

LIFEGUIDE SERIES

HOMEOWNERS INSURANCE



THE USAA EDUCATIONAL FOUNDATIONSM

Good Information for Good Decisions.

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Information in this publication is not meant to be construed as legal, tax, or investment advice. It is only a general overview of the subject matter. The USAA Educational Foundation does not provide financial, accounting, legal or other professional services. You should always consult with your tax and legal advisers regarding the legal consequences of your insurance and financial planning.

Protecting Your Home

Your home is likely your most valuable possession. The time to think about the unthinkable disaster is *before* it happens to you. If your home were damaged or destroyed, insurance can help you repair or rebuild your home and replace damaged possessions.

The main purpose of insurance is to protect you against losses you cannot afford. Few people have the financial resources to

rebuild their homes. In addition to protecting your home and possessions, homeowners insurance also provides liability coverage to protect you from financial ruin if someone is injured on your property and sues for damages.

This booklet explains the basic parts of a standard homeowners policy, including dwelling coverage, personal property coverage and liability insurance,

optional coverages and endorsements, as well as flood and earthquake insurance. You will also find information on the factors that determine how much you pay for insurance and explain ways to reduce your premiums. You will understand what it means to be a wise consumer and buy the proper type of insurance in the right amounts to protect your home and possessions.



The main purpose of insurance is to protect you against losses you cannot afford.

What Is Homeowners Insurance?

A homeowners insurance policy is a contract between you and an insurance company. In exchange for the premium you pay, the insurance company agrees to cover home and property losses resulting from events that are outlined in the policy. Insurance pools the risks of many homeowners so that no one person has to bear the entire cost of a loss at a given time.

A homeowners insurance policy consists of coverage for your dwelling and your personal property. It also includes liability insurance which pays for injuries to other people or damages to their property accidentally caused by you, your family or your pets. You also can buy several types of additional insurance for property that is not listed in your homeowners policy or for perils not

covered — such as flood — for which you need a separate policy. You do this by either buying a separate policy or by adding an endorsement or rider to your policy.

To get the best value for your insurance dollar, it is important to:

- Buy enough of the right kind of insurance to protect your property.
- Keep a record of your insured possessions, so you have accurate information to document your losses.
- Compare policies and premiums before you buy.
- Read your policy and understand what coverage is provided.

FYI:

A homeowners insurance policy is a contract between you and an insurance company.

The Parts Of A Homeowners Policy

The following policy descriptions outline typical policies, but every policy is different. If you have trouble understanding your policy, ask your insurance company, agent or another professional for an explanation.

Dwelling Coverage

You should buy enough insurance to completely rebuild your home. That amount — the replacement value — is *not* necessarily the home's market value or what you paid for it. In areas where land is especially expensive, the market value of homes is often inflated. You do not need to include the cost of the land when you figure how much insurance you need. Your mortgage lender may require you to buy insurance to cover the amount of your mortgage; it is up to you to make sure that it will be enough to cover the cost of rebuilding.

To determine how much insurance to buy, you need an accurate appraisal of the replacement cost of your home. When you first buy insurance,

the insurance company will usually question you about the size and construction of your home to help you select the proper amount of coverage. In the case of custom homes, and those with many unusual or expensive features, the insurer may require an inspection to verify the home's replacement cost before writing your policy. The inspector will usually measure the home's dimensions, take photographs and list any unique features.

Insurers use three terms that relate to how their companies pay your claims: **actual cash value**, **replacement cost coverage** and **excess dwelling coverage**.

Most homeowners policies insure your home for its **replacement value**, up to the dollar limit of the policy.

Most insurers require you insure your home for 100 percent of its full replacement value. Your policy normally includes an automatic annual adjustment for inflation and changes in construction costs.

Excess Dwelling Coverage

To protect yourself fully, insure for 100 percent of replacement cost and also consider buying **excess dwelling coverage**, which will usually pay from 120 percent up to 150 percent of the face value of the policy to replace your home. To get excess dwelling coverage, you must insure your home for 100 percent of its replacement value. Excess dwelling coverage protects you from building cost increases and from building material shortages following major disasters.

Excess dwelling coverage policies usually include an automatic yearly adjustment for inflation to keep coverage updated, and replacement cost coverage for personal property equal to 75 percent of the value of the home, instead of the 50 percent common in most replacement cost policies. Coverage can cost from 6 percent to 20 percent more than a replacement cost policy.

You may be unable to buy excess dwelling coverage for an older home with unique features that would be too expensive to reproduce, for a home more than 25 years old, or for a home whose market value is significantly less than the cost to rebuild.

Coverage Of Other Structures

Most policies cover structures that are on your property but are not attached to your home, (i.e. detached garage, storage shed or gazebo), for up to 10 percent of the amount of coverage on the home itself. You can increase the amount of coverage for an increased premium.

Personal Property Coverage

One of the most common mistakes homeowners make is underestimating the value of their personal property. It is a costly mistake if your home is completely destroyed by a fire or other disaster.

