

Is Your Home Properly Insured?

By Basil Housewright, Jr.

Recent hurricanes, tornadoes, explosions and wildfires have reportedly led many homeowners to discover that they must pay more out-of-pocket to replace or repair their homes, according to published reports. *The New York Times* recently noted: "The woeful shortfall in insurance coverage, experts say, is a plight shared unknowingly by millions of American homeowners."

Some 64% of homes are underinsured; according to the 2012 insurance-to-value quality index compiled by Marshall & Swift/Boeckh, a nationally recognized construction information firm. That means millions of homeowners lack enough insurance coverage to fully replace their homes in the event of a total loss. I would urge homeowners to discuss the factors that determine the proper amount of coverage for their home and its contents with a local insurance professional. The cost of housing construction varies by location and an out-of-state insurance salesperson may not have any idea what amount of insurance coverage would be adequate for your particular home.

Five of the key factors are:

1. The purchase price or market value of a home is not reliable as an estimate of replacement cost. Mortgage lenders require insurance coverage based on the purchase price. But the cost of rebuilding a home can differ significantly from the purchase price or market value of a home.
2. The appraised value established by the County Appraisal District (CAD) is not a reliable estimate of replacement cost. CAD values are an estimation of the market value of a home and often include exemptions, which lower their valuation. As a home ages and depending on the local real estate market, the CAD values many times are substantially lower than realistic home replacement cost.
3. Improvements to the home have a direct impact on replacement cost. Adding a room, porch, patio or deck or finishing a basement or attic increases the replacement cost of a home. But homeowners sometimes forget to let their agent or insurance company know about such improvements.
4. The size of the home should not be based upon inside measurements or a real estate listing. Proper square footage estimates are based on outside measurements. Real estate ads often use inside measurements, and don't account for porches or features like vaulted ceilings and bay windows.
5. A homeowner's policy may not cover all contents. Homeowner's policies insure the contents of a home as well as its structure. But it's easy to exceed contents limits when there is a collection of high value electronic equipment, fine arts, jewelry, or other valuables. A separate valuables policy may be needed. Also there is only limited coverage for property "off premises" and supplemental coverage may be required to cover items in storage facilities or other locations away from your home.

Many homeowners knowingly want to underinsure their home to lower the home insurance premium. Another approach would be to select a higher deductible and properly insure the home. If I underinsure my home by \$20,000 to save \$200 in annual premium when I could have changed from a 1% to a 2% all other perils deductible which would have resulted in a \$200 in annual premium reduction which would be an economically better choice for say a \$250,000 home (full replacement cost). In the event of a total loss the homeowner would be out-of-pocket \$5,000 with a 2% deductible and \$250,000 dwelling limit or underinsuring to \$230,000 with an out-of-pocket of \$2,500 with a 1% deductible and an additional out-of-pocket of \$20,000 for costs to rebuild what you had after the insurance limit is reached. As you can see underinsuring a home can result in a substantial economic burden. Consult a local Independent Insurance Agency about your coverage and options available to you to.

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