

What to look for in homeowners insurance

CNN Money

NEW YORK CNN/Money) – Our homes are more than valuable assets. They’re safe havens, and protecting them with insurance is a must. How well you do that depends on the details of your policy. Here’s what to look for:

Make sure you can rebuild

The most sweeping coverage you can buy is a Homeowner 3, or HO-3, policy. In some states, even more deluxe HO-2000 policies are available.) A cash-value policy can leave you vulnerable because it covers only the depreciated value of your home and belongings. Instead, opt for a guaranteed replacement clause, which covers the cost of rebuilding. Most insurers cap coverage at 120% to 150% of the value of your house. Purchase extra if you believe your insurer’s appraisal is low or if your home has handcrafted cabinetry or other expensive features. Review your policy every time you make substantial improvements. If your home is more than 20 years old, make sure your policy will pay to upgrade to current building codes. If not, you’ll need an ordinance and law endorsement.

Cover rent

It can take months or even years to rebuild or repair. A loss-of-use clause covers living expenses over and above your normal costs. This insurance is usually capped at 20% of your home’s coverage, but some insurers will let you purchase more.

Protect your property

Coverage for what’s inside your home is calculated as a percentage of your home’s value, typically 50%. Luxuries like jewelry, art and electronics are usually subject to replacement limits of \$1,500 to \$2,500 per item, so you may want a personal-property rider. Don’t rely on your memory — photograph or videotape your possessions, and keep this dated record in a safe-deposit box or other secure place outside your home.

Guard your assets

You may need more liability protection than the \$300,000 a typical standard policy provides. “If you’ve got a dog, a swimming pool, a home-based business, teenage children, a high-profile job or a job that has the appearance of deep pockets, you’re open to a lawsuit,” says Madelyn H. Flannagan of the

Independent Insurance Agents of America.

Take care of business

If you work from home, you need a home-business endorsement to cover your equipment and liability.

Prepare for a deluge

Homeowners policies do not cover flood, earthquake and, in most cases, sewer or storm-drain damage.

You can buy flood insurance from the Federal Emergency Management Agency www.fema.gov;

800-427-4661). The policy costs an average of \$372 a year-more if you live in a high-risk area.

Earthquake insurance is sold by private insurers. A sewer endorsement could boost your premium by 5% to 10%.

Expect new clauses

Until Sept. 11, most consumers never paid much attention to the act-of-war exemption found in most homeowners policies. In general, the definition of war hasn't included terrorism, and insurers have already said they will not enforce those riders in the wake of the World Trade Center attack. But insurers are proposing to exclude damage from terrorist acts in the future, says Don Griffin, spokesman for the National Association of Independent Insurers.

Assume nothing

Many renters and condo or co-op residents mistakenly believe they're covered by someone else. Renters insurance covers only your possessions, so it's relatively inexpensive-a typical policy costs \$169 a year for \$15,000 worth of property. In a condominium or co-op, master policies cover the structure, including your bare walls, floors and ceilings. But often you must insure anything on those surfaces, from rugs to chandeliers-even drywall and wallpaper.

Nab discounts

With premiums on the rise, it is all the more important to look for ways to cut your premium. Alarm systems can pare costs by as much as 20%. Simple safety devices like smoke alarms and deadbolts can save you 5%, according to Insurance Information Institute. Many insurers will give 5% to 15% breaks if you buy two or more policies from them. Also, consider boosting your deductible. Upping your out-of-pocket costs from \$500 to \$1,000 can save up to 15%; a \$5,000 deductible, 25%.