Keep home insurance up to date

Observer Reporter

I read an article on how a wildfire in Colorado destroyed 1,000 homes. The article claimed the losses would exceed $1 billion dollars. United Policyholders, a national nonprofit consumer-advocacy group based in California, claims two-thirds of fire victims are underinsured based on their surveys. That is the potential of millions of dollars in claims that will go unpaid in this one incident.

A major cause of being underinsured is the difficulty for homeowners in determining how much coverage they need, said Daniel Schwarzc, a professor at the University of Minnesota Law School, who has studied homeowners insurance. Part of the problem is that consumers have wide choice, and many opt for cheaper policies to hold down their annual premiums. Schwarzc also blamed the lack of transparency in figuring out what limits and coverages should be purchased. He claims many consumers assume that an agent or insurer has a financial incentive to sell them more coverage than they need. But some agents promote cheaper policies because they don't want to lose a sale to a rival.

Recently I had a customer question why my premium on his home insurance was 50% more than what he was quoted from one of my competitors. I asked him to send me a copy of what he was quoted. First the quote consisted of three lines, the amount of coverage on the dwelling, the liability limits and the premium. The dwelling limit was less than his current policy, as was the liability limit. There was no description of the type of policy or its limitations. When I brought that to the customer's attention, he said all he was concerned about was the premium.

For those of you who are concerned that you have enough coverage to replace their home if it is destroyed, let me give you the following advice. Insurance policies require you to carry an amount of insurance on the dwelling that at the time of loss will replace at least 80% of the dwelling. If you do not have that amount of coverage they can depreciate the value of your claim based on the age of your dwelling. Simple example: A claim on a 15-year-old roof with 30-year shingles could result in paying for only half of the damage versus paying for a new roof.

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So how do you know if you have enough coverage? Your insurance agent should be able to provide you with the replacement cost of your dwelling. He or she should have a computer program, that, if the correct information is inserted, will determine the cost of replacing your home based on local construction costs. Then your agent should explain how the policy will keep up with inflation. Many companies use a construction cost index based on ZIP code. A simple 2% increase each year does not work.

Ignore market value (what you paid for the dwelling). Market value includes the lot. It also takes into consideration the age and location of the dwelling. In western Pennsylvania, we have many large homes where the market value is less than the replacement cost of the dwelling.

Once you are sure you know your replacement cost and insured your home correctly your job is not done. You need to notify your agent of any changes or upgrades you have made to your dwelling. I once insured a mobile home, and when talking to the insured 10 years later, was surprised to learn the insured built a new home on the same property and never thought to tell us.

When was the last time you met with your agent and reviewed the coverage? If you can't remember, give him or her a call. A few minutes of your time could save you thousand of dollars when a claim occurs.

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