Covered by homeowners insurance? Don't be so sure

CNN Money

Bought or renewed a homeowners insurance policy lately?
You've no doubt noticed that premiums have gotten pretty pricey. Rates have climbed 69% over the past decade to an average of $1,000 a year.
What you may not realize is that you could be facing another vast expense. Insurers have also been quietly hiking deductibles, scaling back basic coverage, and adding new restrictions.
Coverage now varies widely among carriers, but that's not always clear when you're shopping around, says Daniel Schwarcz, a University of Minnesota professor who has studied hundreds of policies.
"Consumers shop almost entirely on price and reputation," notes Schwarcz, and exclusion clauses are often written in legalese and buried in a policy that runs dozens of pages. Moreover, comparison shopping is difficult, since consumers rarely get a copy of the policy before they buy.
When disaster strikes, you could get hit with tens of thousands of dollars in costs for damages that you thought were covered.
The reasons for the changes are complex. Homeowners is one of the least profitable types of insurance; on average, over the past 10 years firms have lost money on these policies, according to the National Association of Insurance Commissioners NAIC).
Insurers say that's largely because of unpredictable weather. There were 953 "weather events" insurers considered catastrophes in the U.S. in the past five years, compared with 602 in the previous five, according to industry data.
In 2011 the amount insurers paid out for the average claim was nearly double the amount in 2002, according to the Insurance Research Council. More trouble: Firms make money in part by investing your premiums; that means at times they can recoup higher claims costs with market returns. The financial crisis and low interest rates haven't provided much relief there.
To cope with squeezed profits — and so they could beef up their reserves to pay for freak massive storms — insurers stopped writing new policies in some disaster-prone areas in recent years and pushed for

higher premiums. Regulators pushed back on the prices. “If we allowed the rate increases companies wanted, nobody would be able to afford insurance,” says Kevin McCarty, Florida’s insurance commissioner and a past NAIC president.

So insurers made up the gap by cutting coverage, leaving homeowners in a precarious position, say consumer advocates. “It’s easy to think you’re covered when you’re not,” says Amy Bach, executive director of advocacy group United Policyholders, which has lobbied the states to reject stripped-down policies and make coverage more transparent.

For the foreseeable future, however, the onus is on you to make sure your biggest investment is fully protected. In the following you’ll find out where your coverage most likely falls short and learn the best way to plug those holes.

WATER: Coverage is thinner than you think.

A shower pipe bursts behind the bathroom wall — you’re covered, right? Maybe not.

In the past decade insurers have scaled back significantly on covering that cracked pipe, leaky toilet, and clogged drain.

Water coverage began getting less generous after a jury in a 2001 Texas lawsuit involving toxic mold awarded a family more than $30 million later slashed). Toxic mold grows in the damp, and nowadays payments for mold claims are all over the map: 60% of the insurers that Schwarcz studied in a recent analysis of 60 policies in six states capped mold coverage at $2,500 to $50,000; another third paid nothing.

The cutbacks now extend to broader water damage. In Texas, for example, the insurance department found that nine of 10 policies in 2010 were less generous than the state-approved “prescribed” policy a benchmark created by regulators), nearly double the number in 2002. Your policy probably used to exclude claims from water leaks that occurred over a period of weeks, months, or years. Now it probably specifies that the leak can’t have lasted longer than 14 days — even if the source was hidden, say, behind a wall or under a foundation.

Those limitations snagged Fredi Cohen, who is suing a Florida insurer over its refusal to pay for a burst shower pipe in her late mother’s condo that caused an estimated $35,000 in damage in June 2011. Three weeks later an engineering firm hired by the insurer found that the plumbing had been leaking for more than 14 days. By that time, Cohen says, the damage was so old it was impossible for her to dispute the firm’s findings. “I was astonished,” Cohen says.

Solution

Up your protection. Get a rider that covers sewer and drain backups — generally excluded from policies — especially if you have a sump pump. Expect to pay 10% to 20% of your premium for such a package.

