

Congratulations on beginning your journey to homeownership. Here's why prioritizing homeowners insurance coverage should be one of your first steps:

- Lenders might not approve or release the funds for your mortgage without proof of an insurance policy.
- You could lose everything you own and pay out of pocket to rebuild, repair or replace your home and belongings if a fire, natural disaster, or other event were to strike your home.
- If your home is burglarized, the costs to replace your belongings can become a major challenge.
- Anything you own could be used as leverage in a lawsuit, including your home if someone gets injured on your property and sues you.

Homeowners insurance can protect your investment and financial future and help you manage costs should these incidents happen. Therefore, it's essential to talk with a trusted insurance professional to understand your coverage needs and learn how different types of homeowners policies may work for you.

## Key Takeaways

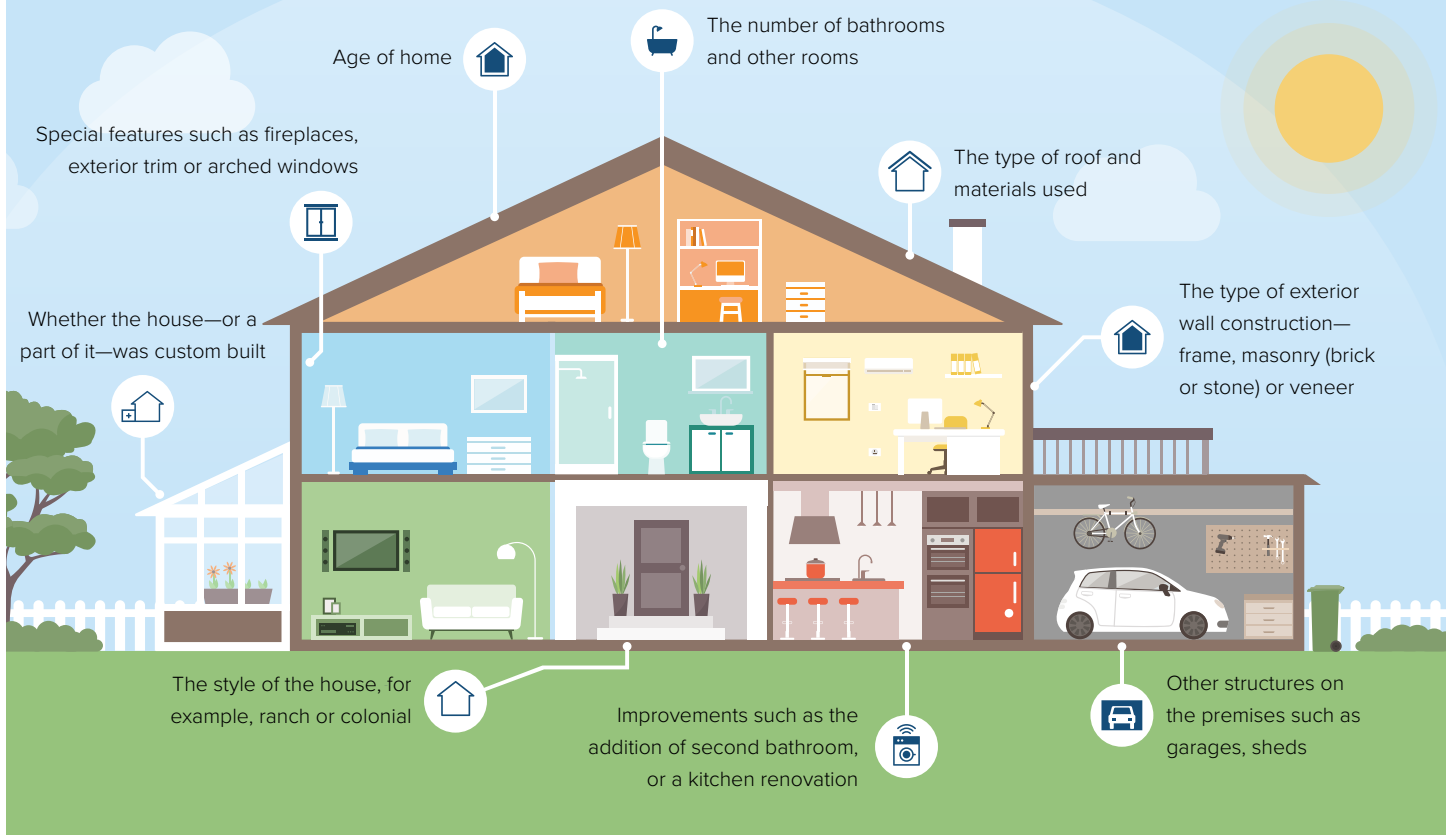
This guide includes fundamental information you may need to prepare for a conversation with your insurance professional:

- Key homeowners insurance definitions.
- Factors to consider when evaluating your insurance needs.
- Determining a coverage amount that works for you.
- What's included in a standard policy and other coverage options that might be available.
- How to save money with annual insurance check-ups.

