



INSURING

Your Home

Circular 1261

University of Illinois Extension
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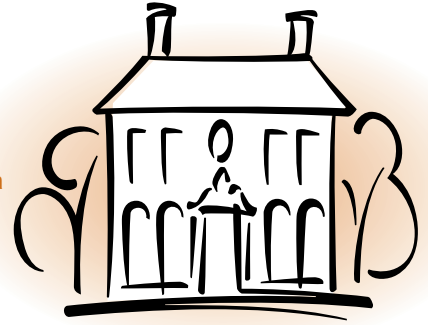
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No matter what you call home — a single-family dwelling, a mobile home, an apartment, a condominium — your housing is probably the most expensive item in your budget. If you own your home, chances are it is the largest investment you'll ever make. The loss of all or even part of your home and its belongings could cause you serious financial problems. Property insurance is meant to protect you and your family from financial losses that would destroy your budget or your way of life.



Property values have increased in recent years in many communities, and many homeowners there are probably underinsured unless they have increased their coverage. Costs for insurance have increased along with other costs. Your challenge as a consumer is to keep your insurance costs down without sacrificing the protection you need. The solution is to examine your needs closely and to shop around for the best buy.

What do you need protection against with regard to property and possessions?

- Fire, windstorms, hail, and other natural hazards
- Theft of personal property
- Claims made against you or members of your family for injury or damage (protected by liability coverage)

The process of deciding what and how much home insurance coverage you need requires making a number of choices:

- Deciding what to be protected against
- Deciding on full or partial coverage
- Determining coverage for your possessions
- Considering the liability coverage you need
- Determining any special insurance needs

Deciding What to Be Protected Against

When you buy insurance, you get a policy, which outlines the types of protection you have. The policies available for homeowners are standard throughout the insurance industry in terms of the protection they provide.

With a standard homeowners policy, you buy protection for the building you live in, for your possessions, and against any lawsuit for bodily injury or property damage. It is less expensive to buy a standard policy than to cover each of these risks with a separate policy.

Standard policies differ in the number of perils you are protected against. (A peril is anything that can cause you to experience a loss.) The chart summarizes the differences.

Both the comprehensive and the special policies provide maximum coverage for your dwelling, but the special policy provides less cover-

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Standard Insurance Policies

Type of Policy					Kinds of Losses Covered
Special (HO-3)	Renters (HO-4)	Comprehensive (HO-5)	Condo (HO-6)	Older Home (HO-8)	
● ●	●	● ●	●	● ●	Fire or lightning; Loss of property removed from premises endangered by fire or other perils; Windstorm or hail; Explosion; Riot or civil commotion; Aircraft; Vehicles; Smoke; Vandalism and malicious mischief; Theft; Breakage of glass constituting a part of the building
● ●	●	● ●	●		Falling objects; Weight of ice, snow, sleet; Collapse of building(s) or any part thereof; Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot-water heating system or of appliances for heating water; Accidental discharge, leakage, or overflow of water or steam from within a plumbing, heating, or air-conditioning system, or domestic appliance; Freezing of plumbing, heating, and air-conditioning systems, and domestic appliances; Sudden and accidental injury from artificially generated currents to electrical appliances, devices, fixtures, and wiring (TV and radio tubes not included)
●		● ●			All perils except flood, earthquake, war, nuclear accident, and others listed in policy. Check your policy for perils excluded.

SOURCE: Illinois Insurance Hotline. *Insurance for My Home*, 1997.

age than the comprehensive policy for your personal possessions.

Insurance companies often call the comprehensive policy the "all-risks" policy, but this name is not really accurate. The policy does protect both your dwelling and its contents against many perils, but not all.

Probably the best coverage for the money is the special policy. This policy provides the same coverage for your dwelling as the comprehensive policy. But your cost is lower because your personal property is protected against fewer perils — only those named in your policy.

You must decide which of these policies provides the security you want for the yearly cost (called the **premium**) you can afford. The more perils you insure against, the higher your premium will be. But the premi-

um for your policy also depends on the additional choices you make. Now that you have some idea of the different types of policy, let's move to the second step. But first . . .

A word to renters and condominium and mobile home owners

If you rent your home, you can buy a renters policy to cover your possessions against the named risks in the standard policies chart. The renters policy does not insure the dwelling you live in but, in all other respects, it is like the one for homeowners. For example, it too provides liability coverage. So be sure to review the sections on coverage for possessions, liability coverage, and special insurance needs.

A condominium owners policy is similar to the comprehensive policy but only covers contents. Except for

some special concerns (described in an upcoming section), condominium owners should pay as much attention as owners and renters do to coverage for possessions, liability coverage, and special insurance needs.

