

Renter's Insurance 101: What Does Renter's Insurance Cover?

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If you're a renter and you assume your personal property is protected by your landlord's insurance, you could be making a huge mistake. Without renters insurance, you're at risk of losing all your personal possessions.

Many people don't realize that the owners of rental units buy only enough insurance to protect their own investment, says Rosemary Campbell, vice president of personal lines at Cheney Insurance in Damariscotta Maine. It's up to renters to insure their personal property.

"They think the landlord owns the home, so he will cover everything," she says. "He only insures the structure."

Who has renters insurance?

A survey by Nationwide released in April 2014 found that 56 percent of renters between ages 23 and 35 lack renters coverage.

Tenants often underestimate their insurance needs, says Emily Cabral, program coordinator for the United Policyholders consumer group. They don't realize that the value of what they have in their rented apartment, house or condo can add up to thousands of dollars.

"If you take the top of your apartment and turn it upside down, make sure you have enough insurance to cover everything that falls out: pots, pans, linens, even foodstuffs," Cabral says. "If they were completely wiped out, what would it cost to set up a household again?"

How much does renters insurance cost?

Jim Armitage, an insurance agent in Arcadia, Calif., says a typical renters policy costs between \$120 and \$200 a year, depending on the value of the property that's insured.

A basic policy costs about \$120 per year and generally provides \$10,000 in personal property coverage, \$100,000 in liability insurance, and medical payment coverage of \$1,000 per person for each accident, he says.

For most clients, Armitage recommends a minimum of \$25,000 in personal property coverage, \$300,000

in personal liability insurance, and \$100,000 per person in medical payments coverage. This policy typically costs \$200 per year.

What does renters insurance cover?

When you buy renters insurance, your possessions are protected against losses from fire or smoke, lightning, vandalism, theft, windstorms, explosives and water damage not caused by floods. Most policies also have off-premises coverage, so that property taken outside of the home remains covered.

Just like home insurance, a renters policy provides liability protection. Up to your policy limits, it will pay for the losses of people who are injured or suffer property damage because of your actions, or the actions of members of your household.

If you become the target of a lawsuit, your liability coverage will pay your legal bills, says Kevin Foley, a New Jersey insurance agent.

A basic policy typically covers the replacement of lost property at actual cash value, Foley says. When making cash-value payments, insurance companies depreciate lost or damaged items based on their age.

For example, if you owned a five-year-old desk that was stolen, the actual cash value would be what you would have to pay for a used desk of the same age and condition.

If the desk were covered at its full replacement cost, you'd receive the price of a new desk of similar quality and have no out-of-pocket costs, minus your deductible.

A typical renters policy deductible is \$500, says Michael Barry, a spokesman for the nonprofit Insurance Information Institute.

Armitage says upgrading to full-replacement coverage typically would raise your annual premiums by about 10 percent. For basic coverage costing \$120 per year, that's an extra \$12.

Renters who own expensive items, such as artwork and collectibles, should consider buying a floater policy for extra protection, Armitage says. For example, a renter typically can purchase a floater for jewelry valued at \$5,000 for about \$75 per year.

What if your home becomes uninhabitable?

A renters policy covers additional living expenses (ALE), in case you're forced to temporarily move while your home is repaired. This coverage will pay for hotel bills, restaurant meals, and other expenses caused by your forced move, Armitage says.

Karl Newman, president of the nonprofit NW Insurance Council, says most insurance companies don't place a limit on the amount of time policyholders can receive ALE benefits.

Payments typically are made for the shortest time necessary to repair the damaged rental home, he says. If policyholders decide to relocate permanently, payments are made for the shortest time required

to get them settled elsewhere.

Having no time limit on ALE benefits gives insurers flexibility to settle claims on a case-by-case basis. The maximum amount insurance companies will pay in ALE often is based on a percentage of the policyholder's personal property coverage. While each company has its own formula, 20 percent is typical, Armitage says.

For example, if you purchased \$25,000 worth of personal property renters insurance, you would have a limit of \$5,000 on your additional living expenses.

Insurance companies often write ALE checks immediately, paying benefits in a lump sum to enable policyholders to quickly secure housing, Barry says.

"Insurers understand that cutting a check to get the ball rolling is in everyone's interests," he says. "It allows you to get immediate housing."

What's excluded by a renters policy?

Flood and earthquake insurance aren't included in a standard renters policy. If you live in areas prone to floods or earthquakes, ask your agent about the cost of adding these coverages.

Flood coverage is available from the federal government's National Flood Insurance Program and some private insurers. Renters in moderate-to-low risk areas typically are eligible for preferred coverage for as little as \$57 per year.

Cabral says earthquake policies for renters typically cost between \$120 and \$300 per year, depending on the home's location. Some insurers sell this coverage as a policy rider.

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