

Do I really need insurance for my home?

Insurance, any kind, is your protection against the uncertainties of day-to-day living. For most people, their home is their single most valuable possession and their biggest investment. Homeowners insurance protects your investment as well as you, the members of your family and your household possessions. If you were to suddenly lose your home due to fire or a tornado or have the contents damaged or stolen, like most of us, you probably could not afford to replace everything all at once. And if somebody sued you for an injury or damage caused by you or your property, the cost of defending that suit could run into thousands of dollars just for legal fees - regardless of the outcome of the suit. All of these situations are covered by the homeowners package policy. And while it may be unpleasant to think about fire, theft, and other "uncertainties of life," let's face it, they are there and things happen. Yet another reason you need to carry homeowners insurance is that mortgage lenders require it. No mortgage company will lend the large amounts of money needed to finance homes at today's prices without requiring an insurance policy to protect that investment.

I know I have that homeowners policy in a drawer somewhere. What exactly does it cover?

"Exact" coverage is hard to define because there are different policies and about 900 insurance companies writing most of the property/casualty business in the United States. However, 80 percent of homeowners policies are based on a standard form and that is the one described in this guide. All homeowners policies cover two important areas: property and liability. Remember that you have to have protection against the proverbial thief in the night and the person who slips on your sidewalk by day. What this means in insurance terms is that your homeowners policy has two basic components. It covers your structures and possessions - property insurance - and it furnishes protection against personal liability. Personal liability, as its name implies, means you are legally obligated to pay money to another person for actions caused by you, your family, or your property. That liability extends to medical payments to others for injuries caused by you or your family.

What kinds of perils am I protected against?

Remember that policies vary but homeowners insurance usually covers damage to both structures and personal property caused by:

- Fire or lightning
- Windstorm or hail
- Explosions Riot or civil commotion
- Aircraft
- Vehicles
- Smoke
- Theft or vandalism (sometimes called malicious mischief)
- Falling objects
- Weight of ice, snow or sleet
- Freezing of a plumbing, heating, air conditioning or other such household system

In fact, your coverage is most likely even more comprehensive than the above list. Many homeowners policies cover damage by "just about everything," unless the coverage is specifically excluded. In these cases, it is even more important to understand what is not covered.

What about floods, earthquakes and other catastrophes?

Most catastrophes are covered; for example, wind damage from hurricanes and tornadoes come under the windstorm peril listed in the previous question and so are included. Flood and earthquake damage, however, are not covered by a standard policy. Be careful not to be lulled into a false sense of geographic security. Flood and earthquake activity is more widespread than many people realize. For example, almost 90 percent of the U.S. population lives in seismically active areas. Since 1900, earthquakes have occurred in 39 states and caused damage in all 50. And if your home is located in a flood-prone area, you are 26 times more likely to suffer a flood loss than a loss from fire. You may want to check with your agent about special catastrophic policies for normally excluded conditions like floods and earthquakes. Of course, the cost of such extra coverage may reflect the high risk involved. If you live along a shoreline, for example, expect to pay a higher premium for flood coverage than someone living on a mountaintop would pay.

Are there any other exclusions I should know about?

There may be other exclusions spelled out in your policy such as neglect, intentional loss, "earth movement," general power failure and even damage caused by war. If you neglect to take care of your property (e.g., a leaky roof), you may not be covered. Obviously, if you intend to lose an object or damage your property, there is no coverage. One other exclusion that can be costly is the Ordinance or Law exclusion. Building codes established by governmental bodies that drive up the cost of rebuilding or repairing after a loss occurs may not be covered by your insurance policy. Thus, if you discover when replacing damaged property that current law demands higher grade or more expensive materials than the original ones being replaced, the new materials may not be covered for the full price. For example, if the current building code in your area requires a higher grade of electrical wiring and after a fire you are replacing all the wiring in your home, your policy may cover only the cost of replacing the older wiring. The difference in cost between the old wiring and the new wiring required by ordinance or law is your responsibility. Even if you live in a fairly new home, laws and building codes are constantly being updated. Coverage to include ordinance or law requirements can be added to your homeowners policy with an endorsement - an addition that could save you money in the long run.