If you own a mobile home, you can buy a policy that provides almost the same coverage as the other homeowners policies. Your premiums will be higher, however, because mobile and manufactured homes are more susceptible to wind damage than other structures. A later section provides more details on policies for mobile home owners. Mobile home owners also need to make decisions about full versus partial coverage, coverage for possessions, liability coverage, and special insurance needs. These decisions are discussed in upcoming sections. ❖

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Deciding on Full or Partial Coverage

When we buy or sell a home, we usually have a real estate appraiser tell us what the home is currently worth. The appraiser gives a figure based on the construction and the condition of the house, the neighborhood, and other factors. This **market value** (sometimes called the cash value) is what is being referred to when someone asks "What is that home worth?"

Insurance companies, however, are not usually concerned about the market value of a home. Insurance premiums are based not on market value but on **replacement value** — what you would have to pay to rebuild your home exactly if it were destroyed.

For example, suppose you recently bought a 10-year-old home under normal market conditions for \$80,000. Its market value is thus approximately \$80,000. But inflation increases the cost of building materials and labor. To build the same home at today's costs might require \$105,000 — your home's replacement value. As you can see, replacement value can be much more than market value, especially for an older home.

An experienced and reliable insurance agent or broker or an appraiser can best help you determine the replacement value of your home. Replacement value is based on usable square footage, type of construction, added features such as air conditioning and fireplaces, and the quality of the location.

Why replacement value is important

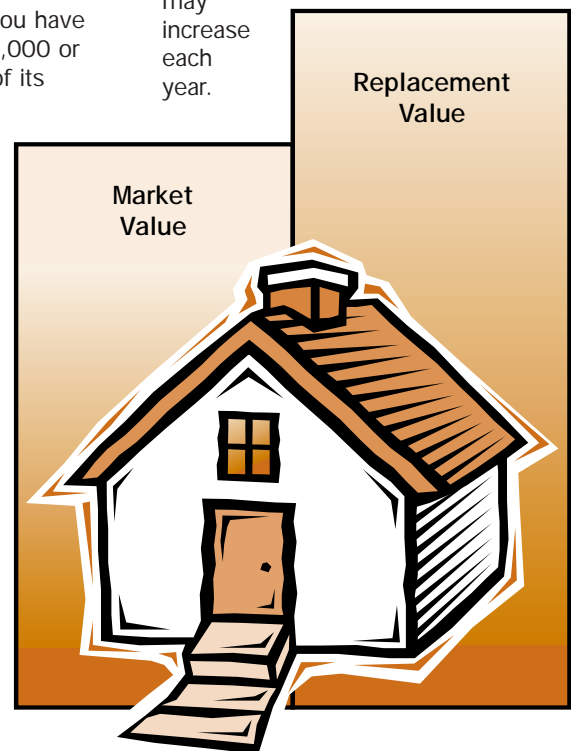
Most insurance companies decide how much to pay you for a loss or damage claim based on a replacement value formula. If you want to be fully covered for either a total or partial loss of your home, you must insure it for 80 percent or more of its replacement value. If you don't, your losses will be only partially covered. Let's take an example. Suppose your house has a replacement value of \$80,000; your roof caught on fire and was partially destroyed. The contractor tells you that it will cost \$4,000 to have the damaged roof replaced. If you have insured your house for \$64,000 or more (at least 80 percent of its replacement value), then you'll collect the full \$4,000.

But suppose you have insured your house for less than 80 percent of the replacement value. The farther your coverage is from the 80 percent figure, the less you would collect of the \$4,000. If your entire house had been destroyed by the fire and you had less than 80 percent replacement insurance, you could be out several thousand dollars if you wanted to rebuild or buy a house of similar market value.

In short, you will never receive full coverage for a loss unless you insure your home for at least 80 percent of its replacement value. Some companies may even require you to insure your home for its full replacement value.

Guaranteed replacement cost coverage

Guaranteed replacement cost coverage is the most complete insurance for your home. It pays you the full amount needed to replace your home if it is destroyed by a risk you have insured — even if the amount is more than your policy's coverage limits. However, some companies will only exceed your policy limits by a set percentage. You may have to meet special conditions. And your premiums (and coverage) may increase each year.



For example, suppose a company quotes you a premium on your house based on a full replacement value of \$100,000. Each year thereafter the company will adjust that premium slightly. (The clause in your policy that permits this adjustment is called an **inflation guard**.) Typically the adjustment ranges

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from 2 to 4 percent. With a 4 percent adjustment each year, you would be paying premiums on a replacement value of about \$121,600 in five years. But suppose that building costs rise much higher in your area than the company's inflation guard adjustment and that five years from now the cost of rebuilding your home is really \$150,000. Depending on the policy, the company may guarantee to pay that full amount for rebuilding your home if it is lost, even though it is more than the amount on which you were actually paying premiums.