## Basic Types of Homeowners Insurance Coverage

<i>For comprehensive definitions, see page 8.</i>	Actual Cash Value (ACV)	Replacement Value/ Replacement Cost (RV/RC)	Extended Replacement Cost (ERC)	Guaranteed Replacement Cost (GRC)
<b>Payout Covers</b>	Replacement cost minus depreciation	Cost to replace property to same/ similar value	RC/RV plus add-on percentage (i.e. 10% - 50%)	Full costs to restore/ replace asset
<b>Depreciation Applied</b>	Yes	No	No	No
<b>Payout can exceed policy limit</b>	No	No	Yes, according to add-on percentage	Yes
<b>Payout may be less than restoration cost</b>	Yes	Yes	Yes	No
<b>Protection against inflation and price surges</b>	None	Some, up to the policy limit	Yes, up to the extended limit	Yes, up to full restoration at current costs
<b>Payout Scenarios to Replace/ Rebuild (\$300,000 policy, after deductibles)</b>	<i>Destroyed roof</i> Costs: \$20,000 Payout: considerably less, depends on age of roof	<i>Destroyed home</i> Costs: \$375,000 Maximum payout: \$300,000	<i>Destroyed home</i> Costs: \$375,000 ERC option: 20% Maximum payout: \$360,000	<i>Destroyed home</i> Costs: \$375,000 Payout: \$375,000

## What factors can impact the costs to rebuild my home after a disaster?



## How much insurance do I need for my home?

[Standard homeowners policies](#) provide coverage for disasters such as damage due to fire, lightning, hail and explosions. Homeowners who live in areas where there is risk of [flood](#) or [earthquake](#) will need separate insurance coverage for those disasters, as well. In every case, you'll want the limits on your policy to be high enough to cover the cost of rebuilding your home in the event of a total loss.

The price you paid for your home—or the current market price—may be more or less than the cost to rebuild. And if the limit of your insurance policy is based on your mortgage (as some banks require), it may not adequately cover the cost of rebuilding.

While your insurer will provide a recommended coverage limit for the structure of your home, it's a good idea to educate yourself as well.

[Use these three main guidelines to protect your home and your assets with adequate insurance coverage.](#)

1. Keep in mind the major factors that will impact home rebuilding costs.
  - Local construction costs
  - The square footage of the structure
2. Make a quick estimate of the amount of insurance you need before shopping for a policy.
  - Multiply the total square footage of your home by local, per-square-foot building costs. (Note that the land is not factored into rebuilding estimates.)
  - To find out construction costs in your community, call your local real estate agent, builders association or insurance agent.
3. Gather information on the other crucial details that can impact home rebuilding costs.

# Connect with your Insurance Professional

To better understand some essential insurance factors when shopping for a house, call your insurance professional. Avoid waiting until the last minute to think about homeowners insurance so that you can ask plenty of questions and request estimates on more than one house. Ask if the house will qualify for coverage, and get an estimate of the annual premium. The sooner you speak with your insurance professional, the smoother the process will be. If you're uncomfortable with the cost of insuring a particular house, look for one that better fits your financial situation.

Always make sure your insurance professional and company are licensed to do business in your state. In addition, check the financial health of prospective companies by researching their ratings and reviews.

Be sure to discuss the following to understand the implications on your homeowners insurance coverage needs::



**Check the loss history report:** Ask your insurance professional to obtain and review the loss history report on your prospective home with you. A loss history report is a record of insurance claims associated with a property. This helpful information is stored in a database known as the Comprehensive Loss Underwriting Exchange (C.L.U.E.). For instance, if there was a claim for water damage on the home, it is important to find out the source of the damage (such as a burst pipe) and whether it has been properly repaired. On the other hand, a claim for wind or hail that resulted in a new roof makes the home stronger and is very attractive from an insurance perspective.



**Get the house inspected:** Accompany the inspector to make sure he or she is thorough and makes sure to:

- Check the general condition of the home.
- Look for water damage, termites and other types of infestation.
- Review the electrical system, plumbing, septic tank and water heater.
- Show you where potential problems might develop.
- Double-check that past problems have been repaired.
- Suggest important upgrades or replacements.



**If the inspector raises questions, your insurance company might, too.** Be sure to find out if there is an underground oil storage tank, as many insurers will not provide policies for homes that have one.



