

[Four costly homeowners insurance mistakes to avoid](http://www.nextavenue.org/blog/4-costly-homeowners-insurance-mistakes-avoid)

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This piece was written by Caroline Mayer, a consumer reporter who spent 25 years working for The Washington Post:

With record-setting snows pounding the Northeast and tornadoes rocking the South, major weather events are sweeping the country.

These storms and subsequent ones are likely to bring scads of sad stories of homeowners discovering that their insurance policies didn't cover them for as much as they had expected. That could mean huge unanticipated expenses.

The High Cost of Fine Print

So before the next big storm hits, be proactive. You may not be able to escape Mother Nature, but you can be better prepared by reviewing your homeowner's policy to make sure you're adequately protected. "Wouldn't you rather know now what's covered and what's not rather than later, when you have to file a claim and find out the insurer won't pay?" asks Robert Hunter, director of insurance for the Consumer Federation of America.

4 Mistakes You'll Want to Avoid

As you read through your homeowner's policy, see if you're making any of these four mistakes and take the appropriate steps if you are:

Mistake No. 1: Underinsuring your house

Insurance experts say failing to have enough insurance to cover the cost of rebuilding your house if it's destroyed is the biggest mistake homeowners make. Amy Bach, executive director of the consumer advocacy group United Policyholders, says one 2009 study found that two-thirds of U.S. homes are underinsured.

Why? For one thing, many homeowners buy only enough insurance to cover the amount of their mortgage. But the mortgage may be, at most, 80 or 90 percent of the value of the house, depending on the original down payment less, if the home has appreciated in value).

For another, some policyholders insure an amount equal to the current value of their homes. But this figure may be far less than the actual cost of rebuilding your house, including labor and supplies and both of those may rise sharply after a storm when there's big demand and short supply).

What should you do? First, calculate how much it would cost to rebuild your house.

You could ask your insurance agent, but Bach encourages you to use a professional home-replacement cost estimator, who'd likely provide a more accurate number. The fee can run about \$300, but some insurers offer this service for free to their high-value customers.

Alternatively, you could ask a local real-estate agent, builder, contractor or building association for the average rebuilding cost per square foot in your area or pay for an estimate from the websites HM Facts or Accucoverage.

Once you know what it would cost to rebuild, see if your coverage is close to that figure. If it isn't, increase your protection.

When estimating your rebuilding cost, remember to add in what you'd pay to replace any special features in your house, such as marble floors or high-end woodworking.

To avoid making this calculation every year, ask your insurer about an automatic inflation provision. Of course, this may raise your premium.

You might also consider instead getting extended replacement coverage, which means the insurer would pay up to 125 percent of your policy limit to rebuild your home.

The top of the line protection — and the most expensive option — is “guaranteed replacement cost coverage,” where the insurer will pay to rebuild your home no matter what it costs.

Be sure you're adequately covered for your valuables, including jewelry, art, antiques and computer equipment, too. A good tool to take an inventory is the free software and iPhone/Android app, KnowYourStuff.org, from the Insurance Information Institute.

Ask your insurer how much you'd get if your belongings needed to be replaced. The figure could be based on what the items are now worth or what it would cost to replace them, a better, but more expensive alternative. Don't overlook buying extra coverage, known as floaters or riders, for jewelry, electronics or art since policies ordinary limit protection for valuables.

Mistake No. 2: Assuming you have flood insurance

This coverage is not part of a standard homeowners contract. If you live near a lake, river, flood plain or the ocean, you should definitely buy it. You may be required to have flood insurance in order to get a mortgage in certain places.)

But coastal area homes aren't the only ones that need flood insurance. Inland areas near water can sustain serious flood damage from ground water too, even in hurricanes, says Michael Barry, the

institute's director of media relations.

"That was a huge problem in Hurricane Sandy and even more so the year before, with Hurricane Irene which caused inland flooding in New Jersey; Albany, New York; and even Vermont," he says. Flood insurance isn't hard to get; it's a federal program that accepts everybody who wants the coverage. The price varies, depending on your risk of flooding and the amount you want. You could pay \$55 a year for \$8,000 of above-ground, contents-only coverage in a low-risk area or over \$8,000 for \$250,000 "basement and contents" coverage in a high-risk area.

What should you do? Determine whether you need extra coverage by visiting the National Flood Insurance Program's site, FloodSmart.gov. If you find your home is at risk, ask your insurer if it will sell you flood insurance. The answer is usually yes.

If not, the Federal Emergency Management Agency site has a list of private insurers that sell and service flood insurance policies.

Don't delay; there's a 30-day waiting period between buying a policy and the date your coverage begins. So act now, before the heavy spring rains.

Mistake No. 3: Thinking you have one, flat deductible

You might believe your maximum out-of-pocket cost would be \$500, \$1,000 or whatever amount you said when you bought your policy. Wrong.

In the case of named storms, like hurricanes or such major weather events as windstorms and earthquakes, the deductible often becomes a percentage of your coverage. So it could wind up being 1 to 5 percent of the insured value for a flood or as much as 10 to 15 percent of coverage for an earthquake. So, if your house is insured for \$300,000, but you sustain damage in a windstorm, you could be socked with a \$15,000 deductible when you file your claim.

What should you do? Ask your agent or insurer if your policy has different deductibles, depending on the cause of damage.

If so, inquire about getting a policy that has the same flat-rate deductible no matter what. This may be hard to find and will be more expensive.

Stuck with a potentially sky-high deductible? Then be sure you have enough in emergency savings to come up with the cash, if necessary.

Mistake No. 4: Believing you're covered for mold or sewage backup

Many homeowner's policies don't offer this protection or have claim limits.

What should you do? Inquire about additional coverage for protection from mold or sewage backup which is often a problem in large downpours).

The cost of coverage for sewage backup isn't terribly expensive, about \$40 to \$50 a year. It's worth

buying.

But mold insurance can run about 10 times that much — if you can find it.

So, assess your risks to determine if you need mold protection. Odds are you do if you live in a humid area or your house is old and was built without mold-resistant materials the newer the home, the more likely it's been made with them).

Despite the high cost, mold coverage could be a worthwhile expense since the cost of removal is quite high. And insurance, after all, is to protect you against large expenses.