Check Up on Your Home Insurance

http://www.kiplinger.com/magazine/archives/check-up-on-your-home-insurance.html

The national average premium for homeowners insurance will increase by 5% in 2012, according to forecasts by the Insurance Information Institute. That follows an increase of nearly 4% in 2011, and it will bring the average annual premium to an all-time high of $1,000. At the same time, home insurers are adding exclusions and requiring higher premiums to cover certain risks, such as mold and water damage. Meanwhile, the housing bust and recession have pushed the median home price down 35% since the market's peak. But the cost to rebuild a home after a total loss has increased by 40% since 2004—7% in 2011 alone—thanks to rising building-material and fuel prices. So you could find yourself paying more for less coverage. Worse, you may not have enough insurance to cover the full cost of rebuilding your home and replacing its contents in the event of a fire, a tornado or some other major disaster.

Use your annual renewal notice or any improvements to your home as cues to touch base with your agent or insurer. Recheck how much insurance you really need and comparison-shop, taking advantage of opportunities to save. You can use the same tactics if you're buying a new policy.

Check your limits

"In the aftermath of a total loss, every homeowner says, 'My insurer told me I was fully insured,' " says Amy Bach, executive director of United Policyholders, a consumer advocacy group. "I've heard it a thousand times from people who have found themselves short—sometimes by hundreds of thousands of dollars." She urges homeowners not to blindly trust that their home insurer has all the bases covered.

The first step in getting adequate coverage is to establish your policy's dwelling limit. Your target number is the full-replacement cost of your home and its possessions. The dwelling limit bears no relation to your property's market value if you were to sell it), its appraised value for mortgage financing) or its assessed tax value. And don't mistake the cost of new construction for the cost to rebuild, which is more expensive because of factors such as debris removal and higher demand for materials and labor after a catastrophe. Bach says it generally costs $200 to $250 per square foot to rebuild the average home today. But if you live in a unique or historic home, in a high-end community, or in a hard-to-reach location, the cost could run $400 per square foot.

You can get a pretty good idea of what it would cost to rebuild your home by using an online calculator, available at sites such as HMFacts.com $7) and AccuCoverage.com $8). Both will ask you about the structural components, features and amenities of your home and, using databases of local labor and material costs, estimate your total cost to rebuild.

Your insurer or agent will probably help you determine the dwelling limit, using much the same script as the online tools do. Although you can answer many questions about your home over the phone, nothing substitutes for an on-site visit. Site visits are a routine practice for many independent agents, who represent more than one insurer, and for representatives of high-end insurers, such as Chubb and Fireman's Fund.

The dwelling limit also determines your policy's other coverages—typically 10% of the dwelling limit for other structures on your property, 50% for contents and 20% for loss of use of your home additional living expenses when you can't live in your home).

Take stock of your stuff

The amount of coverage built into your policy for the possessions in your home as a percentage of the dwelling limit) may be inadequate to replace them. And although your policy may cover expensive items, such as jewelry and furs, it may limit the payout to $1,000 to $2,000. Other items that may be capped include silverware, computer equipment, art, antiques, stamps, coins and guns.)

Create a home inventory to ensure that you have the right amount and type of coverage. In addition, an inventory will make filing a claim smoother, establish verifiable value for your things after a disaster, and make it easier to prove your losses for tax purposes. The Insurance Information Institute's home-inventory app at KnowYourStuff.org) and the app from the National Association of Insurance Commissioners make saving that information a snap. Be sure to include serial numbers, photos or a video, and receipts or appraisals.

Once you know what you have and how much it will cost to replace, you can add coverage with a scheduled personal property endorsement or personal article floater), which typically costs about $20 per $1,000 of property value annually although it varies by item and location).

Update your inventory periodically to cover new purchases and gifts, and get updated appraisals of your valuables so that you can adjust your coverage. For example, gold jewelry inherited from Mom could be worth almost three times what it was worth five years ago.

Cover the gaps

It's a good idea to purchase guaranteed replacement coverage, meaning the insurer will pay whatever it costs to rebuild your home with materials of like kind and quality, without deducting for wear and tear. Avoid actual cash value coverage, which pays the depreciated value of your home's components and could leave you short of the funds necessary to fully repair or rebuild your home.

Most insurers build a fudge factor of 25% to 50% into the dwelling limit. Lacking that, you need to buy extended replacement coverage, a bargain at about $25 to $30 annually for an extra $200,000 of coverage, says Bach.

You might be tempted to save money by reducing your dwelling limit and picking up the balance with extended coverage. Two caveats here: First, you'll reduce coverage of your contents as a percentage of the dwelling limit. Second, in the event of a total loss, your policy's current dwelling limit must equal at least 80% of the cost to rebuild or you won't get the benefit of any extended coverage to make up the difference.

Also, look for protection against a higher cost to rebuild due to inflation inflation-guard endorsement) or upgraded building codes ordinance or law endorsement).

A number of insurers have switched from the broader and more desirable all risks coverage covering everything except those things expressly excluded) to the more narrowly defined named perils policy, which should cost less but may not. Request an all-risks policy, and if an insurer doesn't offer it, look elsewhere. Review your policy's exclusions for risks such as wind, water, earthquakes, sinkholes and flooding, and buy supplemental coverage. Flood insurance is never included in standard homeowners policies. You'll need to get coverage from the National Flood Insurance Program get quotes and information about flood risks for your property at www.floodsmart.gov).

Sewage backup is often excluded from homeowners insurance policies unless you get a special rider, which can often add $10,000 to $20,000 in coverage for about $50 per year. In fact, that's one of the most common insurance gaps people discover during storm season and one of the easiest to fill. Last August, as Hurricane Irene moved up the East Coast, Steve Weisbart, chief economist for the Insurance Information Institute, was glad that he, unlike many of his neighbors, had coverage in case his sewers and drains backed up. As local sump pumps emptied water from basements into the overwhelmed sewer system, the sewage backed up into homes through toilets and drains. Weisbart collected on a $10,000 claim.

Your homeowners insurance also covers personal liability and medical payments to others. The typical policy provides $300,000 of liability coverage, which will protect you if someone is injured on your property. You can increase your coverage to $500,000 for about $25 more a year. Consider increasing your liability coverage to $1 million with an umbrella policy.

Get the best deal

When they decide whether to cover you, insurers consider factors such as the age, materials, condition and replacement cost of your home, the risk associated with your location, your claims history the type and number of claims that you've filed or that your home has experienced), and your credit score.

Comparison shopping is easier if you work with an independent agent who represents many insurers to find one, visit Independent Insurance Agents and Brokers of America). You'll pay a commission typically 10% to 15% of the annual premium), but it may be worth it for the guidance, and the agent should explain why one insurer or policy will better meet your needs than another. You can also get quotes from a direct-market company, such as Geico or USAA. And it's worth checking out State Farm and Allstate, which sell through their own agents.

For specific advice about homeowners insurance in your state, visit the Web site of your state's department of insurance, which may provide worksheets for comparison shopping. Before you buy a policy, check prospective insurers' ratings for financial strength at www.ambest.com) and complaint records. Also, keep a record of your communications, as well as the insurer's assurances of coverage should there be any question of your coverage after a disaster for more on making a claim, see How to Get Insurance Companies to Pay Your Claims).