Why do insurance companies use the 80 percent figure? It is because the value of your lot is included in the replacement value. However, you would still have your lot even if your home were destroyed, so a lot

is not considered insurable. A lot's value is therefore "subtracted" from the replacement value you need to protect.

Older homes

As you read all this information, you may be thinking "I own a home that would cost five or six times its market value to replace!" This is often true of very old homes with wood floors, hand crafted woodwork, and so forth. To hire someone today to lay those floors and do that woodwork by hand would be very expensive.

For example, such a home might have a market value of only \$75,000 but cost \$150,000 to rebuild. To insure that home for its replacement cost would require pay-

ing very high premiums. Few people would be able to afford these homes simply because of the insurance costs.

The insurance industry has addressed this situation with a special older homes policy. However, it will pay only the **actual cash value** of the home, not the replacement value, if it is destroyed, up to the value of the policy. An insurance agent can tell you if your home qualifies for this special policy. Some companies may require you to use it if you own an older home.

Shop around if you have an older home. Read the policies carefully and ask specific questions about any "special features" built into your older home. ❖

Determining Coverage for Your Possessions

The maximum dollar amount of your coverage on personal possessions is based on a percentage of the coverage you have on your house (unless you rent or own a condominium). It's usually 50 percent. Thus, if your home is insured for \$80,000, your personal property would be insured for \$40,000.

Most standard homeowners policies cover personal property — such as furniture, clothes, and appli-



ances — for its actual cash value only. Actual cash value is the cost of replacing your possessions minus a depreciation factor.

For example, suppose a thief takes, among many other items, a coat that you paid \$100 for four

years ago. To buy that same coat today might cost \$175; this amount is the coat's replacement value. If your personal property is covered for its actual cash value, the insurance company will subtract a depreciation factor before paying your claim. For some personal property, such as clothing, the depreciation factor can be quite large. For a four-year-old coat, the actual cash value might be \$30. You would have to pay the other \$145 if you wanted to replace the coat.

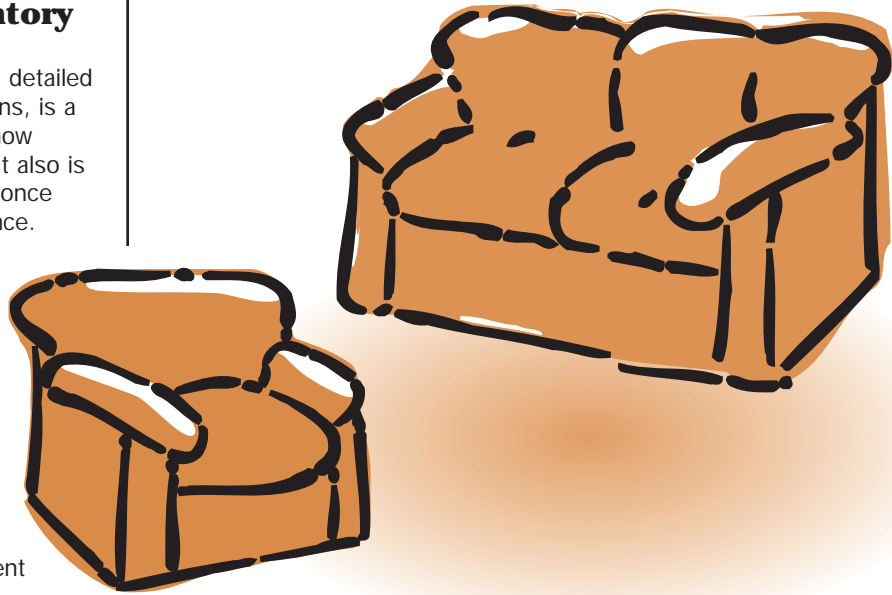
A better option is to buy replacement cost coverage for your personal property. It costs more than standard coverage, but it reimburses you for the actual cost of replacing property at current prices.

To determine whether your personal property coverage is adequate, you need to assess the value of your possessions and estimate what it would cost to replace them.

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Household inventory

A household inventory, a detailed record of all your possessions, is a crucial tool in determining how much insurance you need. It also is important in making claims once you have purchased insurance. If you keep it up to date, the inventory provides a quick and accurate record of your possessions at the time of any loss. If you don't have an inventory, your insurance company may question the accuracy of your claim. It is always up to you to prove the worth of your possessions in the event of a loss.



