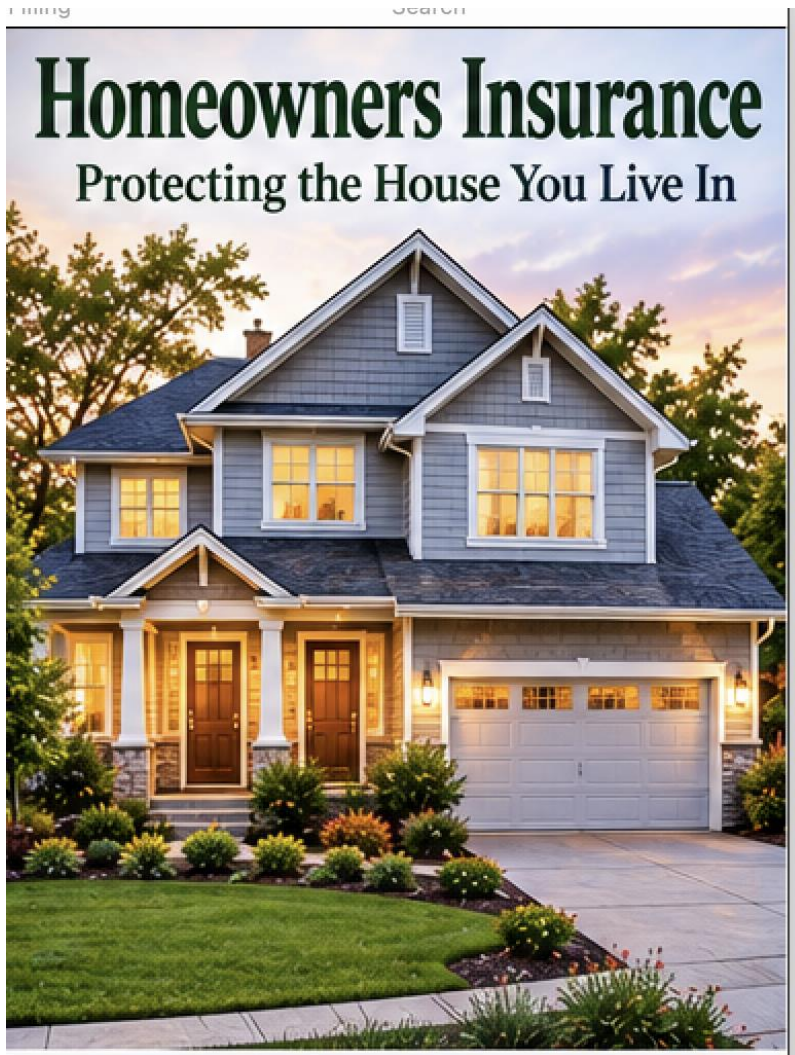




Homeowners Insurance: Protecting the House You Live In

For most people, a house is the largest physical asset they will ever own. Homeowners insurance helps protect that asset, but understanding the coverage requires separating the house itself from its market price.

Market Value Isn't Replacement Cost

Suppose your house could sell for \$500,000. That doesn't necessarily mean it should be insured for \$500,000.

The market price includes the land and reflects location, schools, neighborhood demand and real-estate conditions. If the house burns down, the land hasn't disappeared.

Insurance is concerned primarily with what it would cost to repair or rebuild the insured structure.

The NAIC emphasizes that replacement cost and market value are different measurements.

The Policy Covers More Than Four Walls

A typical homeowners policy can include several types of protection.

Dwelling coverage protects the house itself against covered causes of loss.

Other-structures coverage may protect detached structures such as a garage, shed or fence.

Personal-property coverage protects belongings inside and sometimes outside the home.

Liability coverage can protect you when you are legally responsible for covered injuries or property damage involving someone else.

Additional living expense coverage can help with increased living costs when a covered loss makes the house temporarily uninhabitable.

The actual coverage depends upon the particular policy.

Understand Your Homeowners Deductible

As with auto insurance, the deductible is the amount you absorb before the insurer pays its covered portion of a property claim. Homeowners policies may use a fixed dollar deductible, such as \$1,000, but some deductibles can be expressed as a percentage of the home's insured value.

That percentage deserves attention. A percentage deductible on a heavily insured house can represent considerably more money than a familiar \$500 or \$1,000 deductible.

Replacement Cost Versus Actual Cash Value

This distinction can make an enormous difference after a loss.

Actual cash value takes depreciation into account. An old item is worth less than an equivalent new item.

Replacement cost generally pays the cost of repairing or replacing covered property with property of similar kind and quality without subtracting depreciation, subject to the policy's limits and conditions.

Replacement-cost coverage normally provides greater protection, although it can cost more.

Flooding Is a Major Exception

A standard homeowners policy should never be assumed to cover every natural disaster. Most homeowners policies do not cover flood damage. Flood insurance is separate protection and may be obtained through the National Flood Insurance Program or participating insurers.

Other hazards, including earthquakes, may also require separate coverage or endorsements depending upon the policy and location.

Rebuilding Costs Change

Construction materials and labor costs change over time. Improvements such as a finished basement, room addition or major kitchen renovation can also increase rebuilding costs.

That makes homeowners insurance something to review periodically rather than something to buy at closing and forget for the next 25 years.

You aren't merely insuring a piece of real estate. You are protecting the place you call home.