

FINANCIAL PLANNING BUILDING BLOCKS

A basic rule of risk management is - don't risk a lot for a little. When it comes to protecting our homes and personal property, this translates into the purchase of insurance to cover potential losses and liabilities. Homeowners (including condominium and renters) insurance is one of the most common types of property coverage, and protects assets that would be hard for most of us to replace using ready cash (not many people can quickly or easily come up with a couple hundred thousand dollars).

Homeowners policies cover your house, any additional buildings or structures on your property, fences, landscaping, and personal property. You are also covered for expenses arising from certain lawsuits where you are considered liable for damages. Some homeowners policies only cover damage from certain perils (such as fire, explosion, windstorm, and hail). Better policies have coverage for all perils that are not specifically excluded (and only things like earthquakes, floods, and a few other perils normally are excluded). Tenant's and condominium owner's policies primarily cover personal property (things like furniture), with condo policies also providing a small amount of coverage for the actual dwelling.

Claims normally are paid on a replacement cost basis, which is the actual cost to replace (rebuild or repair) the item. Most policies demand that you maintain a minimum level of insurance in order to have replacement cost coverage. Generally, the required amount of insurance is 80% of the current value of the property (not including the land). So, a house valued at \$300,000 would require at least \$240,000 insurance coverage. If coverage drops below 80%, claims normally will be paid on an actual cash value (ACV) basis. ACV is the replacement cost minus depreciation.

Quick question: When was the last time you checked your homeowners coverage? A phone call to your agent for a policy review might save you a lot of money in the event of a loss.

Personal property usually is covered in an amount equal to 50% of the dwelling coverage. So, \$25,000 dwelling coverage would provide \$125,000 personal property coverage. Tenant's and condominium owner's policies usually have a minimum level of coverage that can be raised based on the value of your personal property. In either case, you may need to purchase additional insurance coverage on certain items, such as jewelry, money, art, furs, cameras, etc. The basic policies provide some coverage for these items, but often, not enough. You can add a personal property endorsement (also called an inland marine policy) to cover these high-value items.

Michael Snowdon, CFP®