A household inventory book can be a big help in making an inventory; it provides a room-by-room and item-by-item chart for describing your possessions. Many insurance agents can provide a free inventory book for your use.

Because a thorough inventory has such valuable information, keep a master copy (with original receipts, appraisals, and photos or a videotape) in a safe place away from your home, such as a safe deposit box. Keep a copy of the inventory in your home or apartment, but make sure it is in a fireproof box. The freezer is another safe storage place. Add receipt copies plus photos or a videotape of your belongings.

Using your inventory

Once you have made an inventory, you can total the prices you recorded to determine the approximate value of all your possessions.

If this figure is close to or over the upper limit of your insurance policy, you probably need more insurance.

Also review your inventory to see how old your possessions are, especially the major ones. Estimate what it would cost to replace your older items if they were stolen or destroyed. Then estimate what the insurance company would pay for their actual cash value. The dif-

ference is the loss you would absorb without replacement cost insurance.

If most of your possessions are fairly new, you may choose to gamble and use the actual cash value insurance. But in a year or two you should reconsider your risks because of the rapid depreciation of many personal possessions.

Keep in mind that not all personal property can be insured for its replacement value. Art objects, antiques, photographs, and collections are often excluded. And if you decide not to replace an item, the company is allowed to pay you the actual cash value rather than the replacement value.

Use your inventory to get a clear picture of what you have to lose and what risks you are willing to take. If you are in doubt, a reliable insurance agent or broker can look at your inventory and give you advice.



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Making your inventory

Follow this checklist to create a thorough home inventory:

- List each item, the price paid for it, and the date purchased or received. Be specific about each item. Don't just record "a television" — write down "RCA 25-inch console color TV with remote."
- Locate receipts, especially for your major purchases, and keep them with the inventory. If you haven't been saving receipts, start doing so. They are additional proof that your item is worth what you claim.
- If some of your possessions, such as antiques, jewelry, and silver, have risen in value, consider having a professional appraisal made. Keep any appraisals with the inventory.
- Photograph or videotape each room, and take close-ups of any major possessions, such as appliances, jewelry, silverware, and furniture. Pictures are invaluable in showing not only what you own but the condition of the items.
- List the serial number for every item that has one. Televisions, radios, appliances, and cameras are examples of items that usually have serial numbers.
- Note whether you have engraved your possessions with your name and address. If you haven't, consider doing so. By engraving a possession (usually on the bottom or the inside cover), you'll get it back faster if it is stolen and recovered by the police. You may be able to borrow engraving tools free from your local police department, which may keep a central record of engraved valuables.

Personal property limitations

Standard homeowners policies usually provide limited coverage for cash, furs, silverware, antiques, securities, jewelry, guns, boats, stamp and coin collections, and personal computers. Usually the policy states a maximum amount of coverage for each of these items. For example, most companies will pay a maximum of \$200 for a stolen coin collection, regardless of its value.

Read your policy carefully to see if anything you own is insured for an absolute dollar amount. If the amount is less than the value of your possession, you can purchase additional insurance to cover just that item. Such additional coverage is called a **floater**. Many companies require an appraisal before they will issue a floater.



Additional coverages for property

Standard homeowners policies also provide other insurance as part of the package. This coverage is based on a percentage of the insurance you have on your house.

Garages, sheds, and other buildings. Structures on your property other than your house are usually covered for about 10 percent of the insurance on your house. For exam-

ple, if your home is covered for \$80,000, a garage, shed, and any other buildings on the property would usually be insured (in total) for \$8,000.

Off-property losses. This feature covers you for loss of personal property away from home, such as the theft of a suitcase when you're on vacation. The coverage is usually 5 percent of the insurance on your house. So, if your home is covered for \$80,000, the off-property loss limit would be \$4,000.

Additional living expenses. Suppose your home is so badly damaged that you cannot live in it while it is being repaired. Your family has to stay in a motel or rent an apartment while work is being done. Standard policies reimburse you for living in temporary housing, but the coverage varies. Some companies pay a dollar amount up to 20 percent of your house coverage. So if your policy covers your house for \$80,000, you could receive up to \$16,000 in additional living expenses. Some companies set a time limit. For example, they might agree to pay for your living elsewhere for up to nine months, regardless of the cost.

Landscaping. If plants and trees surrounding your house are damaged, you are usually protected for up to 5 percent of your house coverage. There is a maximum, however, of \$500 per item. So, if a bulldozer on your property accidentally knocks over your birch tree, you would be covered for a new tree, but only to a value of \$500.