Most homeowners policies cover your belongings for their **actual cash value (ACV)** up to a limit that is typically 50 percent of the coverage on your home. Actual cash value is the replacement cost of an item, minus deprecia-

tion for its use or age. The cost difference can be substantial and could mean you could not replace damaged or stolen items without incurring the cost yourself. **Replacement cost coverage** for your possessions, as for your home itself, pays to replace the item without depreciation. While replacement cost coverage costs approximately 10 percent to 15 percent more than ACV coverage, it is usually well worth it. To claim replacement cost coverage you must actually replace the item.

With either type of coverage, your property is covered when you are traveling or when your goods are in storage. Personal property in a vacation home or with a student away at school is usually covered up to a limit of 10 percent of the total personal property policy limit, although you can usually buy more coverage for a small additional premium. However, some policies do not cover theft of property in an unoccupied second home.

All homeowners policies limit coverage on certain types of high-value items, such as jewelry, furs, silverware, fire-

arms, stocks and bonds, currency and watercraft. To protect these items fully, you may need a separate policy or endorsement. (See “Floaters, Endorsements and Riders” on Page 16.)

Homeowners insurance does not cover certain possessions, including pets or other animals, motor vehicles, aircraft and property belonging to someone who rents a room or apartment located in your residence. Many policies do not cover boats or trailers, or limit coverage to small craft only.

Take Inventory

Most people could not list all the items in their living room without looking. Taking an inventory of your personal possessions is the *only* way to be sure you will remember what you have lost.

An up-to-date inventory can help you:

- Determine the value of your possessions and how much insurance you need.
- Record the purchase dates and cost of major items.

- Identify exactly what was lost.
- Help law enforcement authorities recover stolen items, especially if you have marked TV, stereos, VCRs and computers with an identification number, such as your driver's license number.
- Settle your claim quickly and efficiently.
- Verify losses for income tax deductions.

Most insurance companies can provide you an inventory form or booklet. In addition to listing each item, it is a good idea to photograph or videotape every room: open drawers, closets and cabinets to record what is inside. Record serial numbers, purchase prices, dates of purchase and present values of major appliances, electronic equipment, home office equipment and especially valuables. Include receipts or appraisals for high-value items, and remember to record estimates for even your smallest possessions.

Store your written and visual inventory in a safe place away from your home, such as a safety deposit box. Keep a copy of the

written inventory at home for quick reference and updating. Be sure to update both copies whenever you make major purchases, or at least once each year.

Computer software programs are available to help make taking inventory a little less burdensome. Be sure to keep a hard copy or a copy of the disk in a safe place away from your home.

Liability Insurance

Your homeowners policy includes liability coverage, which pays for injuries to other people or damages to their property accidentally caused by you, your family or your pets. This coverage pays for property damage and medical payments for the other person and covers you if you are sued because of the damages. Unlike dwelling and property coverage, there is no deductible on liability insurance. Your policy will also pay for certain small claims even if you were not held legally responsible for the damages.

Most policies include \$100,000 in liability coverage, but many insurance experts recommend a minimum of \$300,000 cover-

age. Medical payments coverage is usually \$1,000, but higher limits are available.

Umbrella Liability Insurance

Umbrella liability insurance is a special type of liability policy that takes over where your homeowners and auto insurance policies stop. This is usually a separate policy with a minimum limit of \$1 million, up to approximately \$5 million.

In addition to providing excess coverage over your auto and homeowners policies, most umbrella liability policies cover you against libel, slander, defamation of character, mental anguish, false arrest, wrongful entry or eviction and malicious prosecution — perils that homeowners insurance policies do not cover. Your insurer may require you to carry certain minimum liability coverage, usually \$250,000 to \$300,000, on your auto and homeowners policies to qualify for an umbrella policy.

Anyone with substantial assets or the potential for high future earnings should consider higher limits of umbrella liability coverage.

Your rates for umbrella liability depend on the amount of risk you present. For example, a woman driver in a low-risk age category (30 to 45 years old) who owns one home will pay less than a family that owns two homes, a motorboat and three cars, and has youthful operators of the boat and vehicles.

Additional Coverages

Most homeowners policies cover a wide range of other losses. Every policy is different, and policy limits and deductibles vary widely. Listed below are some of the most common additional coverages. Often, these can be increased through endorsements.

Debris Removal: Covers the cost, up to a certain limit, of removing debris resulting from a covered loss.

Reasonable Repair: Reimburses your expenses if you must make temporary repairs to protect your property from further damage after a covered loss. Be sure to keep all receipts for supplies and labor costs.

Loss Of Use: Most policies cover the cost of hotels, restaurant meals and other additional living expenses you would not normally have, if you cannot stay in your home while repairs are made. This coverage also applies if you are prohibited from using your home by local authorities due to unsafe conditions at your home or at your neighboring premises such as a chemical leak or other danger. Most policies limit coverage to approximately 20 percent of the insurance on your home; you can increase this limit for an additional premium.

