



What to Look For in a Homeowners or Renters Insurance Policy

Insuring your home and its contents is a prudent step toward controlling your financial future. While no one expects a catastrophe, disaster can strike. It could be a fire, roof leak, hail storm, flood, break-in or some other mishap caused by nature or by another individual. Being protected makes sense.

If you are a renter, your insurance should cover your belongings and provide some liability coverage for injuries to others in your home. If you own your home, your protection should also cover the costs of repairing or replacing your home if needed.

Components of a homeowners policy

Homeowners insurance covers the cost of rebuilding or repairing your home and other structures (garage, shed, etc) if the home is destroyed or damaged. It covers the contents of your home in the event of damage or theft. It also protects you against your liability for injuries to other people or damages to their property.

The structure. You should have enough insurance to cover the cost of rebuilding your home if it is completely destroyed. Even though you know how much your home cost, remember that price included the land it is sitting on. You may want to get an estimate of actual replacement costs for the structure. Your mortgage lender or an insurance agent can probably give you an estimated per square foot replacement cost. Do the math and make sure you have at least that much insurance. Also it makes sense to review that cost every few years as costs of construction continue to rise.

Contents of your home. Most homeowners policies include coverage for your personal property in your home. This includes furniture, clothing, some electronic devices and even food in the pantry. The key is to know what you have. Prepare an inventory of everything in your home. While this can be a thankless task, it will be invaluable if you have a claim. At a minimum take pictures or video tape your belongings. Most people have a very difficult time just remembering what they own. Keep a copy of this inventory in a safe place and away from your home. Use a safe deposit box. Having a complete inventory that burns in a fire does not do much good.

Also be sure your insurance policy covers the cost of replacing your personal property. Some policies offer coverage for "actual cash value" of your belongings. That is calculated by subtracting depreciation from the original cost. The stove you bought for \$800 six years ago may have an actual cash value of only \$300 and a new one may cost \$900.

If you have especially valuable items, such as jewelry or art works, you may want to consider a special rider to your policy to cover those items. Discuss this with your insurance agent and read the policy carefully. Be sure to understand how computers, stereos and other electronic items are handled.

Liability coverage. Homeowners policies include liability protection that covers damages you cause to others inside and outside your home. If a visitor trips and breaks a leg by falling over an electrical cord running across your family room floor, your policy will cover the visitor's expenses. Your policy also covers damages caused away from your home. If someone falls after tripping over your grocery cart at the store, you may be found liable and the policy should cover you.

Many homeowners policies include a standard amount of liability coverage of \$100,000 or \$250,000. Examine your policy. With the high level of jury awards being given out in today's society, you may want to buy an additional "umbrella" policy to provide additional protection. These "umbrella" policies are usually inexpensive and can provide coverage up to \$1 million or more. Discuss this with an insurance agent.

Deductibles. The deductible is the amount of loss you are responsible for before the policy starts to pay. The lower the deductible the higher the insurance premium. Be sure to look at the options in your policy. Many individuals use insurance purely as protection against major catastrophes and choose high deductibles to save on insurance. High deductibles also save the hassle of making a claim. Consider what level of loss you can accept and choose your deductible accordingly.