Are the backyard shed and my color TV both covered in my homeowners policy?

Yes, they are both your property so they are both covered. The value of the real property - your home, garage, shed and other structures - is generally based on the value of the main structure, the house itself. Thus, if the house were insured for \$75,000, the shed, detached garage and other auxiliary structures would be covered for 10 percent or \$7,500 worth of damages. Additional property protection features may include living expenses should your home not be habitable for a period of time. Your personal property is also covered by a homeowners insurance policy. Personal property includes the contents of your home and personal belongings used, owned, worn, or carried by you or members of your household - basically, everything and the kitchen sink! This coverage is also based on the house coverage, and there are limits on the losses that can be claimed. Higher limits can be purchased for both real and personal property.

Who decides how much my property is worth?

State laws may dictate how losses are to be figured, which means the same insurance company may use one method in one state and a different method in another. The common methods are:

Actual Cash Value - The replacement cost of the item minus depreciation. For example, a new television set may cost \$500. If your 7-year-old TV set gets damaged in a fire, it might have depreciated 50 percent. Therefore, you would be paid \$250 for that set.

Replacement Coverage - The cost of replacing an item without deducting for depreciation. So today's cost for a TV set with features similar to the 7-year-old one damaged by fire would determine the amount of compensation. If it still costs \$500 today, that would be the replacement coverage. Replacement value should not be confused with market value. The market value is what your house, for example, would actually sell for and is generally more than the replacement cost. This is because replacement value does not include the land - which almost always does not need to be replaced. Check your policy. If you prefer replacement coverage and do not already have it, this coverage can be added to your policy. Typically, the difference in premiums is 10 to 15 percent to upgrade from actual cash value coverage to replacement coverage. However, it is well worth it to protect your investment in your possessions. Your agent can advise you of the costs involved.

How much will I be paid for damage to my personal property?

Remember that homeowners insurance is designed to cover general personal possessions, not valuable collections like antiques, jewelry or original art. Insurance companies deliberately limit their coverage of expensive possessions so that household premiums are more affordable to everyone. After all, if they had to cover museum-level art collectors under standard homeowners policies, we would all end up paying higher premiums to cover those expensive items. Your policy lists the specific monetary limits for personal property under what is called "Special Limits." Those limits usually are:

- \$200 for money, bank notes, gold and silver (other than goldware and silverware), platinum, coins, and medals.
- \$1,000 on securities, accounts, deeds, evidences of debt, letters of credit, notes (other than bank notes), manuscripts, passports, tickets, and stamps.
- \$1,000 on watercraft, including their trailers, furnishings, equipment and outboard motors.
- \$1,000 on trailers not used for watercraft.
- \$1,000 for loss by theft of jewelry, watches, furs, precious and semiprecious stones.
- \$2,000 for loss by theft of firearms.
- \$2,500 for loss by theft of silverware, silver-plated ware, goldware, gold-plated ware and pewterware.
- \$2,500 on property on the resident premises, used for business, and \$250 on this property damaged or lost away from the premises.
- If these limits seem low to you (maybe that engagement ring is worth much more than \$2,500), you may wish to talk to your agent about additional coverage for specific items.

Does my policy cover my possessions even when I go on vacation?

Yes, perhaps in this case the term "homeowners" is misleading because this is a package of insurance coverage that extends to all your possessions no matter where they are. If you take a round-the-world vacation and lose a valuable item, as long as the loss is by a covered event or peril, the location does not matter. The liability component also extends well beyond the

boundaries of your home. Should you be found legally at fault for injury or loss to another individual, whether you unfortunately caused a tumble down a San Francisco hill or a fall in an Indiana barn, that is personal liability which again is addressed in your homeowners policy. As in the property section of your homeowners policy, there are limits and exclusions to personal liability. Your business activities, for example, are not covered under a homeowners policy. You are also not covered for injuries or damage you purposely cause. So if a fight with a neighbor turns physical and you end up bopping him on the nose, your homeowners insurance will not cover the injury or any resulting suit. Your policy lists specific exclusions and limits.