Landscaping: Most policies cover damage to trees, shrubs and landscaping caused by theft, fire, lightning, explosion, vandalism, riot and even fallen aircraft. Windstorm damage to landscaping is not covered, unless the windstorm causes a tree to damage an insured structure; in that case, the policy would pay for the damage to the home, plus removal of the tree. The covered limit is usually approximately 5 percent of the total insurance on the home, up to \$500 per tree, shrub or other plant.

Fire Department Service

Charge: This covers fire department service charges, usually up to approximately \$500, when fire personnel are called to protect your property against an insured peril, if your property is located outside the city limits or fire protection district.

Credit Cards, Forgery And

Counterfeit Money: Most policies pay from \$500 to \$1,000 for theft or unauthorized use of your credit card or ATM card, for losses caused by forgery of a check or for acceptance in good faith of counterfeit money.

Loss Assessments: Most policies will pay up to \$1,000 for your share of a loss assessment charged by a homeowners or condo owners corporation or association to cover uninsured losses to common property owned by all members collectively, as long as the loss was caused by a peril covered under your policy.

Lock Replacement: Some policies pay up to \$250 to replace or change the combination on door locks if your keys are stolen.

FACT:

Your rates for umbrella liability depend on the amount of risk you present.

Food Spoilage: Some policies pay between \$500 and \$1,000 to replace the contents of your refrigerator or freezer in case of a power failure or mechanical breakdown.

Glass Breakage: Most policies cover glass breakage or damage caused by breaking glass, unless the home has been unoccupied for more than 30 days.

Landlord's Furnishings: If you rent a room or apartment in your home, some policies cover your furnishings or other property as they would in the rest of your home, up to a limit of approximately \$2,500, except for theft.

Land Stabilization: A few comprehensive policies pay a limited amount to replace, rebuild or stabilize the land that supports a covered structure if it is damaged by a covered peril.

Building Ordinance Or Law:

This coverage, although not yet common, is becoming more important, especially in areas prone to earthquakes, floods, tornadoes, hurricanes and severe windstorms. Communities in many such areas have strengthened building codes to reduce potential structural damage in future disasters. New homes, and those being substantially rebuilt after damage, are required to comply with the new, stricter codes.

Some replacement cost policies include coverage of any additional costs to bring an insured home up to code. Other insurers cap the amount for building code compliance at 5 percent to 10 percent of the policy value, either as part of the regular premium or for an additional premium. The individual states may have varying requirements.

What Are You Insured Against?

Homeowners insurance protects you against specific **perils** defined in the policy. The more comprehensive the policy, the more expensive your premiums.

The basic homeowners policy, usually called HO-1, covers your house and possessions against 11 different perils. The broad homeowners policy, HO-2, covers house and contents against 17 perils, with premiums averaging approximately 5 percent to 10 percent more than an HO-1 policy. Because both

these policies offer limited coverage, many insurers no longer even offer them.

The special homeowners policy, HO-3, generally costs 10 percent to 15 percent more than an HO-1 policy and covers all perils except those specifically excluded by the policy. There is also an HO-4 policy for renters, that covers 17 named perils and includes liability coverage; it does not insure the dwelling itself. HO-6 is a policy for owners of co-ops or condomini-

ums, which provides personal property coverage, liability coverage and specific coverage of improvements to the owner's unit. Insurance provided by the owner's association normally covers most of the actual structure. HO-8 is a policy for older homes, which covers the same perils as HO-1 but pays only for repair costs or actual cash value, since replacement cost, in many cases, would make the policy too expensive.

These policies are standard except in Texas, where the state insurance board specifies three types of policies. Other options have recently become available, similar to those available on a countrywide basis. HO-A covers your home and possessions against named perils only, for actual cash value. HO-B covers the dwelling for all perils unless



Homeowners insurance protects you against specific perils defined in the policy.

unless excluded against all risks and contents against named perils. The home is covered for replacement cost up to policy limits, while contents are covered for actual cash value unless you buy additional replacement cost coverage. HO-C covers home and contents against all risks not specifically excluded by the policy. The home is insured for replacement cost up to policy limits, while contents are covered for actual cash value unless you buy additional coverage.

Insurance For Condos And Co-ops

Condominium and co-op apartment insurance, usually known as an HO-6 policy, provides personal property coverage, liability coverage and coverage for improvements to the unit made by the owner. Typically, condominium policies provide additional living expenses up to 40 percent of the coverage on personal property and improvements of a minimum limit of \$2,500 of personal property coverage, with additional coverage that can be purchased if needed.

If you own a condominium or co-op, you need to understand what is covered by your policy and what is covered by the policy purchased by the condominium board or owners association. This policy typically covers common areas, such as roofs, basements, elevators, lobbies and shared recreational facilities. Some policies cover the individual units as built, including standard kitchen and bathroom fixtures such as built-in cabinets, sinks and bathtubs. Individual owners are responsible only for insuring their own personal property and any improvements they make to their units.

