

Insurance Quick Check

As your Independent Insurance Agency, we want you to be up to date on your insurance program. In this edition, we address some issues relevant to your homeowners policy.

We all have experienced some degree of decrease in market value of our homes. This has brought about a question as to why the coverage amount on your homeowners policy has increased at each renewal.

The response is simply that your homeowners insurance policy insures the Replacement Cost of the residence, and not the market value of that residence.

Construction costs, which include materials and labor to rebuild a damaged home have experienced continuing inflation, despite the fall in the market value. When these costs are factored in, the Replacement Cost of your home is slightly higher than it was last year. The insurance industry closely monitors the cost of labor and materials by specific region, and adjusts for increases and decreases accordingly. We do recommend that we review the Replacement Cost, especially on those policies that have been in place for an extended period of time. The cumulative effect of the increase each year could possibly put the coverage amount slightly above the Replacement Cost, and we can adjust that as necessary. It is very important to assure that your Replacement Cost is accurate for a couple reasons. First, if it is overstated, you could be paying too much. Conversely, if it is too low, you could face exposure to a loss that exceeds your coverage. We want to work with you to assure proper coverage. Our carriers offer replacement cost coverage enhancements, and Auto Owners still write a true Replacement Cost Coverage endorsement. Be sure to let us know of any improvements you have made to your home. For example, a new roof can add a discount, as can an alarm.

Be aware that there is a very real movement by some large national carriers to change your policy. Depreciating roof repairs is a topic that may be applied soon. So if your roof is 10 years old, you could possibly be responsible for half of the cost of replacing it, plus your deductible.

Replacing the flat deductible with a percentage deductible on your home has been introduced also. This would mean on a \$ 300,000 home, instead of a \$ 1,000. Flat deductible, you could face a \$ 6,000 (2%) or \$ 3,000 (1%) deductible. That could mean a lot more out of pocket expenses at the time of a loss.

Of course, carrying a larger deductible is often a good idea. First, it should save you on your premium. Plus, it is not a good idea to turn small claims in on your homeowners policy. Your premium is based upon your insurance score, and claim activity is a part of that score. Another good idea is to bundle your homeowners, auto, and umbrella liability policies. The resulting multi policy discounts can be significant. Also, look into a life multi policy discount. Some of our carriers offer an additional discount on these policies in recognition of a qualifying life, disability, annuity or long term care policy.

The most important issue on your homeowners policy is to place your coverage with a superior carrier, and an agency you can trust. As you can see above, not all policies are the same, and saving a few dollars in premium can be very expensive if you have the wrong policy or coverage.

Our next issue will address coverage issues and making sure you have an idea as to what your policy can do for you.

- ✓ *Replacement Cost is not commensurate with current market value.*
- ✓ *Construction Costs include the price of materials and labor which continue to experience inflation.*
- ✓ *Manage your deductible wisely. A higher deductible may be the better option.*
- ✓ *Do your homework, bundling insurance policies can save you money.*

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