On a Seattle home insured with Safeco for $400,000, $20,000 in such coverage costs $146 a year, according to NRG Insurance.
Be vigilant about prevention. Place wireless water alarms $25 for three) under your sinks and behind the water heater and washer — they'll go off at the smallest leak. Eye your water bill for unusual activity, which could alert you to a larger problem say, a leaky hose in the yard).
REPAIR: Real-world costs may exceed your check.
Insurers used to provide a guarantee that they'd pay to fix your home no matter what. But after so many widespread catastrophes, they've pared back.
One reason is the "demand surge." After a big storm, contractors and building supplies are in unusually short supply. The temporary shortage drives up prices. Today you'll rarely find guarantees, and certainly not in disaster-prone states instead, your policy will simply say it covers "replacement costs").
If you want better protection, you need to buy optional extra insurance, or "extended" replacement, which kicks in to deal with unforeseen costs. Also, insurers have added lots of caps and limitations. For example, many eliminated coverage for screened-in pool enclosures and patios after Hurricane Wilma in 2006 tripled the price for those items. Allstate's new House & Home policy says the older the roof, the less Allstate pays toward replacing it.
Even if your replacement benefit will pay for your losses, you may be subject to picky rules for filing claims. Your insurer first will hand you a check for what it calculates is the actual cash value of what you've lost, accounting for depreciation. Then, once you actually replace the items or rebuild, insurers pay the extra cost. Specific requirements vary among carriers. Some say only that homeowners must notify their insurers of their intent to replace within six months. Others mandate that the work must be completed in six months. Policies also differ by state; some require insurers to offer more time, such as Maryland two years) and California one year).
Paula and Michael Sher were tripped up by this kind of fine print after a fire severely damaged their Long Island home in July 2008. Between getting permits and winter storm delays, they say rebuilding took more than two years, but their Allstate policy said they had to have been finished within six months to claim $97,000 in extra replacement-cost benefits. The Shers sued, saying the requirement is unreasonable. An Allstate executive says the company has found that 180 days is "more than enough time" in the majority of cases. After discussions with regulators on multiple complaints, however, Allstate changed its New York policies, so it now allows two years for rebuilding the Shers' case is pending).
Solution
Get extended replacement coverage. A typical rider costs about 10% of your premium and will tack an extra 25% onto your replacement benefit, enough to cover most situations. Also buy replacement-cost

coverage for your personal property about 10% of the personal-property premium); basic policies typically reimburse based on the depreciated value.

Understand what you're getting. Few homeowners take the time to read their policy and, even if they do, may not realize how one phrase — sometimes one word — can mean thousands of dollars come claim time.

Gregory and Moira Taylor, for example, thought they were covered when a heavy 2010 storm caused the carport at their Maryland home to collapse. Their State Farm policy included the "sudden, entire collapse of a building"; plus, their agent told them it was covered, according to state insurance department documents. State Farm, however, denied the $1,706 claim, saying a carport does not meet the criteria for a building which must have a roof and at least three walls). The Maryland insurance department agreed with State Farm, but the assistant attorney general is appealing the decision to the state supreme court.

Get it in writing. Make sure to document your steps in rebuilding, such as interviewing contractors and applying for permits.

Ask for an extension. Think you won't meet the time limit? Call your insurer and request a reprieve. If you're denied, file a complaint with your state insurance department and ask it to intervene on your behalf.

Make a thorough home inventory. Document every inch of your home and you lower the chances you'll have to fight over coverage for your personal property. Use the free app from knowyourstuff.org, or hire a home inventory professional find one through nahip.com) for $300 to $600.

MORE: Wind damage

Homeowners' deductibles typically run $500 to $2,500 — unless damage is due to a windstorm.

Special wind deductibles were first introduced after Hurricane Andrew in 1992, and they've now been extended to 19 states plus the District of Columbia — and in some cases to tornadoes and hailstorms.

Instead of a set amount, you can opt for a percentage of your property coverage, typically 2% to 5%. Put another way, for a home insured for $400,000 with a 5% deductible, you'd be out $20,000 before your insurer forks over a dime.

Solution

Stay with a 2% deductible. Upping to 5% will offer only minimal savings on premiums, says agent Billy Wagner of Brightway Insurance in Florida.

Know where you'll get the cash. You need enough cash in reserve to cover the largest deductible you will incur if a windstorm hits. If it would take a while to save that much cash, open a home-equity line of credit to draw on when you need it, says Dallas financial planner Michael Anderson.

