

## 5.2 THINGS YOU MUST KNOW BEFORE BUYING OR CONTINUING WITH YOUR HOMEOWNER'S INSURANCE

WHILE IT WOULD BE IMPOSSIBLE TO ADDRESS EVERY NOOK AND CRANNY OF BUYING HOMEOWNERS INSURANCE, THE KNOWLEDGE PRESENTED BELOW WILL BUILD A FOUNDATION THAT WILL BE A GUIDE THROUGH THE MINEFIELD OF INSURANCE JUST WAITING TO "GET YOU."



### DID YOU KNOW ALL POLICIES ARE NOT CREATED EQUAL?

- All policies pay claims based on the CAUSE OF LOSS (e.g. fire, wind, hail, etc.). Some policies cover the cause of loss of Fire only, some include other named causes like wind & hail, while other policies will cover all causes of loss except those that are specifically excluded or limited.
- In comparing policies, most would look the limits on the declarations (coverage) page to compare with the highest importance placed on "Coverage A" – the value of the home. While the numbers are important, it is just as important to understand what's behind the numbers.
- The formula: **CAUSES OF LOSS (covered) + COVERAGE DETAILS = COMPLETE COVERAGE**

### LOSS SCENARIO:

*Doug & Julie came home from a nice evening out to find fire trucks in front of their home engulfed in flames. While the insurance paid to restore their home, they would have to live in a Residence Inn for the next 8 -10 months plus the increased expense of not being at home. Doug completed a rough calculation costing roughly \$50,000 - \$60,000. How much would the Loss of Use ("Coverage D") pay? Fortunately, Doug & Julie had a policy that covered this at Actual Loss Sustained, instead of a limited amount.*





## DOES THE COVERAGE MEET YOUR SPECIFIC NEEDS?

- Consider the area in which you live. Is it prone to floods, earthquakes, sinkhole collapse or even water/sewer backup?
- Do you have items that need specialty coverage, like jewelry, furs, guns, antiques, etc?

## DETERMINE YOUR RISK, THEN DECIDE IF YOU CAN AFFORD TO REPLACE OUT OF YOUR POCKET OR SHOULD THE INSURANCE COMPANY DO IT!

### LOSS SCENARIO:

*Jack & Diane awoke in the middle of the night by loud noise – sounding as if an army was breaking into their home. Jack headed toward the kitchen with flashlight & baseball bat in hand. As he reached the kitchen he started to fall. Grabbing the doorway, he pointed the flashlight and discovered the kitchen had fallen into a deep hole – a sinkhole. Unfortunately, for Jack & Diane, sinkhole collapse was excluded under their policy. The house had to be abandoned and Jack & Diane still owed the remaining balance on their mortgage, but no home in which to live.*



## DO YOU UNDERSTAND THE DIFFERENCE BETWEEN REPLACEMENT VALUE & MARKET VALUE?

- Replacement Value is the amount it would take to replace the home back to its current state should a total loss occur. The amount includes debris removal, current construction and material cost.
- Market Value is the amount a buyer is willing to pay for the home in its current state.

### LOSS SCENARIO:

*Bill and Sara had put their home up for sale (asking \$250,000) when a tornado turned their home into a pile of sticks. The cost to remove all the debris was \$35,000 in addition to the reconstruction cost of \$265,000, using the entire \$300,000 of replacement value listed on their homeowner's policy.*



## DO YOU HAVE A HOME-BASED BUSINESS?

- If you earn over \$2,000 per year in an activity (hobby, entrepreneur, etc), this would be considered a home-based business. Coverage for related activities and inventory are typically and significantly limited or excluded.

### LOSS SCENARIO:

*Jason operates an e-bay business specializing in selling smart phone, gaming system and audio accessories. He often has \$10,000 - \$15,000 of inventory in his garage. His hot water heater broke and flooded the garage, destroying his inventory. On his basic home owner's policy, business activities and inventory was not covered leaving Jason with the financial loss.*



## HOW ARE PREMIUMS CALCULATED?

- There are many factors that go into the calculation of the homeowner's policy premium. Some of these are:
  - ✓ Construction type (brick, siding, both, etc)
  - ✓ Age of Home
  - ✓ Protection Class (distance from fire hydrant, fire station, city/county water pressure)
  - ✓ Protection Devices (burglar/fire alarm)
  - ✓ Deductibles
  - ✓ Personal Factors (past claims, credit/insurance score, etc)
  
- Premiums are usually significantly discounted by placing your auto coverage, personal umbrella, and other policies with your home owner's coverage with the same company. In some cases, the premium discount can be as much as 35%.
  
- Check for different deductibles for different causes of loss and/or different covered property (e.g. after 3 bad years of wind & hail storms in TN, many companies have a separate wind/hail deductible).

### LOSS SCENARIO:

*Sue & George had a home with vinyl siding. Hail storm damage required repair. Instead of the normal \$1,000 deductible, because the cause of loss was hail, the policy utilized a separate wind/hail deductible of 1% of the replacement value shown on the declarations page of the policy.*



**AND MOST IMPORTANTLY....**

## 5.2

### WHERE IS THE BEST PLACE TO SHOP TO ENSURE THE GREATEST VALUE FOR YOUR HOMEOWNER'S INSURANCE?

➤ **Use an independent agent or agency!**

Many agents only represent one company like State Farm or Farm Bureau. An independent agent represents multiple companies, so if the company you are with raises rates (and they all do sooner or later!), your agent can simply shop it for you to find the greatest value at the best premium.

Independent Agent Scenario:

*Bill & Linda have been with Company A for 5 years. Their independent agent noticed that their annual premium had increased for both their home and cars by \$425.*

*The agent took action and requested proposals from all the other companies that they did business with and discovered that by moving to Company B, Bill & Linda would save \$560 in annual premiums.*