Some companies may sell additional insurance for some of the standard items described here, especially for additional structures. If you have several other buildings on your property besides your house, you may need to buy additional coverage to protect them. ❖

Considering the Liability Coverage You Need

Each standard homeowners policy provides personal liability coverage for bodily injury and property damage. Such insurance, which applies to accidents occurring on and off your property, protects you if you are sued for damages arising from negligence caused by you, a family member, or a pet. The coverage includes the cost of defending you if you are sued. It does not apply to liability resulting from the use of an automobile, which must be covered separately by an auto insurance policy.



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Unlike coverage for personal possessions, liability protection is fixed at a dollar amount rather than at a percentage of the insurance on your house. In most policies the amount is \$100,000.

Let's look at an example. Suppose a jury awarded someone \$150,000 in a lawsuit against you for negligence. Your insurance company would pay \$100,000. You would have to pay the remaining \$50,000, plus any attorney fees, which could be high. Could your family absorb a loss of such magnitude? Or would you lose your home and savings?

The large jury awards that have become commonplace in liability cases have left many homeowners inadequately covered. For a small additional premium, you can usually double or triple the standard liability coverage. Another option is to buy "umbrella" liability insurance, which covers liability losses above the coverage in both your homeowners and your automobile policies. An umbrella policy also covers you for libel, slander, and defamation of character.

Medical payments coverage

Many homeowners feel obligated to pay for a visitor's medical expenses if a minor accidental injury occurs on their property. For example, suppose your good friend's son tripped

and fell through your glass door, requiring stitches in his hand. You might well want to pay for the medical bills as a gesture of friendship.

Such expenses may be paid by your insurance company under the medical payments coverage of your homeowners policy. The coverage applies not only to injuries occurring on your premises but also to those



occurring elsewhere if they were caused by you, a family member, or a pet. Basic coverage is limited to \$1,000 for each visitor, but larger amounts can be purchased.

An important feature of medical payments coverage is that payment is made regardless of fault. Thus, it doesn't matter whether your friend's son is clumsy or if a wrinkle in your carpet caused him to fall. This "no-fault" feature means that medical bills can be paid promptly because there is no need to go through the sometimes time-consuming process of establishing legal liability. Medical payments coverage also differs from the coverage of personal liability since it applies only to bodily injuries and is designed for the small rather than the large claim — the minor rather than the major injury. ❖



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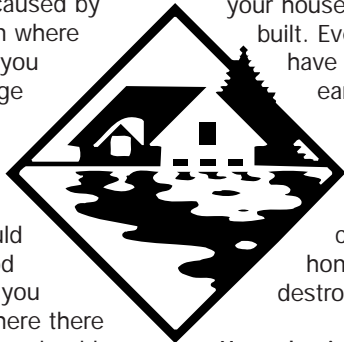
You need to consider a number of special situations in determining your property insurance needs.

High-crime areas

Residents of high-crime urban areas frequently have difficulty buying homeowners policies that include standard coverage against theft and damage related to burglary. Residential crime insurance may be available in your community under a state-sponsored program. Ask your insurance agent for information, or call your state insurance department.

Flood insurance

Homeowners policies do not insure against losses caused by flooding. Depending on where your home is located, you may qualify for coverage through the National Flood Insurance Program. If your home is in a flood plain, your lender should require you to buy flood insurance. But even if you don't live in an area where there is frequent flooding, you should consider buying the insurance. For more information, ask your insurance agent or call the National Flood Insurance Program (800-638-6620).



Earthquake insurance

While earthquakes strike most often in the Pacific Coast area, every state is vulnerable, and insurance coverage is readily available. Your homeowners policy does not cover earthquakes but you can usually add the coverage to your policy. Ask your insurance agent for information.

Determining Any Special Insurance Needs

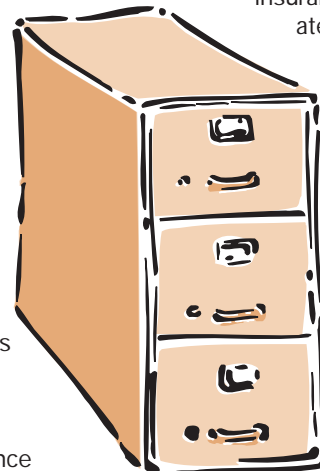
Building code upgrade

For a small added premium, you can buy coverage that will pay the additional costs of rebuilding to meet more stringent building codes than were in place when your house was first built. Even if you have flood or earthquake insurance, it is unlikely to cover these costs if your home is destroyed.

Home business risks

If you have an office at home, ask your agent if you need additional coverage. Most homeowners policies cover business equipment and furniture in your home only up to a maximum of \$2,500. Other policies may have higher limits, but only for a business that is "incidental" — which usually means gross earnings of less than \$5,000 a year.

