

What does Homeowners Insurance cover?

By Mary Sladek, MyInsurance

A standard homeowner's package policy (known as an HO-3 policy) will protect you from loss from most perils such as fire, theft, storms, accidents or other disasters. Things like floods or earthquakes— are specifically not covered by a standard policy and require additional coverage. Homeowners in some areas may be required by their mortgage company to carry these kinds of special policies where those risks are prevalent.

A standard policy will also protect your personal possessions (contents), loss of use in the event your home is not livable, and liability to others up to the limits listed. But, a standard policy is not a blank check; there's a limit to how much you'll be compensated for certain things. If you have specific items of value, such as jewelry or artwork, you can pay a little extra each year to insure them for their full replacement value. Ask your Agent about other add on coverages available at an additional cost.

How Much Coverage Do You Need? Your home-insurance policy should cover enough to entirely rebuild and furnish your home were it completely destroyed. Your Agent can give you an estimate of what it would take to rebuild; that figure will be the basis for how much replacement coverage you need. Be sure to point out any unique and/or expensive details that would add to the replacement cost.

Once you've determined the replacement cost of your home, you'll need to know what kind of coverage you want. There are a few key terms here:

Guaranteed Replacement Cost Coverage— This means that the insurer will pay for the rebuilding of your home no matter the cost. These policies are hard to find these days.

Extended Replacement Coverage— Many insurers offer coverage that caps the payout at around 125% of your home's insured value. This feature makes sure that your home's insured value stays current with the marketplace even when building costs are inflated due to the demands of a catastrophic event.

Actual Cash Value / Depreciation: If your policy includes these terms, beware that you will be compensated at a reduced value based on the age, wear and tear or condition of the property. Many insurers have started applying **ACV** to certain types of roofs or roofs over a specific age.

Flood Insurance: The law requires you to have flood insurance if you live in an officially recognized high-risk area. To find out your flood risk and to find plans (which are offered by the government), go to floodsmart.gov.

Scheduled Items: When it comes to protecting your possessions, you may want more coverage than your standard policy allows for certain items. Contents coverage is usually 50% to 75% of the Dwelling amount, but may have special limits for certain types of items. If you have anything of exceptional value (a family heirloom, art, jewelry, etc.), you should insure it separately. Also keep in mind that there are two different kinds of coverage when it comes to personal articles. There's "**Actual Cash Value**" and there's "**Replacement Cost**." You want coverage for Replacement Cost. Actual Cash Value Insurance is what you'd get if you sold your valuable today — a lower amount than what you initially paid. Replacement Cost Insurance pays you the amount of money you'd need to buy a brand-new item to replace your old one.

Liability Coverage: Say a guest at your home slips and sprains his ankle. Your homeowner's policy includes liability coverage for anyone (not a household member) who may be injured on your property. Generally speaking, standard policies offer \$100,000 up to \$500,000 of liability coverage. This coverage may also apply to any harm or damage you or a household member may cause away from home as well- such as breaking a window with a bad golf shot!

Umbrella Policy: Supplemental liability coverage can boost your protection by \$1 million or more. This kind of coverage can be relatively cheap and can extend to your auto policy as well. Umbrella Liability policies are meant to protect your personal assets should you be sued for harm or damage to others or their property for any reason other than illegal activity.

There are three kinds of home insurance companies and salespeople: *Direct sellers*, these companies sell directly to consumers and you may not have a personal Agent (GEICO, Progressive and USAA fall into this category); *Captive Agents*, who only sell one company's insurance products (for example, State Farm, Farmers and Allstate); and *Independent Insurance Agents*, who sell policies from many different companies.

Your Deductible: Your homeowners insurance has a deductible (the amount you must pay before coverage kicks in). You should opt for the highest deductible you can afford to pay if you need to file a claim. The higher the deductible, the lower your premium (cost of insurance) will be. A higher deductible may force you to pay for smaller things out of pocket. Be sure to consider the total amount of a potential claim less the deductible before filing. Excessive claims will cause premium increases and possible non-renewal.

Important items to keep in mind: When shopping for insurance, it's important to work with an Agent you know and trust. Ask your Realtor, Mortgage Professional, Banker, Accountant or other trusted source for a referral. Insurance is regulated by the state in which you live. Most policies are sold as Package Products to make it easier for the consumer to compare, however- Agents can add or reduce certain coverages or apply special deductibles. Make certain you know what your policy does and does not cover

and that you are comfortable with not only the cost of the policy, but the out of pocket expense or deductible if a claim is necessary.

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