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Homeowners Insurance: The 6 Most Common Mistakes

When you bought your home, it was one of the most important financial decisions - and one of the smartest investments - you have ever made. Therefore, it only makes sense that you need to have the right coverage in place to protect your home. But do you really know what coverage you have on your Homeowners Insurance policy?

We developed this guide because we feel that many people do not have their homes insured the right way. Take a few minutes to read through this short guide and ask yourself, "Does my homeowners policy really give me the protection I need?"

Replacement Cost & Your Home

Your policy will show a limit for "Coverage A – Dwelling". This limit should be the approximate cost to rebuild your home. It should not be the market value of your home and it should not include the value of the land that your home is built on.

The cost of construction has risen over the past several years, so it's important that you review this limit if you haven't done so in the last few years. Most policies will increase your coverage automatically every year it renews – usually around a 4% increase. This helps to keep your limit in line with the replacement cost, but is far from perfect.

The Replacement Cost of your home is calculated using a number of different components of your home. The year your home was built, the construction type and the area that you live in are just some of the factors that help to identify how much it would cost to rebuild your home. The Replacement Cost is calculated by taking the price per square foot by the total square footage of your home (excluding basements & attics).

It is important that you have your home insured to the full value of replacement cost so that you're covered in the event of a total loss. Keep your records in a safe place, and reference them when reviewing the replacement cost of your home with your agent.

Homeowners Policies do NOT cover Floods.

Damages caused by a Flood are not covered under any homeowners policy. If you want coverage from floods, a separate policy can be purchased through your agent and the National Flood Insurance Program (NFIP). Depending on where you live, this coverage can be very expensive.

Many insurers will allow you to purchase a limited amount of coverage for water damage caused by the back up of sewers or drains, or the failure of a sump pump. This coverage is typically priced around \$40 - \$50 per \$5,000 of coverage, although it does vary between companies. This coverage is particularly important if you have a finished basement or if you use your basement for storage of personal property.

Are You Protected Against Law Suits?

The standard homeowners policy includes a limit for Coverage E – Personal Liability. This is your coverage limit if you are sued, if for example, someone gets hurt on your property. Does this limit cover your total assets?

If not, you can usually increase this limit for a small additional premium. Most companies allow a limit of up to \$500,000, although more companies are now allowing limits of up to \$1,000,000. If your available limits are not enough to cover your assets, you may want to consider a [Personal Umbrella Policy](#).

Valuable Items

Jewelry, Fine Arts, Collectibles, and other high value items are not typically covered under the standard homeowners policy. Most policies provide a small amount of coverage – but only if the item is stolen.

Coverage can either be added to your homeowners policy, or on a separate Personal Articles Floater policy. Scheduling your valuables is the only sure way to get the right coverage.

How Old is Your Home?

Do you know what building codes and ordinances have been passed into law since your home was built? For example, many townships now require interior sprinklers be included in all new construction. Depending on the age of your home, the rebuilding costs can increase dramatically because of a local ordinance or law.

Many of the current replacement cost calculators now factor these costs into the replacement cost of your home – but for older homes, these costs can be significant. The Ordinance and Law coverage endorsement can be added to your policy – as a percentage of your dwelling limit – and is usually inexpensive.

Common Policy Discounts

Protective Devices

Insurers provide credits for the things in your home that help prevent losses. Deadbolt locks, smoke detectors and fire extinguishers are found in most homes and provide a small credit to your policy. Additional credits are available if you have interior sprinklers or a home security system.

Loss Free Discount vs the Loss Surcharge

Insurance carriers obviously like clients who don't have any losses, and subsequently provide a credit to your policy for being loss free. On the other hand – carriers typically increase your premium with a Loss Surcharge if you've had multiple losses. Maintaining your home and practicing loss prevention is the best way to keep your premium down.

Multi-Policy Discount

If you're quoting your Homeowners policy, get a quote for your Personal Auto policy at the same time. Most carriers give discounts to both policies when they are insured together. More times than not, you get the best pricing when you have your homeowners and personal auto policies with the same carrier.

Homebuyer Credit

Most carriers now provide a premium credit if you are buying a new home. But be aware that this credit usually disappears after the first year.

Have questions? Still not sure about your coverage? Are you paying too much?

Give us a call and we will be happy to sit down with you and evaluate your current policies. When we review your coverage with you, we focus on providing you with real value:

- Listening to your specific needs.
- Objectively reviewing and explaining coverage.
- Recommending coverage that you may not have or may not know you need.
- Providing comparison quotes from multiple carriers with a focus on coverage and pricing.
- Excellent service that continues after you buy.

Policy reviews and comparison quotes are provided to you free and with no obligation to buy. Call us today to start getting real value from your insurance agent.

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