**Estimate maintenance costs:** Routine maintenance is your responsibility as a homeowner so be sure to factor these costs into the overall price of owning the home. Losses caused by failing to properly care for your home are not covered by [standard homeowners insurance policies](#)



**Flood risk:** Damage from flooding is NOT covered by standard homeowners insurance. However, [separate flood insurance](#) is available from the National Flood Insurance Program (NFIP) and a few specialty insurers. Consider flood coverage, regardless of whether your home is in an area at high risk.



**History of earthquakes:** While earthquakes are most frequently associated with California, they can occur nationwide and are not covered under standard home insurance policies. [Earthquake insurance](#) is available from private insurers as an endorsement to a homeowners policy, and in California from the [California Earthquake Authority](#).



**Wildfires:** Wildfires can occur in at least 38 states, especially California, where eight out of 10 of the most costly fires have happened. To understand whether your home could be at risk, look for conditions that could lead to the start of fires, including drought, dry undergrowth, and combustible materials. Also, look for elements in the area that can encourage fires to spread, such as the tight clustering of homes, combustible fences, and attached decks.

# What's covered in a standard home policy?

## Coverage for Structures and Dwelling

Homeowners insurance provides payments to repair or rebuild your home if it is damaged or destroyed by fire, hurricane, hail, lightning, or other disasters listed in your policy. Most policies also cover detached structures such as a garage, tool shed or gazebo—generally for about 10 percent of the amount of insurance you have on the structure of the house. A standard policy will not pay for damage caused by a flood, earthquake or routine wear and tear. When purchasing coverage for the structure of your home, remember this simple guideline: Purchase enough coverage to rebuild your home in the event of a total loss.

## Personal Belongings

Your personal belongings, such as your furniture, clothes, sports equipment, and other personal items are covered if they are stolen or destroyed by fire, hurricane or other insured disasters. The coverage is generally 50 to 70 percent of the insurance you have on the structure of the house.

The best way to determine if this is enough coverage is to [conduct a home inventory](#).

Personal belongings coverage includes items stored off-premises—this means you are covered anywhere in the world. Some companies limit off-premises coverage to 10 percent of the total amount of insurance you have for your possessions. You also have up to \$500 of coverage for unauthorized use of your credit cards.

Expensive items like jewelry, furs, art, collectibles, and silverware are covered, but there are usually dollar limits if they are stolen. To insure these items to their full value, purchase a special [personal property endorsement or floater](#).

## Landscaping

[Trees, plants and shrubs are also covered](#) under standard homeowners insurance—generally for about \$500 per item. Trees and plants are not covered for disease, or if they have been poorly maintained.

## No-Fault Medical

Your policy also provides no-fault medical coverage, so if a friend or neighbor is injured in your home, he or she can simply submit medical bills to your insurance company. This way, expenses can be paid without a liability claim being filed against you. It does not, however, pay the medical bills for your own family or your pet.



## Liability Protection

Liability protection covers you against lawsuits for bodily injury or property damage that you or family members cause to other people. It also pays for damage caused by your pets. So, if your son, daughter (or even your dog) accidentally ruins a neighbor's expensive rug, you are covered.

The liability portion of your policy pays for both the cost of defending you in court and any court awards—up to the limit stated in your policy documents.

Liability limits generally start at about \$100,000. However, it's a good idea to discuss whether you should purchase a higher level of protection with your insurance professional. If you have significant assets and want more coverage than is available under your homeowners policy, consider purchasing an [umbrella](#) or excess liability policy, which provides broader coverage and higher liability limits.

## Additional Living Expenses

Additional living expenses (ALE) pays the additional costs of living away from home if you cannot live there due to damage from an insured disaster. It covers hotel bills, restaurant meals and other costs, over and above your usual living expenses, incurred while your home is being rebuilt or repaired.

Keep in mind that the ALE coverage in your homeowners policy has limits—and some policies include a time or dollar limitation. However, these limits are separate from the amount available to rebuild or repair your home. Even if you use up your ALE your insurance company will still pay the full cost of rebuilding your home up to the policy limit.

If you rent out part of your house, ALE also covers you for the rent that you would have collected from your tenant if your home had not become uninhabitable because of a covered event.

## Other factors to consider when evaluating your homeowners insurance needs

### ***Is your home up to code?***

Building codes are updated periodically and may have changed significantly since your home was built. In the event of damage, you may be required to rebuild your home to the new codes and homeowners insurance policies (even a guaranteed replacement cost policy) generally won't pay for that extra expense. If you suspect that elements of your home are not up to current building codes, consider getting an endorsement to your policy called Ordinance or Law coverage, which pays a specified amount toward bringing a house up to code during a covered repair.

### ***If your home is older, will you need a policy to cover hard-to-replace features?***

If you own an older home, you may have to buy a modified replacement cost policy. This means that instead of repairing or replacing features typical of older homes, such as plaster walls, with the same or closely similar materials, the policy will pay for repairs using today's standard building materials and construction techniques.