Homeowners insurance doesn't cover business liabilities.



For example, you operate a day care business in your home and a parent slips on a rug and sues you. Your homeowners insurer won't defend you because the suit came from your business.

If you operate a business in your home, ask your agent about liability coverage. U of I Extension has a publication that will help you if you care for children for pay in your home (Liability Insurance and the Family Day Care Provider, NCR395; see p. 14 for ordering information).

Students at college

If you have a child who is registered as an undergraduate or graduate student, the student will typically be covered by your homeowners policy if he or she uses your home address as a legal address and is single. Coverage is usually extended to a child who meets these criteria regardless of whether he or

she lives in a dormitory or an off-campus apartment. If your student son or daughter gets married, most insurance policies will immediately stop covering them.

Not all policies are the same, however, so check yours if you have children in college.

When your children come home at vacation time, encourage them to bring some of their valuables with them. Theft is very high during school breaks in some college areas. ❖



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To choose a deductible, you need to decide what losses your budget can withstand from time to time. If you can absorb an occasional loss of \$500 or more, you may want to choose a high deductible that insures you against major losses instead of minor ones. Higher deductibles mean lower premiums.

Not every item that you might want or need to know about your insurance is covered in the chart. The purpose of comparison shopping is not to iron out every clause in a policy. In an initial survey, you are looking for a quick way to judge differences in premiums on the major items. Once you have discovered a couple of companies with better premiums, you can ask them more specific questions and compare their policies in detail.

Compare the policy provisions of the companies you are seriously considering. Policies vary from company to company with regard to coverage, liability, deductibles, and exclusions. Some companies make more liberal policy provisions standard while others charge you extra for those provisions. Make it your aim to get the best protection possible for your insurance dollar.

You'll need to give an agent some information before he or she can quote you a price. In addition to policy type and deductible, you may need to provide:

- the complete address of the home
- what the house is made of
- a description of the home (one- or two-story, basement, etc.)
- how many rooms it has
- the market value of the home
- the year the house was built and the year(s) any major changes were made, such as a new roof or a new electrical, plumbing, or heating system
- the square footage of the house
- the distance(s) to the nearest fire hydrant and nearest fire department

- what security devices, such as smoke detectors and security alarms, are installed
- any other structures on the property

If you're asking for a quote on a home you're thinking of buying, you'll find most of this information in the home's real estate listing.

Comparing companies

Which companies should you compare? Price is not the only factor to consider as you make your final choice. How a company handles a claim is as important as the cost of the policy.

- You need, for example, to consider *service*. In the case of a loss, who will help you fill out forms? Who will follow through on your behalf? How available is that person?

- You also need to consider the *speed* of processing a claim. Does the company have its own claim adjusters, or does it buy these services from another company? Some families have had to wait long periods for claims to be handled when a natural disaster struck and a company did not send enough adjusters to quickly take claims. Some companies have reputations for being slow with even routine claims.

- What is the reputation of the company for *settlements* on their claims? Some companies may question every claim; others may genuinely work with the insured to reach a fair settlement. You don't want to have to complain to the company, hire a lawyer, or call in a public adjuster for every claim you file.

One way to determine a company's service, speed, and settlement practices is to ask relatives, friends, and business associates for recommendations. Another way is to read the periodic reviews of insurance companies done by consumer

groups. These reviews, usually based on large population samples, summarize consumers' satisfaction with service, speed, and settlements from many major companies.

You also want to know that you are buying from a financially sound company. Several companies, including A.M. Best, Standard & Poor's, Moody's, and Duff & Phelps, rate insurers for their financial stability. Check with a public library, state insurance department, or insurance agent for more information on insurer ratings.

In general, you want to buy from a reputable company and to deal with a reliable broker or agent who lives in your area and who can give you prompt service on claims. There are two types of agents: direct writers, who work for only one insurance company, and independent agents, who represent the buyer rather than an insurance company and who offer up to a dozen policies from many companies. Both types have their advantages and disadvantages, and consumer reviews have generally found little difference in satisfaction among consumers who use either type.



Cutting costs

After you check out some companies, you will want to narrow your search and to think about ways to cut the premiums quoted to you.

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Some factors that determine premiums are beyond your control. For example, a wood home is more expensive to insure than a brick home, which is more fire resistant. Similarly, a building near a fire station is less expensive to insure than one several miles from a recognized source of fire protection. If you live in an area of high crime or vandalism, you will pay for that fact in your premiums.