REBUILD: Your policy may not pay for an up-to-date dwelling.
Insurance is designed to rebuild the home you have. But especially with older homes, newer, tougher building codes can make an exact replacement impossible unless you pay more than the cost of your original home. Historically a typical policy allotted 10% of your dwelling coverage toward the extra expenses of satisfying modern building codes.
These days policies vary widely, Schwarcz has found. In his analysis, 20 didn't cover the extra costs at all unless you had added a rider on your policy; another eight offered coverage that wouldn't cover the full expense.
Solution
Opt for extra coverage for an older home. If your home is less than 10 years old, 10% of dwelling coverage for code updates probably suffices — verify that your policy includes it.
For older homes, and in disaster-prone areas where codes change more rapidly, upgrade your policy to include 20% for "ordinance and law." Costs depend on location, says Kurt Thoennessen of Ericson Insurance; for a home insured for $400,000, going from 10% to 20% may cost $25 a year in Connecticut but $200 in Florida. The cost also varies widely by carrier; some price it high because they would prefer not to insure older homes, he says.
To help pay for this, you may want to increase your basic deductible. Going from a $500 to a $1,000 deductible will cut your homeowners premium at least 10% it's not worth making a bunch of small claims anyway; you risk your carrier dropping your coverage).
FLOOD: Coastal dwellers are taking a big risk.
Private insurers long ago stopped covering flood damage, so homeowners have to purchase it through the National Flood Insurance Program.
There are two problems with that. One, many people outside high-risk zones don't have it — including some who probably should. Two, the federal program maxes out coverage at $250,000 for the dwelling and $100,000 for your personal property, which could easily fall short of the amount needed to rebuild your home.
Flood insurance also has its own restrictions. Among them: It won't replace trees, decks, and pools, or help you fix your finished basement. It won't pay for personal property or for living expenses you incur while your home is uninhabitable. And as homeowners affected by storms Irene and Sandy in the Northeast have discovered, some claims are being denied if even an inch of the first floor is below ground.
Getting stuck with only $250,000 in coverage could happen more often than you imagine. When damage results from both wind and flooding — as in most big storms — insurers want proof that they, and not

flood insurance, should pay. After Hurricane Katrina reduced thousands of homes to mere slabs, insurers simply denied claims because there was no proof the damage wasn't caused by flood courts overturned most of those denials).

Solution

Pony up for flood coverage if you live near any body of water. Even melted snow can cause a flood, says the Insurance Information Institute. Rates depend on your home's age and location.

Live in a high-risk zone? Though expensive, you may want "excess" flood insurance, sold by only a few insurers. Another $250,000 in dwelling coverage and $100,000 in contents might run about $1,000, says Wagner.

Finally, be realistic. Before deciding to transform your basement into the man cave of your dreams, understand that you'll have to foot the bill for flood damage. Avoid keeping valuable belongings there if you live near the water, or at least plan to remove them before a storm, says the III's Jeanne Salvatore.

Looking to buy a coastal home? Keep in mind that by drastically cutting back coverage or refusing to write policies at all in some highly storm-prone areas, insurers have effectively declared these places too risky to inhabit. Says Salvatore: "Insurance costs are something people really need to think about to begin with when they buy a house."

HOW TO SHOP FOR A POLICY

The myriad ways insurers now offer homeowners insurance makes comparison shopping challenging—but critical. Use the four tips below to help you get the best possible deal.

Get five quotes. Agents may be tempted to quote cheaper policies in their eagerness to land the sale. So talk to three, including at least one who can give you multiple quotes. Find one at iiaba.net; click on Contact Us.)

Compare. A few state insurance departments, such as Nevada's, post sample policies online; Texas has a policy comparison tool at opic.state.tx.us click on Compare Policies). Your state's policies will be similar.

Ask the right questions. Your agent should give you a list of all the riders each carrier provides; bundling riders may earn you a discount. Ask how replacement-cost coverage is handled.

Request a sample policy. Many agents will provide them in advance, even though they don't have to. And once you buy, make sure you read the policy. You can always cancel and get a refund.