

## TIPS YOU CAN USE

### ARE THE LIMITS OF INSURANCE FOR YOUR HOME ACCURATE?

Is the amount of property insurance on your home correct? What is the appropriate amount of coverage for your home? To begin with, it should be insured for at least 80 percent of its replacement cost when covered under a standard homeowners policy. Replacement cost refers to the amount necessary to repair or replace damaged building parts with items of like kind and quality. Some insurance companies even require 90 percent or higher figures when the guaranteed replacement cost option is offered. With this option, the policy pays the full cost of replacing your home, without any depreciation and often without a maximum reconstruction payment. (This gives you added protection if there is a sudden jump in construction costs due to a major shortage of certain building materials.) **Note that guaranteed replacement cost coverage can vary by state and is not even available in every state.**

Many homes are either underinsured or overinsured. For example, some homes insured for long periods of time with one insurance company may have inadequate limits of insurance due to increased building costs. In many cases, homes have been remodeled and improved, and this information has not been conveyed to the insurance agent or company, resulting in severe underinsured home values. If your home is underinsured, you not only have inadequate protection for total losses, but you may also lack full protection for smaller losses.

Sometimes homes are insured for market value, but market value is normally not indicative of the home's replacement cost. For example, market value also reflects the cost of the foundation and the nondestructible land value, both of which normally survive intact if the house burns to the ground and has to be rebuilt.

In addition, some homes may be insured improperly to meet mortgage company requirements. Some mortgage companies require the amount of insurance be at least equal to the mortgage balance on the house, which is also not reflective of the home's replacement cost. Insurance companies and agents often struggle in properly educating mortgage companies about these distinctions.

The bottom line is that you should work with your insurance agent to determine the correct replacement cost and resulting insurance limit for your home. The best way to verify that you have the proper limit is to contact at least two local insurance agents representing two different insurance companies. Each agent should visit your home, measure it, inspect it, and photograph it. Then each agent should enter key information about your home into its replacement cost estimating software package and recommend the appropriate limit of insurance.

Most agents use sophisticated replacement cost estimating packages that can fairly accurately determine the replacement cost value of your home. Factors that these programs use to determine this figure include the following.

- \* Square footage of the home, including its configuration
- \* Construction costs for your community
- \* Exterior wall construction type, including frame, stucco, brick, or brick veneer
- \* Style of home
- \* Number of bathrooms and bedrooms
- \* Roof type
- \* Attached garages, fireplaces, built-in cabinets, and other special features, such as hardwood floors

The more advanced replacement cost estimating programs require detailed information to improve the valuation estimate. For example, a rectangular-shaped home with 1,800 square feet will have a much lower replacement cost than a similar sized home with an "L" shape. In other words, the better cost estimating programs require information about the number of corners in the home. The more detailed information your agent asks about your home, the more confidence you can place in his or her recommended limit of insurance.

As a final note, you should request an annual review of your homeowners policy to keep up with increasing building supply and labor costs. Also ask your agent about the advisability of adding an "inflation guard" endorsement to your policy to help assure that your home is properly protected.