy Bach, executive director of the United Policyholders, a San Francisco-based organization that bills itself as a "voice and information resources for insurance consumers nationwide."

Home warranties vs. home insurance

Home warranties are not the same thing as homeowners insurance. Home insurance covers losses due to sudden, unexpected events, such as a catastrophic storm or theft. Your lender usually requires you to purchase this type of insurance.

On the other hand, service contracts are optional and cover failures that happen because of wear and tear.

“It’s essentially the opposite of insurance, but they can be complementary,” says Chartrand.

Service companies are required to be licensed, Chartrand says. Businesses in all 50 states must follow consumer protection laws, and legislation is often administered by a state’s insurance department, he says.

A service contract also is not the same thing as a homebuilder’s warranty, which covers new construction, Bach says. That warranty comes with a new home — the homebuilder offers a guarantee on the workmanship of the property and its systems.

With those protections in place, you probably don’t need a service contract, she adds.

On the other hand, if your home and its appliances are older, they are more likely to break down, Chartrand says. A service contract covers the cost of repairs if the equipment fails, and that could save you the hundreds of dollars, he says.

Bach agrees that a service contract may make sense on an older home. If you buy a service contract, you’ll also have access to a pre-qualified list of repair people “who may give you better service than what you’d get by finding someone out of the phone book,” Bach says.

“The repair guy wants to keep the home warranty company happy,” she says.

Home service contracts also can give you an edge if you’re trying to sell your property. If you can offer potential buyers the remainder of your home warranty, it could make your house more attractive, Chartrand says.

Home warranties: Buyer beware

However, there are downsides to home warranties, too. One is the cost. A basic services contract costs between \$350 and \$500 per year, according to the NHSCA. In addition, when a claim is made, there is usually a service charge per call of about \$35 to \$100.

In addition, many systems and appliances aren’t protected under a basic warranty. According to the NHSCA, the air conditioning unit, refrigerator, washer and dryer are usually optional items that would need to be added on to a basic contract in order to be covered.

Warranties typically do not cover “pre-existing conditions – failures determined to have been present before the start of the contract. It may be difficult to pinpoint when a failure occurred, so the homeowner may not know for sure that an item won’t be covered until the service call, says Bach.

Contracts usually have a lot of exclusions, too, Bach says. For example, if you try to make a claim and the repair person determines that the equipment wasn’t correctly installed or modified, the item likely won’t be eligible for service.

Bach adds that if you do choose a home warranty, anything that's not listed in the contract wouldn't be covered. It's important to read the documentation carefully before signing any type of agreement, she says.

Finally, if you plan to use your home warranty, you may not get to choose the person who comes to fix your problem, Bach says. If you have established relationships with repair people in your community, then it may be better to work with them instead of relying on a service contract, she says.