Other association policies cover only each individual unit's bare walls, floor and ceiling; individual owners must insure kitchen cabinets, built-in appliances, plumbing, wiring and bathroom and kitchen fixtures. Check with your association to find out which type of coverage is provided, what coverage you need to purchase and the procedure for submitting a claim under the association's policy.

Typically, there will be areas of overlapping coverage between the policy purchased by the condominium board or owners association and the coverage afforded under your homeowners policy. Your homeowners coverage is excess over the amount recoverable under the insurance policy purchased by the condominium board or owners association. As such, all claims involving damage to your unit should be submitted both to your homeowners carrier and the condominium association's insurance company.

Condominium and co-op policies also provide loss assessment coverage, which pays your share of liability or property claims against the association. The association's policy should provide liability coverage as well as coverage for commonly owned property. If claims against the association's policy exceed the policy's limits, individual owners may be assessed by the association to cover the difference; in this case, your individual policy's loss assessment coverage would pay your share of the claim.

Perils Covered

| Peril | HO-1 | HO-2 | HO-3 | HO-4 | HO-6 | HO-8 |
|---|------|------|------|------|------|------|
| Fire or lightning | ● | ● | ● | ● | ● | ● |
| Windstorm or hail | ● | ● | ● | ● | ● | ● |
| Explosion | ● | ● | ● | ● | ● | ● |
| Riot or civil commotion | ● | ● | ● | ● | ● | ● |
| Damage caused by aircraft | ● | ● | ● | ● | ● | ● |
| Damage caused by vehicles | ● | ● | ● | ● | ● | ● |
| Smoke | ● | ● | ● | ● | ● | ● |
| Vandalism or malicious mischief | ● | ● | ● | ● | ● | ● |
| Theft | ● | ● | ● | ● | ● | ● |
| Breakage of glass that is part of the building and damage caused by that breakage | ● | ● | ● | ● | ● | ● |
| Volcanic eruption | ● | ● | ● | ● | ● | ● |
| Falling objects | | ● | ● | ● | ● | |
| Weight of ice, snow or sleet | | ● | ● | ● | ● | |
| Accidental discharge or overflow of water or steam from plumbing, heating, air conditioning or automatic fire-protection sprinkler system or an appliance | | ● | ● | ● | ● | |
| Sudden, accidental tearing apart, cracking, burning or bulging of steam or hot-water heating system, air conditioning, automatic fire-protection sprinkler system or an appliance | | ● | ● | ● | ● | |
| Freezing of plumbing, heating, air conditioning or automatic fire-protection sprinkler system or an appliance | | ● | ● | ● | ● | |
| Sudden and accidental damage from artificially-generated electric current | | ● | ● | ● | ● | |
| All perils except those specifically excluded | | | ● | | | |

Exclusions — What Is Not Covered

All policies exclude losses caused by certain perils, generally including:

- Enforcement of building ordinances or laws, unless your policy has an endorsement providing this coverage
- Earthquake or other earth movement
- Water damage from flooding, surface water, sewer or drain back-up, sump pump overflow, ground water seepage or leakage from swimming pools
- Rot, mold or mildew
- Power failure except as provided in additional coverages for food spoilage
- Neglect in protecting property at the time of loss
- War or nuclear hazard
- Loss caused by a deliberate or intentional action by the insured

Coverage for some exclusions is available under other policies or by purchasing an endorsement or rider to your homeowners policy.

Keeping Your Coverage Up-To-Date

To make sure you are adequately protected, review your policy once each year. Any substantial change in the value of your home or possessions — such as adding a room, a major remodeling project, new furniture or appliances, or an increase in family assets — may mean you need to increase your policy limits. If you have bought items such as jewelry or silverware that have limited coverage, under most standard policies, you may need an endorsement or separate policy for full protection. (See “Floaters, Endorsements and Riders” on Page 16.) Your insurer can help you establish new policy limits, and may send an inspector or agent to examine your home and recommend the amount of increased coverage. Or, you may hire an appraiser yourself to determine the new replacement value of your home. To

find an appraiser, contact your bank or real estate agent for recommendations.

Many policies include an “inflation guard clause” that automatically increases your coverage each year based on changes in building costs in your area. It is still a good idea for you to review your coverage because the inflation clause may not be enough to increase your policy limits. Following a disaster such as a hurricane, flood or tornado, building costs often rise sharply because of building material shortages and price gouging by unscrupulous suppliers. In these cases, an inflation clause may be inadequate, since inflation clauses are geared to normal cost increases. Your best protection is an additional replacement cost policy with limits high enough to cover completely rebuilding your home and replacing all its contents. Also consider a “Building Ordinance or Law” endorsement to make sure you are protected in case your home must be rebuilt to new, stricter building codes which increase the cost of rebuilding.

Preventing Losses

While insurance will compensate you in case your home or possessions are damaged, stolen or destroyed, your best course is loss or damage prevention.

