

Client Communications

Insurance to Value – Homeowners and Dwelling Policies

How much insurance do I need on my home?

This is a great question, and one that our customers ask frequently.

You should have an amount of insurance that is sufficient to rebuild your home in the event it is totally destroyed by a fire, tornado, hurricane or other insured catastrophe.

It's estimated that about 60 percent of American homes are underinsured by an average of 22 percent, according to a company that provides building-cost data to the insurance industry.

Your home is probably your largest single investment, so insuring it adequately is an important part of maintaining your financial independence.

The amount of insurance should cover the cost of rebuilding your home at current construction costs, not including the value of the land. Don't think about the price you paid for your home or the appraised value. The cost of rebuilding could be more or less than the price you paid or could sell it for today.

Besides the cost of materials and labor you normally consider when thinking about building a home, there are other considerations such as

- ✓ The expense of clearing debris from the lot before rebuilding can begin
- ✓ Fees for an architect or other design professional to estimate costs and produce plans to be followed by the contractor
- ✓ Rapid inflation in the cost of building materials and labor following a major catastrophe that affects a number of homes in the same area
- ✓ Local building codes that require replacement with additional features or more expensive materials

Debris Removal

When rebuilding a home after a loss, you can't start the process until the lot has been cleared of the debris. This is an additional expense you wouldn't incur if you were building a home from scratch. All insurance policies pay for this expense, but some pay more than others.

Some policies pay debris removal expenses in full, but the payments reduce the amount of insurance available to replace the home. Other policies provide an additional limit for debris removal expenses on top of the amount available to replace the home, usually 5 percent or more of the limit of insurance shown on the policy for your home.

Extended Replacement Cost Coverage

After a major hurricane or a tornado, building materials and construction workers are often in great demand. This can push rebuilding costs above homeowners policy limits, leaving you without enough money to cover the bill. To protect against such a situation, you can buy a policy that pays more than the policy limits.

An extended replacement cost policy will pay an additional amount – up to 20 percent or more – above the limits, depending on the insurance company. A guaranteed replacement cost policy will pay whatever it costs to rebuild your home as it was before the fire or other disaster.

Not all insurers offer these features, so be sure to ask us to find an insurance company that does offer them if this exposure is important to you.

Building codes

Local building codes are updated periodically and may have changed significantly since your home was built. If your home is badly damaged, the building officials in your community may require you to rebuild it to meet new building codes. Some communities require you to demolish undamaged parts of the home if they determine the damage exceeds a certain percentage of its value.

Most insurance policies include the extra expense of rebuilding to code, up to a certain dollar amount like \$5,000 or a certain percentage of the limit like 10 percent. But the amount provided generally does not increase the limit of insurance. Most insurance companies offer an additional limit for building code coverage for an additional premium.

To fully cover the additional costs related to required building code enforcement, you must add the necessary amount to the limit of insurance or purchase additional coverage if offered by the insurance company.

Whose Job Is It to Determine the Proper Amount of Insurance?

Ultimately it is your responsibility to establish the value of your property and select the amount of insurance for your policy. We can help with that decision and explain what you can do to avoid an unpleasant surprise after a loss.

Help Is Available

There are several resources available to help you determine an appropriate amount of insurance on your home. Remember: Home values and rebuilding costs change all the time, so it's a good idea to do this annually when your policy renews.

- ✓ **Obtain a real estate appraisal from a qualified professional.** Unfortunately, the cost of such an appraisal may be prohibitive, but some insurance companies who specialize in writing higher-valued homes pay for such appraisals as a service to their policyholders.
- ✓ **Use the insurance company's replacement cost estimator.** Almost all major insurers offer this service. It is an automated program provided by a leading aggregator of building cost data (such as Marshall & Swift (www.marshallswift.com)). You provide information on your home – such as square footage, type of construction and special features – to input into the computer program. Some insurance companies will provide “guaranteed replacement cost” coverage if you agree to purchase the limit of insurance recommended by the replacement cost estimator.
- ✓ **Use your own replacement cost estimator.** For example, AccuCoverage by Marshall & Swift (www.accucoverage.com) will provide a real-time estimate based on the information you submit on their website for a fee of \$7.95 charged to your credit card.
- ✓ **Talk to a local home builder.** But keep in mind that they are usually building new homes from “scratch.” The cost per square foot for new construction is generally less the cost to rebuild. Ask the builder what a typical cost per square foot is for remodeling or adding a room to home – that's generally closer to the actual cost of rebuilding a damaged home.

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