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HOME OWNER'S INSURANCE

EACH HOMEOWNER'S INSURANCE POLICY CAN VARY SIGNIFICANTLY FROM ANOTHER. THINK OF IT AS BUYING A NEW CAR. YOU CAN BUY THE BASE MODEL FOR MUCH CHEAPER THAN YOU CAN BUY A MODEL WITH ALL THE EXTRAS.



Shopping for home insurance can be a frustrating and confusing process. It is very important to know exactly what you're purchasing. Each homeowner's insurance policy can vary significantly from another. Think of it as buying a new car. You can buy the base model for much cheaper than you can buy a model with all the extras.

In fact, some of these options are so important to you that they may be the determining factor on whether you buy a specific car or not. This decision making process is even more important when shopping for home insurance.

Most people make the mistake of shopping for their insurance based on price alone. What they usually end up with is the wrong coverage, for a cheaper price!

The following are **very important areas** that you must completely understand in a homeowner's insurance policy from any insurance company:

Insured to Value Clause. This clause is in every homeowner's policy, yet few agents or companies ever explain it. It states that your home must be insured for greater than 80% of the amount required to rebuild your home in order for the insurance company to fully replace your home. **THIS IS VERY IMPORTANT** and the reason why most people with insurance cannot afford to rebuild their homes after a loss. If you insure your home for less than its full replacement cost, you need to be aware of two possible claim penalties.

1.) **The first penalty occurs if you are under insured for a total loss (the complete destruction of your home).**

Say your home, which you insured for \$300,000, burns to the ground and the cost to rebuild is \$400,000. Since you insured your home for \$300,000, you suffer an out-of-pocket loss of \$100,000.

Why? This is the result of your home being insured less than the 80% Insured to Value Clause required in the policy, and disqualifies you for receiving the Extended Replacement Cost Endorsement to fully rebuild your home.

2.) **The second penalty for under-insurance occurs when your home has a partial loss.**

Say you insured your home 10 years ago for \$250,000 and the cost to rebuild today is \$500,000. Let's assume you had a kitchen fire with extensive smoke and water damage, and the cost to repair your home is \$150,000. Your insurance company pays you \$100,000. You're out \$50,000.

Translated into English, the policy essentially states that if you insure your home for a depreciated replacement value (in this case \$250,000), then the insurance company will settle with you on a depreciated basis. The \$50,000 penalty in this example represents the amount of depreciation deducted from the repair costs.

If, on the other hand, you insure your home for its cost to build new today (or at least 80% of that value, according to the formula in the policy), the insurance company settles your claim for the full cost of the damage – up to your policy limit.

You must always insure your home for 100% of the cost to rebuild it today. Most insurance companies will not let you insure for less than 100% replacement cost when you buy a policy, but it is up to you to make sure that you keep up with building cost inflation after you buy the policy. It is dangerous to just sit on a policy year after year, assuming it is still adequate. Make sure you review your replacement cost every few years to avoid under insurance.

Don't risk not having enough insurance to rebuild if your home is destroyed, or having your repair costs substantially depreciated on partial losses. Ask your agent to run a new estimate every few years to ensure your coverage is adequate, to avoid under insurance penalties.

Personal Liability Coverage. The cost of coverage for your personal liability for injuries and property damage that you're determined to be liable for is a very small part of your total homeowner's policy premium, and it is just about the most important coverage in the policy. Why? Because it is so comprehensive, covering most of your non-vehicle personal liability worldwide.

[Here are some examples of claims that personal liability will cover that our clients have experienced:](#)

- A friend stops by your home unannounced and brings their 83-year-old mother. She slips in your kitchen and hits her head on the counter-top, causing her to pass away and resulting in a \$500,000 liability claim.
- A puppy escapes out of the front door and scares an elderly woman, causing her to fall and break her hip and resulting in a \$181,000 claim.
- A barbecue grill catches fire and burns a guest, who also inhales smoke, resulting in a \$125,000 claim.
- A child, who is away at school, is a member of a fraternity. The fraternity puts a pledge member through hazing, and the pledge falls off the roof, causing permanent total disability and resulting in a \$250,000 dollar claim. Our client's child wasn't even at the fraternity that day, but all members were sued.
- A guest falls down the stairs, causing a severe head injury, resulting in memory loss and a \$500,000 claim.

The bottom line is Personal Liability Coverage is great coverage! Most homeowner's policies include \$100,000 of coverage at no extra charge.

The biggest mistake people make with personal liability coverage is not buying more than the free coverage provided in the policy. You don't know where the lawsuit could come from, so you want to make sure you're protected. The cost of higher limits is minimal.

Additional Personal Liability Limits is truly one of the best values in insurance. An extra \$200,000 only costs approximately \$18 per year, and an extra \$400,000 is approximately \$35 per year. How much should you buy? Anyone with less than \$500,000 is underinsured. In California, most people should have at least \$1,000,000.

[Other Important Homeowner Policy Coverages](#). In addition to being insured-to-value and selecting adequate personal liability limits, an effective home insurance policy includes several other coverages.

For the purpose of keeping this guide short and effective, we've provided a list of other key coverages you need to discuss with your insurance professional.

- Law and Ordinance
- Loss Assessment from your HOA
- Loss of Use/Additional Living Expense
- Guest Medical Payments
- Other Structures such as: pools, detached garages, fences, guest homes, etc.
- High Value Items such as: jewellery, fine art, guns, antiques, cameras, musical instruments, wine collections, etc.
- Workers' Compensation for resident employees Business Exposures

Homeowner's policies are outstanding values. They offer tremendous amounts of coverage or very little money; however, they can also be the most dangerous personal policies you can buy because they have the largest numbers of exclusions and limitations when not designed correctly to meet your specific needs.

When you're buying a homeowner's policy, work with an insurance professional to figure out which risks you're exposed to that fall outside the box of built-in coverage. Then you can develop a strategy for dealing with those risks. After your needs are defined, find the best priced insurance company that can meet your needs.

Don't fall into the temptation of focusing on price first, or you won't get what you need. When you focus on coverage needs first, most likely, you'll find you can still save money with an insurance plan that is truly right for you.