To increase your home's security:

- Install sturdy deadbolt locks.
- Make sure your home is well-lit outside, eliminating potential hiding places.
- Do not let papers or mail pile up outside when you are on vacation.
- Install a burglar and fire alarm system. It may also lower your insurance premium.
- Be sure your family knows how to get out of your home in case of fire. Police and fire departments will often send an officer to inspect your home and recommend ways to increase your safety.
- Learn how to protect your family and home.



Make sure your home is well-lit outside, eliminating potential hiding places.

Basic Factors That Determine Rates

Insurance companies determine your rates by considering a number of factors:

- **Location**
Insurers keep records of losses by cities, neighborhoods and even zip codes. If your home is located in an area with a high number of losses, you can expect to pay more.
- **Fire Protection Class**
Every neighborhood is assigned a fire protection class, based on the location of fire stations and water sources, and whether fire protection is provided by a full-time professional department or volunteers. Rural homes, although they are less exposed to crime, usually cost more to insure because they are often miles from a fire department.
- **Type of Construction**
Insurance on wood frame homes can cost 5 percent to 10 percent more than brick or masonry homes. However, earthquake coverage is less expensive for wood frame homes, since they withstand tremors better than brick.

- **Age of Home**
New homes usually cost less to insure than older homes, since they are less likely to suffer damage from storms and fires. Outdated building codes and old wiring also make older homes riskier.
- **Construction Costs**
Building costs vary widely. Rates take into account the cost of building materials and labor costs in your area.

Factors That May Affect Rates And/Or Insurability

Insurance companies evaluate risks and determine the amounts and conditions under which risks will be insured and/or continued. There are a number of factors that go into determining homeowner's insurance premiums. Some of these include overall loss trends in your geographic location; fire protection in your area; the rebuilding cost of your home; and your claims history. In fact, because claims frequency is an indicator of future risk, insurers use it as a significant factor in deciding whether to charge a higher premium, impose higher deductibles or even decline

FACT:

Insurers keep records of losses by cities, neighborhoods and even zip codes.

coverage. In general, the major factors many insurance companies utilize when evaluating your home for insurance are the following:

- **Losses**

In reviewing loss history, the circumstances of each loss must be carefully scrutinized. Indications of increased severity, increased frequency, repeated carelessness or negligence on the part of the applicant or repeated loss due to the same cause of loss may be indications of an unacceptable risk as well as use of the policy for maintaining the property.

- **Condition**

Individual properties that are in fair or poor condition due to lack of proper maintenance (e.g., deteriorated roof, broken windows, etc.) may be declined until such conditions are repaired or replaced.

- **Increased Liability Exposure**

- Residences with pools, or hot tubs that are not fenced and have no locking cover
- Trampolines that are not fenced and lack adult supervision when being used
- Pets that have bitten or attacked or that have shown an aggressive nature

- **Occupancy**

Requests to insure a home that will be vacant or unoccupied for more than 30 consecutive days.

- **Insurance To Value**

Requests to insure your home for less than 100% of its Replacement Cost (e.g. cost to rebuild the home)

- **Fire Protection**

Rural and unprotected properties may present an unusual exposure, particularly if isolated from other permanently occupied dwellings.

- **Other Factors**

- Homes built over water or in close proximity to a large body of water
- Area experiencing earth movement or sinkholes
- Brush areas

- **Credit History**

Some insurers may also deny homeowners on the basis of a poor credit rating, citing a relationship between poor credit and high risk. This practice is legal in most states. If you are denied insurance and suspect your credit history may be a factor, get a copy of your credit reports and make sure they are accurate. Appeal to state insurance regulators for help, especially if you have no problem getting other credit such as loans or mortgages.

How To Reduce Or Maintain Your Premiums

The most important way you can influence the premium for homeowners insurance is to maintain your property. Homeowners insurance is not designed to be a home maintenance policy and should not be relied on to pay for the recurring or routine maintenance problems that are part of everyday homeownership. There are some simple steps you can take to reduce your homeowner's premiums:

Raise Your Deductible

A deductible is the amount you pay before the insurance starts to pay for your loss. Since the purpose of insurance is to pay for the losses you cannot afford, raise your deductible to a limit that you could handle in case of a loss. Many states are now splitting the deductible into two parts, one for wind and hail damage, the other for all other perils covered by the policy. You can save money by choosing a higher deductible for wind and hail, especially if you feel the risk of wind and hail damage is not large.

New Home

If your home is less than 10 years old, you can usually save from 2 percent to 10 percent if your insurer offers a new home discount.

Make Your Home Safer

Most insurers offer discounts of 2 percent up to approximately 15 percent for burglar and fire alarms systems and sprinkler systems; monitored systems will earn a bigger discount than unmonitored systems, and the discounts may be combined if you have both burglar and fire alarms. You can get a discount up to 5 percent for smoke detectors. Before you install a security system, find out which systems qualify for discounts and what your insurance company recommends.

You may also get a small discount for fire extinguishers and deadbolt locks, but these are often required in order to buy the most comprehensive policy.

