

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. Construction costs often "surge" following large catastrophes, such as hurricanes.)

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 mistakenly insured for their market value. However, 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. The mortgage balance is also not reflective of the home's replacement cost, which is often considerably more but can also be less. Insurance companies and agents often struggle in properly educating mortgage companies about these distinctions, but there is nothing to prevent you from insuring to actual replacement cost if that is indeed greater than the mortgage balance. The problem occurs when the mortgage balance is greater than the replacement cost, which will result in the purchase of a higher limit than needed.

Please contact our office to determine the correct replacement cost and resulting insurance limit for your home. We have software programs that are able to fairly and 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
- * 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 we have about your home, the more confidence you will have on the recommended amount of insurance.

As a final note, please call us for an annual review of your homeowners policy to keep up with increasing building supply and labor costs. Also, ask us about other ways we can help you insure your other insurable interests, such as auto, personal umbrella and life insurance.

