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Is Your Home Underinsured?

If your home is insured for less than 100% of what it would cost to rebuild, you'll foot the difference.

Do you know how much it would cost to rebuild if your home were damaged or destroyed? Unless you count yourself among the few who actually read their policies each year, you could be behind the times: Insurance companies have been changing the way they cover homes, and you are assuming more of the financial risk.

Insurers have shifted the risk to you

Guaranteed-replacement-cost coverage, once the gold standard of homeowners insurance, is no longer common. With this kind of coverage, once you've met your deductible, the insurer promises to pick up the tab for rebuilding your home, and the burden is on the company to boost your coverage (and premiums) in line with appreciation and rising building costs.

Today State Farm, Allstate and other major issuers sell extended-replacement coverage that limits what they will pay to rebuild a home to about 120% to 125% of the insured value. Companies say they jettisoned guaranteed replacement because homeowners were deliberately understating the value of their homes. But costly natural disasters also played a role: storms, such as Hurricane Andrew's 1992 rampage through southern Florida, and wildfires, such as the one that burned thousands of homes in Oakland Hills, Cal., in 1991. In their destructive wake, insurance companies that had sold guaranteed-replacement policies learned they hadn't done a great job of tracking building-cost trends and hadn't factored into the equation the run-up in costs that would occur if extensive damage was concentrated in a relatively small area.

In Oakland Hills, for example, people were clamoring to move back into their homes and local builders and suppliers were overloaded. The result: skyrocketing building costs and some price gouging. (After Hurricane Andrew, Florida passed an antigouging law, and other states have followed suit.) And as some Hurricane Katrina victims discovered, they didn't have enough money to rebuild despite full payouts from their insurers (see Insurance Lessons After Katrina).

Get the price right

It's important to get the replacement cost of your home right, says Jan Weyhrich, loss-control superintendent with State Farm. If your home is insured for less than 100% of



"A sale is not something you pursue, rather, it is something that happens to you while you are immersed in serving the best interest of your customer" – Author Unknown

what it would cost to rebuild -- and actual costs rise above the extended coverage -- you are responsible for the deductible plus any amount over the 20% or 25% cushion.

To make sure that you get the correct amount of coverage, look for an insurance company that uses a method called total component estimating. This method of figuring repair and rebuilding costs is more accurate because it takes into account the actual materials used and any special features of your home.

If the company doesn't do this, look for one that does: A square-foot cost estimate could leave you seriously underinsured.

In addition, be aware that extended-replacement coverage is designed to cover rebuilding your home using today's standard building supplies. If you want to replicate custom features, such as hand-carved banisters, stained-glass windows or antique wood floors, ask your agent about a restoration-cost policy or buying add-on riders for your policy.

While you're shopping, get a quote on a guaranteed-replacement-cost policy. "If price gouging occurs after a disaster or the cost of building materials jumps, with guaranteed-replacement coverage you will get your home rebuilt without having to pony up for anything other than your deductible," says Jeanne Salvatore of the Insurance Information Institute. Chubb and Fireman's Fund are among the insurers that still sell full guaranteed-replacement-coverage policies.

Start at 100%, then stay current

After you've got a policy, tell the agent when you make any significant improvements to your house. Once every two years, determine what it would cost to repair or rebuild. The update should include a review of your home -- inside and out -- and can be done by phone. It should take into account upgrades, such as granite countertops and custom doors, and any remodeling