Construction Material

When you buy a home, look for fire-resistant construction, such as brick, masonry or rock. You may pay a lower premium for hail-resistant roofs, such as those made of concrete tile, while wood roofs may bring a surcharge. Check the location of the nearest fire department, and avoid buying in flood-prone areas.

Non-Smoker Discounts

Some insurers offer lower premiums if no smokers reside in the home.

Mature Homeowner

Some companies offer discounts of up to 10 percent for homeowners over age 55 who tend to stay at home more, reducing the chance of loss.

Preventive Maintenance

Preventive maintenance inspections can help you detect minor problems before they cause major damage that make it necessary to file insurance claims.

Special Coverages And Endorsements

Floater, Endorsements And Riders

Homeowners insurance limits coverage on certain high-value items, including jewelry, silverware, furs, firearms, coins, securities and boats. The policy sets a dollar limit which applies to each category of item, and items are covered only for perils covered by the policy, such as fire or theft. If your policy limits jewelry to \$1,000 and your diamond ring worth \$1,000 and your ruby bracelet worth \$600 were both stolen at the same time, you would collect only \$1,000. If, instead, you lost an item of jewelry, you would not be covered at all, because this is not a covered peril.

Some policies also limit coverage on computer equipment, artwork, musical instruments, antiques, cameras, golf equipment and oriental rugs.

To protect these items, you can buy additional protection in the form of a **floater, endorsement** or **rider**. A floater is a separate policy that provides all-risks coverage against anything not specifically excluded by the policy. Endorsements or riders are additions to your current homeowners policy, and coverage is generally limited to the risks covered by your policy.

Typically, coverage by an endorsement or rider carries an upper dollar limit for each category and a limit on the value of any one item, usually between \$500 and \$1,000.

Floater, on the other hand, can usually be written to cover items of any value, no matter how high. To buy floaters or endorsements, your insurance company will require a bill of sale or recent appraisal of the item's value, along with a complete description of the item. Photographs are also helpful, especially for unique items. Keep a set for yourself and store in a safety deposit box.

Flood Insurance

Homeowners insurance does not cover damage from flooding, including tidal waves or storm surges, or sewer water backing up into your home or yard. To protect yourself from flood damage, you must buy a separate flood insurance policy. Many insurance companies write flood policies, which are issued through an arrangement with the National Flood Insurance Program (NFIP), part of the Federal Emergency Management Agency (FEMA).

Typical Policy Limits

| | |
|--|-----------------|
| Money, gold, silver, platinum, coins and medals | \$200 |
| Securities, deeds, manuscripts, stamps, tickets or other valuable papers | \$1,000 |
| Watercraft, including trailers and outboard motors | \$1,000 |
| Jewelry, watches, furs, precious and semiprecious stones | \$1,000–\$2,000 |
| Silverware, goldware, pewter and silverplate | \$2,500 |
| Firearms | \$2,500 |

To qualify for flood insurance, you must live in a community that participates in the NFIP. To qualify for NFIP, communities must take specific actions to control flood damage by keeping dams, dikes and levees in good repair. Also included are restrictions on where you can build. Rates vary widely depending on the location and on whether your home is located in a low- or high-risk area. Coverage is limited to \$250,000 for the home and \$100,000 for personal property. Replacement cost coverage may be available for the home, but contents can be insured only for actual cash value. There is a 30-day waiting period before a flood policy goes into effect.

If you have a federally-backed mortgage and live in a high-risk area, you are required to purchase flood insurance. The insurance must remain in effect for the life of the loan. If the homeowner does not purchase the flood insurance, the lender can purchase a policy, possibly at a higher premium.

Earthquake Insurance

Damage from earthquakes is not covered in standard homeowners policies but can be purchased through an endorsement or separate policy. Premiums range from 25 percent up to 100 percent of a standard homeowners policy premium. Deductibles are usually high — up to 15 percent in some areas of the U.S. The deductible may apply separately to the home and its contents, or the policy may have a single deductible. Premiums for wood frame homes, which withstand earthquake damage better than brick or masonry construction, will usually be less expensive.

Windstorm, Hurricane And Tornado Coverage

Damage caused by wind, including hurricanes and tornadoes, is usually covered under standard homeowners policies. But if you live in an especially high-risk coastal area vulnerable to hurricanes, you may need to buy a separate windstorm policy or an endorsement to your policy from a state-run “pool.”

Home Office And Computer Equipment Coverage

Most homeowner policies limit losses to computer equipment and other home office equipment to between \$2,500 and \$5,000, and only \$250 when the equipment — such as a \$3,500 laptop computer — is outside the home for business purposes.

If you have a well-equipped home office, consider purchasing an endorsement or rider to increase coverage. Most home electronic equipment endorsements cost approximately \$5 to \$6 per \$1,000 insured value and protect equipment such as computers, printers, scanners and fax machines for all risks, including replacement of commercially purchased software.