Consumer protection and help

Be aware that insurance companies are regulated by the states in which they operate. State insurance laws specify that insurance rates must be adequate, not unfairly discriminatory, and not excessive. Practices vary from state to state. If you have any questions about the rates quoted to you (or about any claim settlements), check the prac-

tices for your state. In Illinois, the Department of Insurance can be reached at 320 W. Washington, Springfield, IL 62767 (217-782-4515) or 100 W. Randolph, Chicago, IL 60601 (312-814-2427). Or you can visit the department's World Wide Web site at <http://www.state.il.us/ins>. Another source of information for Illinois consumers who want to learn about a company's financial rating and complaint ranking is the Illinois Insurance Hotline (800-444-3338).

But even though some factors are out of your control, there are still a few cost-cutting measures that you can consider.

- Take the highest deductible you can afford. As the deductible goes up, the premium goes down. Remember that the purpose of insurance is to help you withstand large losses that might threaten your home or way of life. With a deductible of \$500, for example, you may be able to save 12 to 20 percent on your premiums.

- Install security devices. Practically every insurance company offers discounts for some combination of the following protective devices: burglar alarms, deadbolt locks on all doors, smoke alarms,

and fire extinguishers.

- Pay your premiums only once or twice a year. Insurance premiums can usually be paid every three months, every six months, or once a year. If you pay your premium in one lump sum, you get the best deal, because the company makes only one transaction.

- Combine your insurance policies. Some companies offer cheaper "package" deals that cover, for example, both your car and your home. If the company has a good reputation on both auto and homeowners claims, consider the savings in these package deals.

If you can't find a company to insure you

If three insurance companies have refused to sell you insurance, ask an agent about coverage in the FAIR (Fair Access to Insurance Requirements) Plan. The FAIR Plan works like an insurance company to make homeowners and other insurance available to people who cannot buy it through regular markets. For more information, contact your state Department of Insurance. ❖

Take sufficient time to know your policy. Know what type of coverage your insurance provides (the policy type and any floaters), what amount you have insured your home for, what percentage of the replacement cost that amount represents, what your premiums are, and when they are due. Spend time now to study your policy; don't wait for a loss to learn what isn't covered. Don't hesitate to ask the insurance agent to explain, in plain English with an example, what any statement in your policy means.

Valuable Reminders

Review the replacement cost of your home annually. Every year building costs rise, so the replacement cost of your home rises. Make sure your policy hasn't fallen below 80 percent of this year's replacement cost.

Increase your coverage to reflect improvements. If you have made any major home improvements — remodeling a kitchen or bathroom or adding a room, for example — you will probably need to increase your insurance coverage.

Update your inventory annually. Make sure your personal property insurance is still adequate to cover any new major possessions. Also, make sure you haven't acquired something that is excluded from your policy or only partially covered.

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For example, if your great-aunt willed you her silver tableware, check to see whether your probably valuable heirloom is covered. Don't forget that many valuables need floaters to be protected (see page 7).



Consider an inflation guard. Many companies have a provision that will automatically increase your insurance coverage to cover inflation. Without that protection you run the risk of being underinsured if the replacement cost of your home increases but your policy limits don't.

Consider trends in lawsuits

and awards. Recently, for example, some homeowners have been sued for serving too much alcohol to guests who have subsequently killed or injured someone in an automobile accident. If you give parties frequently, check to see whether you are adequately covered for this type of lawsuit.

If you have a mortgage, you need to consider your protection carefully. The lending institution holding your mortgage will require you to insure your home in an amount sufficient to cover the loan. This may be too much or too little coverage for your individual circumstances.

If, for example, you take out a \$45,000 mortgage on a \$50,000 home, the lending institution will require, at the closing, proof of at least \$36,000 in insurance coverage. If the house should be totally destroyed by fire and storm, you would recover only \$36,000. That amount would go entirely to the

lending institution to cover its losses.

If you don't pay your homeowners insurance premium, the lender usually has the right to buy coverage for you, at your expense, that would pay the lender if your home is damaged or destroyed. This "force-placed" coverage is almost always more expensive than coverage you would buy yourself. If you can't pay your insurance premiums, ask your agent to help you find a way to maintain at least the minimum coverage your lender expects at a price you can afford.

Don't confuse homeowners insurance with **title insurance**. Title insurance protects you and the lender against the possibility that you don't have a clear title to your property. For example, a contractor might have a claim against the property because the previous owner never paid for work done. Title insurance is usually a one-time purchase, paid for when you buy your house. ❖

Individual owners of condominiums are responsible for maintaining insurance on their units. However, the separate ownership of individual units can create a number of insurance problems, such as overlapping policies, gaps in coverage, and uncertainty on the part of financially interested parties.

