



Homeowner's Insurance

Description

Homeowners insurance provides damage protection for your home and personal property from a variety of events such as fire, burglary, storms, vandalism, and more.

Homeowner's insurance enables homeowners to rebuild their home if it has been damaged or destroyed. The most common hazard insured against is damage due to fire. A homeowners policy typically covers other hazards, such as storms, but it is important to determine exactly what is covered by your policy. If your home is built in a flood-prone area, you must secure a separate flood policy.

Homeowners insurance also enables homeowners to replace their belongings if they have been stolen, damaged or destroyed. This coverage varies widely, so it is important to understand the limits of your coverage. Investigate whether it covers the current replacement cost of an item or the value determined through its original cost or depreciation.

All homeowners insurance policies contain comprehensive personal liability coverage, which protects against lawsuits involving injuries that have occurred on and off your property. The cost for this coverage is based on the limits of coverage stated in your policy.

Once you have decided on the best homeowner's policy, you need to determine how much of it you will need. Make sure that you have enough insurance to cover the cost of fully rebuilding your home if it is destroyed. In order to do this you need to know about three types of homeowner's insurance coverage: actual cash value, replacement cost, and guaranteed replacement cost.

Actual cash value policies are limited to a specific amount, regardless of whether the value of the house rises or falls. For example, a \$60,000 actual cash value policy would cover only \$60,000 in damages, even if the value of the house rises to \$100,000.

Replacement cost policies cover the full cost of replacing any damages to your home without deduction for depreciation, but limited to a maximum dollar amount. For example, a replacement cost policy would cover the cost of replacing a \$100,000 house (assuming that this expense is within your maximum limits), regardless of whether the house rose or fell in value.

Guaranteed replacement cost insurance pays the full cost of replacing damaged property, without a deduction for depreciation and without a dollar limit. This coverage is not available in all states and some companies limit the coverage to 120 percent of the cost of rebuilding your home. This provides protection against such things as a sudden increase in construction costs due to a shortage of building materials.

Tips for Counselors

- **Guard against inflation.** Check the value of your insurance policy against rising local building costs each year. Ask your insurance agent or company representative about adding an "Inflation Guard Clause" to your policy. This automatically adjusts the dwelling limit when you renew your policy to reflect current construction costs in your area.
- **Determine rebuilding costs.** Do not insure your home for the market value. The cost of rebuilding your house may be higher (or lower) than the price you paid for it or the price you could sell it for today.
- **Keep up with home improvements.** Increase the limit of your policy if you make improvements or additions to your house.
- **Monitor house contents.** Have you added any expensive items (computers are a prime example) that need to be added to your policy?
- **Money Saving Strategies:**
 - **Shop around.** Solicit price quotes from several companies. The insurer you select should offer a fair price and provide excellent service.
 - **Raise your deductible.** Deductibles are the amount of money you have to pay toward a loss before your insurance company starts to pay. Deductibles on homeowners policies typically start at \$250. By increasing your deductible to \$ 500, you could save up to 12 percent depending on your insurance company.
 - **Buy your home and auto policies from the same insurer.** Some companies that sell homeowners, auto and liability coverage will take 5 to 15 percent off your premium if you buy two or more policies from them.

Related Information and Research

- Twelve Ways of Lowering Your Homeowners Insurance Costs--
http://www.pueblo.gsa.gov/cic_text/housing/12ways/12ways.htm
- Article: Getting Good Homeowners Insurance:
http://money.cnn.com/2004/08/11/pf/saving/willis_tips/

Helpful Links

- Insurance Search Engine--<http://info.insure.com/home>