

Homeowner's Insurance

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Whether you own or rent a home, manufactured home, townhouse, or condominium, a good way to protect your home against certain types of loss is homeowner's insurance. Homeowners with mortgages are required by their lenders to have homeowner's insurance. When purchasing homeowner's insurance, it is important to choose the right policy. Homeowner's policies are classified by the types of **perils** (any events that cause a financial loss) they cover. There are six main types of homeowner's insurance used today.

Basic Types of Policies

- **HO-1.** This is basic coverage for your home and personal property. This policy covers losses from 11 perils: fire, lightning, windstorm, hail, explosion, riot or civil commotion, damage from aircraft or vehicles, smoke, vandalism or malicious mischief, theft, glass breakage, and volcanic eruption.
- **HO-2.** This broad-form policy covers your home and personal property against losses from the same disasters as HO-1 plus six additional perils: falling objects; weight of ice, snow, or sleet; building collapse caused by named perils; pipes bursting from heat/cold; overflow of water from hot water heater; heating and air-conditioning systems; and electrical surge damage.
- **HO-3.** This is referred to as extended or all-risk coverage. HO-3 covers all perils except those excluded in the policy: flood, earthquake, war, and nuclear accident. Mold damage is now being excluded in some policies.
- **HO-4.** This is referred to as renter's coverage. It covers only personal property from 17 listed perils similar to the HO-2 policy except glass breakage.
- **HO-6.** This type of coverage is for condominiums. It also covers personal property from the 17 listed

perils plus the interior walls that are not covered by the condominium's insurance policy.

- **HO-8.** This covers older homes that may not be up to current codes. It covers your home and personal property from the 11 perils in listed in the HO-1 policy. This policy is different from HO-1 in that it covers repair costs. The only downside is that it does not cover rebuilding costs. This policy does not cover rebuilding costs because the cost of rebuilding these homes can be more than they are worth.

Actual vs. Replacement Cost

Actual value pays the current fair-market value of an item. This will usually not give you enough money to replace the item due to depreciation. Used clothing and furniture are not worth very much. For example a three-year-old computer may only be worth \$100 but it may cost \$500 to replace it. Replacement value policies will pay you \$100 for the computer if you don't replace it or \$500 if you replace the item. Homes insured under the HO-8 policy are only covered for the actual cash value. Other policy owners have a choice. Replacement value insurance is more expensive but usually worth the extra in times of a loss.

Coverage

Most standard policies cover the following:

- Dwelling is the face amount the policy covers for the main structure and anything attached to it (i.e. deck, attached garage, etc.). For the insurance company to fully cover a loss, the dwelling must be insured for at least 80 percent of the value. If you are insured for less than 80 percent, the insurance company will only pay a proportion of the claim.



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- Other Structures, such as storage sheds, gazebos, tool sheds, and detached garages, are insured for 10 percent of the dwelling. It may be necessary to increase this coverage if you have a large detached garage.
- Personal Property (your possessions) is covered at 50 percent of the value of your home. You can increase the coverage to 75 percent. Even if you do increase the amount of coverage on your possessions, there are still limits on certain types of personal property such as jewelry, electronics, silver, and collections. If your items are worth more than the limits allowed for these items, you may need to purchase a rider or floater to cover the specific items not just raise the general limit.
- Trees and Shrubbery can also be replaced. The limit on these items is usually 5 percent to 10 percent of the value of your home.
- The Loss-of-Use provision (10 percent to 20 percent of dwelling coverage amount) in your policy pays you if you lose the use of your home for an extended period of time.
- Medical Payment coverage covers guests for injuries such as cut fingers where no liability issues are involved. Policies usually come with \$5,000 worth of coverage.
- Liability Protection pays others if they are hurt on your property. Most people usually get this coverage with a value of up to \$100,000 per person/\$300,000 per accident. If you have a high net worth you may want to consider \$250,000/\$500,000. If you need higher coverage, you may want to consider an umbrella liability policy. This type of policy increases the liability coverage on your automobile and homeowner policies at a reasonable price. In most cases you must have both types of insurance from the same provider. For more information on this type of policy visit <http://moneycentral.msn.com/content/Insurance/Insureyourhome/P35349.asp>.

In addition to standard provisions, you may want to consider automatic inflation adjustments. This way as the value of your property increases, you will remain fully covered. Even with inflation coverage it is advisable to periodically check with your agent to be sure your coverage has kept up with increased values and construction costs.

How much Coverage Do You Need?

The coverage or face amount of the policy is based on the cost of the Dwelling. To have your claim covered up to the face amount of the policy you need to make sure that you cover at least 80 percent of the value of the home. Insurance companies use 80 percent since part of the value of the home is in the land. If you do not cover at least 80 percent, even if your claim is less than the face value of the policy, the insurance company will prorate the claim. Here is how it works. If your house is valued at \$100,000 and the face amount of the policy is \$80,000 (.80 x \$100,000), the insurance company will pay claims in full up to \$80,000. However if you only buy a \$60,000 policy, then they will prorate the claim. For example if you have a \$40,000 claim and a \$500 deductible, the insurance company would pay \$29,625 as follows:

\$40,000 less \$500 deductible = \$39,500.

$$\frac{\$39,500 \times \$60,000 \text{ (amt. of insurance you have)}}{\$80,000 \text{ (amt. of insurance you should have)}} = \$29,625$$

You have to pay an extra \$9,875 (\$39,500 - \$29,625) out of pocket for the repairs to your house in addition to your \$500 deductible. If you can afford to pay more out of pocket, it is better to raise your deductible to lower your premium than to under insure your house.

For more information on homeowner's insurance visit the Virginia State Corporation Commission's Virginia Bureau of Insurance's Virginia Homeowners Insurance Consumer's Guide at <http://www.scc.virginia.gov/division/boi/webpages/boivahomeownersinsurance-guide2b1.htm>.