Do’s And Don’ts When Insuring Your Home

DO:

1) **Recognize that underinsurance after a total loss is a very common problem.** Many homeowners find themselves underinsured after a total loss even though they followed their agent or insurer’s recommendations. If you find yourself in this position, get educated and enforce your rights. The promise of security that insurers advertise and sell is part of the contract you paid for. It’s up to you to enforce your rights under that contract. For more information, visit our underinsurance help page.

2) **Establish a contact at a reputable insurance company, agent or broker’s office that is qualified and authorized to advise you on properly insuring your home.** The advice you’ll get from an agent that only represents one insurance company will be different from the advice you’ll get from an “independent” agent or broker that represents several competing companies.

3) **Be specific that you want to make sure your home is properly insured and that you want to buy full replacement coverage.** Many agents fear that if they tell you the true cost of fully insuring your home you will go elsewhere to find a cheaper policy. Be clear that you will pay a fair premium for full replacement coverage and insist you don’t want to gamble or underinsure your home.

4) **Answer all questions truthfully** so the insurance company knows the size of your home, other structures, the style of construction, major improvements, unusual features and your high value personal property items.

5) **Follow the insurer, agent or broker’s recommendations on increasing or maintaining your limits.** Get and keep a record of the insurer, agent, or broker’s confirmation that your limits are adequate.

6) **For extra security, buy the highest percentage replacement cost endorsement you can afford.** This is a “fudge factor”. If you suffer a major loss and it turns out your insurer set your limits too low, this endorsement is designed to bridge the gap. Replacement cost endorsements are sold as percentage amounts above your stated dwelling limits. Most insurers offer 25-100% above limits. Shop

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around for this important protection.

7) **Figure out the cost to replace your contents and adjust your policy limits accordingly.** Some items such as jewelry, art items and collectibles may be better insured if they're specifically listed in your policy contract. This is known in the industry as "scheduling." Scheduled personal property items are listed with separate coverage limits in a document that becomes part of the policy contract.

8) **Make sure you have enough contents coverage. A replacement cost endorsement that increases your dwelling limits may not also increase your contents limits.** Most insurers set the limits for your possessions, ("contents") as a percentage of the limits on your dwelling. Contents limits are typically set at 50-75% of dwelling limits. Most insurers sell a replacement cost endorsement that only increases dwelling limits. This means your contents limits will stay at the amount stated on your "declarations page" even if the replacement cost endorsement kicks in to increase your dwelling limits. A few insurers sell a policy that allows both dwelling and contents limits to increase. If yours doesn't, make sure you get confirmation that your limits in all categories are high enough or buy coverage elsewhere.

9) **Make sure your policy offers adequate coverage for building code upgrades.** The safest bet is full building code upgrade coverage, which is available from companies such as Fireman's Fund, Safeco, Chubb, and Allied. Most other insurers offer either an extra 10% for building code upgrade coverage or a flat $25,000.

10) **Your Additional Living Expense (ALE) limits should cover rent, etc. for at least two years after a total loss.** Many companies require you to use your ALE coverage within 12 or 24 months after a loss, even if you haven't exhausted the limits. This can be a problem because it always takes longer to rebuild than you anticipate, especially in a disaster area. If your insurer only offers 12 months of ALE, consider switching to a competitor. You may not have to pay a lot more for better ALE coverage. If your insurer offers a fixed dollar amount with no time limitation, divide that amount by 24 months to compare the coverage. Some policies refer to ALE as "Loss of Use."

11) **Make sure you tell your agent about improvements to your home.** Most carriers require you to report any renovations costing $5,000 or more.

12) **Take steps to make your home eligible for better, cheaper coverage.** To qualify for the best

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coverage, homeowners need a newer roof, updated plumbing, wiring, heating system, and a bolted foundation. Ask your agent what you can to do to lower your risk of loss.

13) **Opt for higher deductibles.** Increasing your will lower your premium. You're generally better off paying small claims out of pocket anyway, especially until insurance regulators reign in "use it and lose it". "Use it and Lose It" refers to some insurers' recent practice of refusing to renew the policies of customers who file claims. This allows insurers to continue to collect premiums but shrink payouts by discouraging customers from filing claims...use your insurance, lose your insurance!

14) **Avoid extra headaches after a loss: Photograph or videotape your home and contents and store copies of the photos or the negatives off-premises.**

15) **If your agent contacts you at renewal time to review your coverages, spend time with him or her discussing your policy limits and insist again that you want to make sure you're fully insured.**

16) **To be extra safe, check the dwelling limit ("Coverage A") that appears in your policy against what you know about your home and construction costs in your area. If they don't match, ask your agent or insurer to explain why they don't.** Contact reputable homebuilders in your area to determine the current range of per square foot construction prices for your type and size home. Apply that range to your home; add at least 15-20% to account for future price increases and post-disaster price spikes and compare it with the dwelling limits your insurance company has set. Discuss and resolve any discrepancies with your insurer, agent or broker.

17) **Double check the formula your agent or insurer used to set your dwelling limits ("Coverage A").** Ask the agent or insurer to send you a copy of the worksheet he or she used to calculate the cost to rebuild your home. Some insurers give their agents worksheets that are designed for calculating homes less than 3,000 square feet with newer construction. These worksheets may cause homes that have unique characteristics or higher quality of materials to be underinsured. If your home is large enough, your insurer may send out an appraiser, and if they do, make sure you get a copy of the appraiser's report.

DON'T:

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1) **Don’t rely on the purchase, appraised or estimated sale price of your home to set your dwelling limits.** That is not predictive of the cost to rebuild**.**

2) **Don’t be penny-wise and pound-foolish by buying the lowest priced homeowners policy.** Your home is your biggest asset – make sure it’s covered.

3) **Don’t understate the size and amenities of your home to get a lower premium quote.**

4) **Don’t underestimate your personal possessions.** You’ll be surprised how much it costs to replace what you had if you suffer a major loss.

5) **Don’t be afraid to switch insurers to get a better policy.** Loyalty doesn’t benefit you in this context. Many homeowners pay premiums to an insurer for 20 years without ever filing a claim, but when they suffer a major loss and find themselves underinsured – that customer loyalty doesn’t matter. Don’t expect your insurer to reward you by increasing your limits without a fight, just because you’ve been a long time customer. It just doesn’t happen.

6) **Don’t wait until after a loss to get appraisals of valuables.** Do store copies off-premises.

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