Of particular concern is the problem of liability insurance. Some condominium associations carry liability insurance on common areas; others expect individual owners to be responsible for such coverage. The risk and extent of individual liability and the right to sue the association also are not always specified in association bylaws. Assessments of payment after a lawsuit are also not always specified. Potential buyers should check the declaration or

Condominiums and Manufactured/Mobile Homes

bylaws for provisions requiring hazard and liability insurance. Buyers should also check insurance policies for the amount of liability coverage and the deductible amount. If proper coverage is not included, a majority of the owners may vote for it.

The owners association needs liability coverage everywhere on the premises, on any personnel (such as a garage keeper), and on machinery. The association also

should have Workers Compensation and employers' liability coverage as well as fidelity bonds to cover loss of money or securities due to dishonesty, acceptance of valueless money orders, and forgery, including check forgery.

For manufactured/mobile homes, the policy may be similar to a homeowners policy. But it is likely to cover only named perils, and the premiums may be higher due to the greater chance of wind damage. You may also need to buy your coverage from a company that specializes in insuring mobile homes.

Mobile home owners must consider other factors. For one, the newness of your mobile home will make a difference in what coverage you can buy. Some companies offer

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insurance only on new mobile homes; others limit the time they will cover any mobile home more than two years old. When you talk to an insurance agent, be sure to indicate clearly the age of your home.

When a mobile home is financed, the insurance premium is some-

times included with the financing of the purchase price. Check to see if this coverage is more expensive than what you can get yourself.

If your mobile home has a foundation and is located in a flood plain, the lending institution may require you to purchase federal flood insurance.

If you decide to move your mobile home, make sure that your policy will cover any damages that might happen while moving. If your policy does not cover moving damages, consider additional coverage. Collision or upset insurance is often available on a short-term basis. ❖

Other Publications That May Help

From University of Illinois Extension. Single copies of *Liability Insurance for Family Day Care Providers* (NCR395) are available from Illinois Extension. Contact the University of Illinois at Urbana-Champaign; College of Agricultural, Consumer and Environmental Sciences; Information Technology and Communication Services; 69-C6 Mumford Hall; 1301 W. Gregory Dr., Urbana, IL 61801 (217-333-2007).

From the Illinois Department of Insurance. The department has several fact sheets and publications, can tell you if a company or an agent is licensed, and compiles complaints received against companies. Write 320 W. Washington, Springfield, IL 62767 or call 217-782-4515 (Springfield) or 312-814-2427 (Chicago). The department's World Wide Web site contains much consumer information, including sample homeowners insurance premiums for various locations around the state. The address is <http://www.state.il.us/ins>.

From the insurance industry. The industry's Insurance Information Institute (III) and Illinois Insurance Information Service (IIS) have many free publications available. For more information, write III at 110 Williams St., New York, NY 10038 or IIS at 217 E. Monroe, Springfield, IL 62701 (800-444-3338).

Other Useful Resources

Answers to questions about the National Flood Insurance Program. Federal Emergency Management Agency, P.O. Box 70274, Washington, DC 20024.

Mine subsidence in Illinois: Facts for homeowners. Natural Resources Building, 615 E. Peabody Dr., Champaign, IL 61820-6964.

Some questions to consider in choosing an insurance company. National Association of Insurance Commissioners, 120 W. 12th St., Suite 1100, Kansas City, MO 64105-1925.

Taylor, B. (1991). *How to get your money's worth in home and auto insurance.* New York: McGraw-Hill.

When disaster strikes: What to do after an insured homeowners loss (also available in Spanish). Illinois Department of Insurance, 320 W. Washington St., Springfield, IL 62767.

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Property Insurance Terms

actual cash value — replacement cost minus depreciation for age and usage.

deductible — the amount you must pay in each claim before the insurance company will pay you anything.

floater — extra coverage for items your standard policy doesn't cover or only covers for a small amount.

inflation guard — a provision that automatically adjusts your coverage each year for inflation (optional coverage in many policies).

liability — your legal responsibility for damage or injury caused to someone by you or your family. This responsibility is usually financial, meaning that you must pay someone for the damage or injury that was caused.

market value — the amount of money for which you could sell your home today (also sometimes called *cash value*). It is a term used primarily by real estate agents, not by insurance companies.

peril — any one of the many dangers that may cause you a loss. A "named-peril" policy means that your damage or loss must have been caused by one of the dangers actually named in your policy.

premium — the money you pay to an insurance company to protect your property against loss, damage, or liability claims.

replacement value — the money you would need to rebuild your home if it were destroyed.

title insurance — protection against any defect in the title to your property. Title insurance is usually paid for at the time you buy your home; the buyer or the seller may pay for it.

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