

ANNUAL REVIEW OF HOMEOWNERS INSURANCE POLICY IS IMPORTANT

By Basil Housewright, Jr.

Home values and construction costs have risen significantly in recent years, and that means homeowners who haven't updated their insurance policies could have grossly inadequate coverage. Many underestimate the cost of rebuilding their home and some misunderstand the terms of their policies, realizing too late that they're not covered for a significant loss. What so many people don't realize is how dramatically the cost of rebuilding is as compared to new construction. What might cost \$75 a square foot to build new could cost \$100 or more to rebuild because of cleanup and work involved. If the house can't be rebuilt for less than the policy limit, the homeowner may have to pay the remaining amount. If you have renovated a kitchen or bathroom, the question you have to ask yourself is did you call your insurance agency to see whether this changed the cost of rebuilding? If not, you may have to forget those granite countertops and rebuild with Formica. Moreover, most policies limit coverage for contents to a percentage of the dwelling coverage. So, if the dwelling limits are inadequate, it's possible that the contents limits are too. It is recommended homeowners review their policies annually. Here are key things to look for.

DWELLING COVERAGE - The "dwelling" limit on the policy is theoretically the maximum amount the insurer would pay if the house were destroyed in a covered loss and should amount to at least \$85 to \$100 in coverage for each square foot in your home for most builder grade homes. In other words, adequate coverage for a 2,000-square-foot home would be between \$170,000 and \$200,000. Homeowners who have wood cabinets, granite countertops, or custom tile or carpets should estimate on the high end of that scale. If you bought "Guaranteed Replacement Cost Coverage" or "Additional Dwelling Limits Coverage", learn what that means. In most cases it means the insurer will pay 25% to 50% more than the dwelling limit. If you can't find the details in your policy, ask your insurance agency to point them out.

SEPARATE STRUCTURES - Detached structures may not be covered if you use them for business purposes. For example, if you rent out your garage apartment or guesthouse or have a detached garage or office that you use for business, you'll need to check your policy carefully to ensure that they are covered. You may be able to buy riders to get these structures covered or get more coverage at a fairly nominal cost.

PERSONAL PROPERTY - The standard homeowners package policy covers 40% to 75% of the dwelling limit to reimburse homeowners for the furniture, clothing and other personal items lost in a disaster. Many times this is not enough coverage. In the event of a claim the policyholder has to establish what they lost and what it costs to replace. For that, you need a home inventory. Most people remember the big stuff, like the television and the DVD player, but do you know how many CDs or DVDs you have? Do you know how many shirts you have in the closet? You're never going to remember all the utensils you have in a kitchen drawer, but it's really expensive to replace them. There are three suggested options: A written inventory, a photo inventory or a video inventory. Because writing down every item can be overwhelming, you can walk through the house with a digital camera or a video camera, panning every room and then sticking the camera's nose into every drawer, closet and cabinet. Narrate a video as you go, explaining what you're looking at and roughly what it cost to buy. Copy the digital photos to a CD. Then place a copy of the written inventory, photo CD or if videoing the tape or DVD in a safe-deposit box or give it to a trusted friend outside of your neighborhood for safekeeping. Stored in a home which burns will do you no good. Although insurance should pay to replace your personal computer, it won't replace the personal data that you've loaded onto it. If you have costly music or video files on your hard drive, make sure you back them up and periodically deposit those backup files in your safe-deposit box, too. After you perform an inventory you may find your policy limits are too low to cover what you own.

OTHER LIMITS - People with expensive jewelry, art work or computer equipment should know that most policies have separate limits on coverage for more than a dozen different items, including jewelry, business property and cash. It's easy and inexpensive to buy extra coverage for your jewelry.

UNCOVERED PERILS - Homeowners coverage only kicks in when your property is destroyed by a "covered peril." That's typically a theft, water damage, fire, rain, wind, tornado or hurricane. What's generally not covered, unless you bought the coverage separately, is damage from flood or "rising water." You might not know what you have or don't have unless you review it periodically.

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