If you run what insurers consider an “incidental” business from your home, you may be able to buy an endorsement to your homeowners policy to protect your business property and provide liability coverage for business-related activities as well. However, insurers’ definitions of “incidental” vary. Check with your insurance company, agent or another professional if you have any business activities in your home.

If customers or delivery persons regularly come to your home office, your homeowner liability coverage may be inadequate. Your insurance agent or company can determine if a separate commercial liability policy or an umbrella liability policy will offer protection against lawsuits should someone be injured while at your office.

To provide adequate protection for a more substantial home business, consider a separate small business policy. One may be available from the company that provides your homeowners insurance; from a business and commercial insurer; or, from a small business trade association.

These small business policies combine property and liability coverage in one policy, which usually costs between \$300 and \$500 annually. Some companies may also provide this type of coverage in a special endorsement to your homeowners policy. Coverage typically includes loss or destruction of business property on or off premises; loss of valuable papers and business information; personal injury and advertising

liability; accounts receivable, in case your records are damaged or destroyed; and, money lost on or off premises. If a fire or other disaster makes running your business impossible, these policies also cover expenses and lost income for up to one year.

How To File A Claim

Be prepared in the event you have a loss covered by your homeowners insurance. Before you need to file a claim, make sure you know the answers to the following questions. If you do not, ask your insurance company representative to explain your coverage.

- Is my home insured for its replacement value?
- Do I have replacement cost coverage?
- Are my possessions insured for actual cash value or replacement value?
- How much liability and medical payments coverage do I have?

If you need to file a claim, follow these steps:

- Report any burglary, theft or other crime to law enforcement authorities.
- Report claims immediately by telephone. Most policies have a time limit within which you must file a claim.
- Ask your insurance company, agent or another professional if you are covered; if the claim exceeds your deductible; how long claim processing will take; and, if you need to get damage estimates.
- Follow up with a written explanation, if the company or agent requests it.
- Photograph or videotape damage to your home or other buildings.
- Make temporary repairs to protect your property from further damage. If necessary, move personal property to a safe location. Keep all receipts for repairs and storage costs.

- Make a list of stolen or damaged articles.
- If you must move out, save all receipts for food and lodging, new clothing or other expenses.
- Keep a running record of all your communications with the insurance company. You may need this in case you have a future dispute over the claim.
- Discuss any disagreements with your agent or adjuster if you are not satisfied with the claim settlement. Check your policy to see how to resolve differences.

Your Consumer Rights

If you must file a claim on your homeowners insurance, you should be sure you are getting the coverage you paid for. Before you accept a settlement for repairs on your home, get an estimate from a licensed contractor. If you disagree with the insurance company's adjuster, you can hire a public adjuster who will estimate the damages and negotiate with the insurance company's adjuster for you. Make sure any adjuster you hire is qualified; check with your state's insurance department or local builders' associations.

If you cannot reach an agreement, contact your insurance company. Most companies provide an appeals process. If that does not work, contact your state insurance department; many provide mediation services. Once you have tried these steps, you have two choices:

arbitration or a lawsuit. Most policies provide for arbitration in case of disputes; it is usually less time consuming and less costly than a lawsuit. If you have any problems or questions during the settlement process, contact your state insurance department. You can also call the toll-free National Insurance Consumer Helpline at 800-942-4242 for guidance.

What If You Cannot Get Insurance?

If your coverage is refused or canceled, you may have to turn to a state-run risk pool for insurance.

Risk pools, operated by 29 states and the District of Columbia, provide insurance to homeowners who cannot get coverage in the standard market. Policies are expensive, however, and coverage is usually more limited.

FYI:

Before you accept a settlement for repairs on your home, get an estimate from a licensed contractor.

Rate Comparison Work Sheet

| Type Of Coverage | Amount Of Coverage | Annual Premium | | |
|--|--------------------|----------------|-----------|-----------|
| | | Company A | Company B | Company C |
| Basic Coverages | | | | |
| Dwelling Coverage | | | | |
| Other Structures | | | | |
| Personal Property | | | | |
| Personal Property Off Premises | | | | |
| Personal Liability | | | | |
| Medical Payments to Others | | | | |
| Loss of Use Coverage | | | | |
| Deductible | | | | |
| Additional Coverages (indicate extra premium) | | | | |
| Excess Dwelling Coverage | | | | |
| Guaranteed Replacement Cost Coverage, Personal Property | | | | |
| Glass Breakage | | | | |
| Computer | | | | |
| Home Office | | | | |
| Other Additional Coverage | | | | |
| Subtotal Policy Cost: | | | | |
| Discounts: | | | | |
| New Home | | | | |
| Burglar/Fire Alarm, Unmonitored | | | | |
| Burglar/Fire Alarm, Monitored | | | | |
| Smoke Detectors | | | | |
| Sprinkler System | | | | |
| Hail-Resistant Roof | | | | |
| Fire Extinguishers | | | | |
| Deadbolt Locks | | | | |
| Nonsmoker | | | | |
| Over Age 55 | | | | |
| Other Discounts: | | | | |
| Total Annual Premium: | | | | |

How To Select An Insurance Company

Buying homeowners insurance is no different from any other important consumer purchase. If you do your homework and know what you are buying, compare costs and features and shop wisely; you will get your money's worth.

