

Homeowners Insurance

Is Your Homeowners Insurance Up To Date?

The best advice about homeowners insurance can be summed up in one simple rule: buy the best you can afford and update your coverage every year -- or sooner if you've completed a major renovation or upgrade. The Texas Society of Certified Public Accountants offers the following specifics for protecting your home and personal possessions from fire, theft, and other casualties.

Go with replacement cost coverage

Don't make the mistake of insuring your home for the price you paid for it or its current market value. It's best to insure your home for its replacement cost, which is the amount it would cost to rebuild your home today with materials of a similar kind and quality. A good way to estimate the cost of rebuilding your home is to calculate the square footage and multiply it by local building costs per square foot. You can ask a real estate agent or appraiser for average building costs in your area.

Most homeowners policies come with automatic protection against inflation. Each year, your coverage (and your premium cost) goes up in line with inflation. There's no guarantee that the standard increase is accurate, so review your coverage with your agent at regular intervals.

Update coverage for renovations

Changes to your home, including additions, a remodel of your kitchen or basement, and a new deck or patio, increase your home's value, and should be reflected in your insurance coverage. Be sure to notify your agent of all major home improvements.

Insure personal property

If your home hasn't changed considerably, it's likely that its contents have. New possessions may call for updating your coverage. Here again, it's best to have replacement cost coverage that pays you the amount needed to replace a damaged or lost item with one of similar kind and quality, without regard to depreciation.

For example, suppose your five-year-old stove was damaged in a fire. If you had a replacement cost policy for your home's contents, the insurance company would pay to replace it with a new one of equal quality. With an actual cash value policy, you would receive only the stove's current value, which would be significantly less than the cost to replace it.

When you purchase high-ticket items such as jewelry, electronics, expensive artwork, and computers, it's important to notify your insurer and arrange for coverage. Since many policies limit coverage on these types of items, you may need to add a floater or endorsement to protect costly items.

Take inventory

If you have a claim, the more information you can provide about the damaged or destroyed items, the faster the claim is likely to be settled. A household inventory that itemizes everything you own can be invaluable for this purpose. Go through your home and videotape or take photographs of each room and its contents.

Note the item's brand name, model number, and price. Along with your inventory list, videotape and/or photos, keep receipts for all purchases of significant value. Be sure to store this information outside your home, perhaps in a bank safe deposit box or with a friend or relative. Don't forget to add new items as you acquire them.

Rethink deductibles

Each time you review your policy, consider the amount of risk you are willing to accept. Higher deductibles lower premiums. Most companies offer several deductible options so you can choose the one that best suits your situation.

Consult with a CPA

The results of being underinsured could be financially devastating. A CPA can help you review your financial picture to determine how to best protect your assets from disaster.

