Know Your Insurance

Home

Courtesy of Acumen Solutions Group

How to Avoid Underinsuring Your Home

Your home is one of your greatest assets and a significant long-term investment. As such, it's vital to protect your home and its contents with adequate homeowners insurance. Nevertheless, recent research found that many homeowners lack proper coverage. In fact, nearly 2 out of every 3 homes in America are underinsured—which means that the home is protected to an extent by a homeowners policy, but that policy doesn't have sufficient limits or coverage features to cover the full expense of a potential claim. What's worse, the average underinsurance amount is over 20%, with some homes being underinsured by as much as 60%.

Don't let your home become another statistic and suffer the devastating consequences of inadequate coverage in the event of a loss. Review the following guidance to ensure your homeowners insurance policy meets your unique needs and can offer the best possible protection when disaster strikes.

Coverage Elements to Consider When Insuring Your Home

Homeowners insurance offers financial protection in the event of an unexpected disaster or accident involving you, your home or your personal property. However, homeowners insurance policies consist of several different types of coverage. With this in mind, it's important that you review each form of coverage included on your policy to make sure you are adequately insured for your specific risks. Here are some key coverage elements to look out for:

- **Dwelling coverage** is the portion of your homeowners insurance policy that can offer compensation for the cost of repairing or rebuilding the physical structure of your home if it gets damaged or destroyed by a covered event (e.g., a fire, a windstorm or vandalism). To secure proper dwelling coverage:
    - Make sure you have enough coverage to compensate the full cost of rebuilding your home in the current market—including construction expenses (e.g., labor and materials) and the associated costs of making sure your home is compliant with any new or updated building codes within your community. Many homeowners make the mistake of only purchasing enough coverage to compensate the real estate value of their home—which is typically far less than the cost of rebuilding.
    - Don't forget any important features of your home's structure when determining the cost of rebuilding. This includes the flooring, countertops and the type of or quality of materials used throughout the structure. Further, avoid making a rough estimate when determining the cost of rebuilding. Be as exact as possible and consider getting assistance from a qualified property valuation expert to ensure a correct calculation and adequate coverage.
    - Be sure to recalculate the cost of rebuilding your home and review your coverage needs whenever you make changes to your home—such as renovating the bathroom, remodeling the kitchen or adding an attached garage.
- **Other structures coverage** is the portion of your homeowners insurance policy that can help cover the cost of repairing or rebuilding any detached structures on your property (e.g., a shed or fence) if they get damaged or destroyed by a covered

© 2020 Zywave, Inc. All rights reserved. This Know Your Insurance document is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice.

event. Similar to dwelling coverage, it's crucial to ensure that you have enough other structures coverage to compensate the full cost of rebuilding any of your detached structures. In addition, be sure to reevaluate your coverage needs whenever you make changes to any of your detached structures or add a new detached structure to your property.

- **Personal property coverage** is the portion of your homeowners insurance policy that can provide reimbursement for the cost of stolen or damaged items inside your home, such as furniture or electronics. To ensure adequate personal property coverage:
    - Review your policy to ensure you have the best form of coverage for your unique needs. At a glance, there are two forms of personal property coverage—replacement cost and actual cash value. Replacement cost coverage can offer compensation for the cost of replacing your stolen, damaged or destroyed property with a brand-new version (as long as it's similar in kind and quality) following a covered event. Actual cash value coverage, on the other hand, can offer compensation for the depreciated value of your property. This value is determined by the age, condition and expected remaining useful life of your property prior to the covered event. Be sure to weigh the pros and cons of each form of coverage before making a final selection.
    - Maintain an up-to-date home inventory checklist (be sure to include photos) of all of your belongings and their original value, as well as an estimate of their current value. This practice will help you better determine just how much coverage you need to fully protect your personal property. However, keep in mind that certain high-value items—such as jewelry, collectible items or fine art—won't be covered by your homeowners insurance policy and will require specialized coverage.
- **Loss of use coverage** is the portion of your homeowners insurance policy that can help pay for temporary living expenses in the event that you have to move out of your home while it's being rebuilt or repaired due to a covered event. Loss of use coverage typically equates to up to 20% of the insured value of your home. That being said, make sure you consult your broker if you are concerned that such a value won't offer enough financial protection for your temporary living arrangements. Also, remember that if you conduct business within your home, this form of coverage will not protect against any loss of income related to your business. You will need to secure specialized coverage for business-related risks.
- **Liability coverage** is the portion of your homeowners insurance policy that can offer compensation for the expenses that may result if you are found liable for injuring another person or damaging their property. These expenses include medical payments, pain and suffering settlements, lost wages, legal costs and death benefits. Because these expenses can be significant, it's vital that you have adequate liability coverage tailored to your specific risks. Otherwise, a liability claim could wreak serious havoc on your assets and financial well-being. Most homeowners insurance policies typically offer a minimum of $100,000 in liability coverage. But, depending on your personal risk profile, you may need to consider securing additional coverage. After all, various property features (e.g., having pets, a trampoline or a pool) can increase your liability risks and require further protection. You may even want to consider purchasing personal umbrella insurance, which can provide additional compensation if your liability coverage is exhausted following a covered claim.

Lastly, keep in mind that some events—including overland floods and earthquakes—are not always considered covered events on your homeowners insurance policy. If you live in an area that has an elevated risk of these weather-related catastrophes, you will need to obtain additional, specialized coverage. Also, don't forget that you will usually (with the exception of liability coverage claims) have to pay a deductible before your homeowners insurance kicks in. What's more, each form of coverage is subject to a limit, which is the maximum amount your policy will pay for a covered claim. Be sure to review your coverage limits to ensure maximum protection.

We're Here to Help

There are a variety of factors to consider to make sure your home is properly insured. Acumen Solutions Group is here to walk you through your homeowners policy and help you secure ultimate insurance protection for your personalized risks—ensuring full coverage in the event of a claim. For further insurance guidance, contact us today.