You can buy insurance from an **agency** that sells policies through agents. These independent business people may be **exclusive agents**, selling only one company's policies, or **independent agents** representing several insurers. A **direct writer** company sells its policies directly through phone or mail or the Internet. Direct writer companies claim their policies are less expensive, since their sales expenses are lower. Independent agents claim they can better serve the consumer because they represent several companies and can find the best deal.

The choice of agency or direct writer usually makes less difference than other factors, such as the company's reputation for service, financial stability and coverage offered. To get the best buy in insurance:

- Shop around. Use the "Rate Comparison Work Sheet" on Page 20 to compare policy features and rates from at least three companies.
- Check the insurer's financial stability in insurance industry rating guides published by A. M. Best, Moody's or Standard & Poors, which you can find in most libraries. Look for companies with the highest rating.
- Call or write your state insurance department and ask for a consumer guide or cost comparison survey of insurers in your state. They may provide information on companies that are under investigation for unfair practices or claims settlement disputes.
- Ask your family and friends for their recommendations and experiences with their insurance companies.
- Look for a company that not only offers good rates, but that has a superior reputation for fair claims settlements and good customer service.

FACT: Buying homeowners insurance is no different from any other important consumer purchase.

Glossary

Actual Cash Value: The replacement cost of property, minus depreciation.

Agent: An independent agent usually sells and services the policies of several insurance companies, while an exclusive agent represents only one company. Both are usually paid on commission. A direct writer is a company that sells directly through a salaried or commissioned employee to the consumer.

Appraisal: An evaluation to determine the insurable value of property or to determine the amount of a loss.

Bodily Injury: Protection against loss due to the policyholder's legal responsibility for damages because of bodily injury, sickness or death suffered by another person.

Claim: A demand to recover a loss protected by an insurance policy.

Coverage: A synonym for insurance indicating how much protection the insurance provides. This may mean either the dollar amount purchased or the type of loss covered.

Deductible: The amount of money the policyholder agrees to pay toward the total amount of an insured loss.

Depreciation: The decrease in the value of property due to wear and tear, and age.

Endorsement: An amendment attached to an insurance policy to add to, or change the terms of the policy contract.

Exclusion: An event or loss that an insurance policy does not cover.

Floater: An insurance policy, separate from the basic homeowners or renters policy, which covers specific items of personal property. The coverage "floats" with the property — that is, it applies to the property wherever it is located, within the limits stated in the contract.

Insured: A person or organization covered by an insurance policy, including the "named insured" and any other persons for whom protection is provided under the policy terms.

Insurer: The insurance company providing the coverage.

Liability: Any legally enforceable obligation.

Liability Insurance: Insurance that pays for injuries to other people or damages to their property accidentally caused by you, your family or your pets.

Limits: The maximum amount of insurance that will be paid for a covered loss.

Loss: The dollar amount of an insurance claim or the basis on which a claim is submitted.

Peril: The cause of a loss insured against in a policy.

Policy: A legal contract that sets forth the rights and obligations of both the policyholder and the insurance company.

Policyholder: Someone who pays a premium to an insurance company in exchange for the protection from loss provided by an insurance policy.

Premium: The amount of money you pay to the insurance company in return for insurance protection.

Property Damage: Insurance that protects against the loss or damage to property caused by perils listed in the policy.

Renewal: The procedure whereby an insurance policy is extended for a specific term provided the policyholder pays the premium on time.

Replacement Cost Or Value: The amount it would cost to replace damaged property at today's prices, without a deduction for depreciation.

Risk: The chance of injury, damage or loss. Also refers to the insured or to property covered by the policy.

Rider: An amendment attached to an insurance policy to add to, or change the terms of the policy contract.

Umbrella Liability Insurance: A policy that insures losses in excess of amounts covered by other liability insurance policies; also protects the insured in some situations not covered by the basic liability policies.

Research Hints

There is a wealth of information on this topic that can be further researched at your local or college library, or on the Internet. The Internet is a wonderful research tool where you can find sites that provide general information, related links and resources that can help you in your search. Log onto a search engine and type in keywords of the subject matter that you are researching—for example, “financial planning”, “college scholarships”, or “auto insurance.” If you explore the numerous sites on the Internet, you should be able to strengthen your research and find information that will fit this subject. The USAA Educational Foundation has not reviewed and cannot guarantee the accuracy of any other Internet Web sites.

TIP: When researching on the web, make sure that your source is a reliable and known entity.

The USAA Educational Foundation offers the following related publications:

Buying A Home (#502)

Personal Records (#506)

Planning A Move (#509)

Selling A Home (#519)

Renting A Home (#533)

Building Or Remodeling
(#560)

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