



Southwestern Insurance Information Service

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DO YOU HAVE ENOUGH HOMEOWNERS INSURANCE?

Reliable estimates reveal that between 50 to 70 percent of homeowners do not have enough insurance to rebuild their home in the event of a major loss. It is unfortunate that many people do not come to this realization until after they have sustained significant damage to their home.

This was dramatically pointed out following a series of hurricanes in Florida and wildfires in California and Arizona. Numerous homeowners discovered too late that the amount of their insurance coverage fell far short of the cost to rebuild their homes.

Homeowners should insure their home for the total amount it would cost to rebuild, not the market value. The cost to rebuild your home may be significantly higher or lower than the price you paid for it or could sell it for today.

It is very important to regularly revisit the amount of insurance carried on a home to be certain it is sufficient to cover a major loss. Some of the issues to consider are any remodeling to the home, changes in local building codes and increases in new construction costs. An annual insurance check-up will help make sure you have enough insurance coverage to rebuild your home in the current construction market.

Maintaining a current inventory of personal items in your home is also highly recommended. A video taped or hand-written inventory should be kept in a safe place away from the home. Expensive jewelry, art objects, gun collections and fur coats may require separate coverage known as "endorsements."

For Additional Information:

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Flood insurance is not covered by your homeowners insurance policy. This type of insurance is offered by the National Flood Insurance Program. More information about flood insurance is available on the Web at: <http://www.floodsmart.gov/floodsmart/pages/index.jsp>. Or Call 888-379-9531.

The Structure of Your Home

There are two ways to insure your home:

1. **Replacement Cost Insurance.** Pays the cost of replacing your home without deduction for depreciation, but limited to a maximum dollar amount.
2. **Actual Cash Value.** Pays the cost to replace your home minus depreciation costs for age and condition. For example, if the life expectancy of your roof is 20 years and your roof is 15 years old, the cost to replace it in today's marketplace is going to be much higher than its actual cash value.

IMPORTANT: If you do not have sufficient insurance, you are only covered for a portion of the cost of replacing or repairing the damage to your home. Below are some tips to help make sure you have enough insurance on your home before damage occurs:

Tips for Insuring Your Home to Value

You should insure your home for the total amount it would cost to rebuild your home if it were destroyed. That's not the market value, but the cost to rebuild. If you don't have sufficient insurance, your company may only pay a portion of the cost of replacing or repairing damaged items. Here are some tips to help make sure you have enough insurance:

- **For a quick, rough estimate on the amount to rebuild your home** – multiply the local building costs per square foot by the total square footage of your house. To find out the building rates in your area, consult your local builders association or a reputable builder. You should also check with your insurance agent or insurance company. (Note: This is only an estimate and shouldn't replace annual coverage reviews).
- **Factors that will determine the cost to rebuild your home:** a) construction costs; b) square footage of the structure; c) type of exterior wall construction— e.g., frame, masonry or brick veneer; d) the style of the

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house (ranch, colonial); e) the number of rooms and bathrooms; f) the type of roof; and, g) attached garages, fireplaces, exterior trim and other special features like arched windows or unique interior trim.

- **Check the value of your insurance policy against rising local building costs EACH YEAR.** Check with your insurance agent or insurance company if they offer an “INFLATION GUARD CLAUSE.” This automatically adjusts the limit on coverage on your home when you renew your policy to reflect current construction costs in your area. In recent history, building costs and home values have outpaced the rate of inflation. That is why you still should keep up with local building costs by checking periodically with your local builders association.
- **Check the latest building codes in your community.** Building codes require structures to be constructed to minimum standards. If your home is severely damaged, you might have to rebuild it to comply with the new standards requiring a change in design or building materials, which generally increases cost.
- **Do not insure your home for the market value.** The cost of rebuilding your home may be higher or lower than the price you paid for it or the price you could sell it for today.
- **Most lenders require you to buy enough insurance to cover the amount of your mortgage.** Make sure it’s also enough to cover the cost of rebuilding your home.
- **Advise your insurer and increase the coverage limits of your policy if you make improvements or additions to your house.**

Your Personal Belongings

There are two ways to insure your personal belongings in your home:

1. **Replacement Cost Coverage.** Pays the dollar amount needed to replace damaged personal property with items of like kind or quality without deduction for depreciation.
2. **Actual Cash Value.** Pays an amount equal to the replacement cost of damaged property minus depreciation. Unless a Homeowners policy specifies that property is covered for its replacement value, the coverage is for actual cash value.

When insuring your personal belongings (the contents of your home), there are several tips to keep in mind to make sure you have adequate coverage:

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Check the limits of your policy on personal items, such as jewelry, silverware, furs and computer equipment. If the limits are too low, consider buying a special personal property endorsement (also known as a “floater”). An endorsement is an addition to your policy. A floater is a form of insurance that allows you to insure valuable items separately.

- **Make an inventory of everything you own in your home and in other buildings on the property.** Write down major items you own along with all available information, such as serial numbers, make and/or model numbers, purchase prices, present value, and date of purchase.
- **Document your inventory.** Take either still or video photos and attach receipts to the inventory when available. Store the inventory and visual records AWAY from your home—perhaps in a safe deposit box.
- **Update the inventory when you make major purchases.**

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