### ***If costs rise for building materials, will your replacement coverage be enough?***

Inflation can impact rebuilding costs. If you plan on owning your home for a while, consider adding an inflation guard clause to your policy. An inflation guard automatically adjusts the dwelling limit to reflect current construction costs in your area when you renew your insurance policy each year.

After a major catastrophe such as a hurricane, tornado, or wildfire construction costs may rise suddenly because the price of building materials and shortage of construction workers increase due to the widespread demand. This price bump may push rebuilding costs above your homeowners policy limits.. To protect against this possibility, an extended replacement cost coverage endorsement can pay an extra 10 to 50 percent above the limits (available through most insurance companies). A guaranteed replacement cost policy will pay whatever it costs to rebuild your home as it was before the disaster and is available through a limited number of insurance companies.

### ***Determine how much insurance you need for your possessions***

Most homeowners insurance policies provide coverage for your belongings at about 50 to 70 percent of the insurance on your dwelling. However, that standard amount may or may not be enough. To find out how much coverage you may need for your belongings, consider taking a couple of simple steps.

### ***Conduct a home inventory of your personal possessions***

In order to accurately assess the value of what you own, conduct a home inventory. Documenting a detailed list of your belongings will not only help you figure out how much insurance you need, but it will also serve as a convenient record if you have a claim. Most insurers have apps to ease the process.

There are several apps available to help you take a home inventory, and [our article on how to create a home inventory](#) can help, as well.

While you're reviewing your possessions, think about whether you want to insure them for actual cash value (where the policy would pay less money for older items than you paid for them new) or for replacement cost (which would cover to replace the items). The price of replacement cost coverage for homeowners is about 10 percent more but is generally a worthwhile investment in the long run. (Note that flood insurance for belongings is only available on an actual cash value basis.)

### ***Create a tally of your expensive items***

There are limits on how much a standard homeowners insurance policy will cover for items such as jewelry, silverware, collectibles, and furs. For example, jewelry coverage may be limited to under \$2,000. Some insurance companies may also place a limit on what they will pay for computers.

Check your policy (or ask your insurance professional) for the limits of your coverage for any expensive items. If your home inventory includes items for which the limits are too low, consider buying a special personal property floater or an endorsement. This will allow you to insure valuables individually or as a collection, with significantly higher coverage limits.



***Determine how much coverage for additional living expense insurance you may need***

If you can't live in your home due to a fire, severe storm or other insured disaster, coverage for Additional Living Expenses (ALE) pays the costs of temporarily living elsewhere, including hotel bills, restaurant meals and other living expenses incurred while your home is being rebuilt.

If you rent out part of your house, this coverage also reimburses you for the rent that you would have collected from your tenant if your home had not become uninhabitable because of a covered event.

Many policies provide ALE coverage equal to about 20 percent of the insurance on your house's dwelling. However, ALE coverage limits vary from company to company, with some policies providing unlimited coverage for a limited amount of time. In contrast, others may only set limits on the amount of coverage.

***Determine how much liability insurance you need***

The liability portion of homeowners insurance covers you against lawsuits for bodily injury or property damage that you or family members or pets cause to other people, as well as court costs incurred and damages awarded.

Most homeowners insurance policies provide a minimum of \$100,000 worth of liability insurance, but higher amounts are

available and, increasingly, it is recommended that homeowners consider purchasing at least \$300,000 to \$500,000 worth of liability coverage.

***Consider an umbrella or excess liability policy***

Umbrella or excess liability policies provide coverage over and above your standard home (or auto) liability policy limits. These policies start to pay after you have used up the liability insurance in your underlying policy. In addition to providing additional dollar amount coverage, umbrella or excess liability often offers broader coverage than standard policies.

Do you have property, investments, or savings worth more than the liability limits of your homeowners policy? A separate excess liability or umbrella policy might protect these assets. For example, your homeowners insurance may help with repair costs for swimming pools damaged by disasters. In contrast, an umbrella policy can help with legal expenses that could arise if friends or neighbors get injured in your pool.

The cost of an umbrella policy depends on how much underlying insurance you have and the kind of risk you represent. The greater the underlying liability coverage you have, the cheaper the umbrella or excess policy. Most companies will require a minimum of \$300,000 underlying liability insurance on your standard homeowners policy [for umbrella coverage](#).



# Six Ways to Get the Right Amount of Homeowners Insurance

## ***Raise your deductible in exchange for lower premiums.***

A policy deductible is the amount you are responsible for paying towards a covered expense before the insurer will pay on a claim. The higher your deductible, the more money you can save on your insurance premium. However, your insurance policy may have a separate deductible for major disasters such as earthquakes, hurricanes, or wind/hail storms if you live in a disaster-prone area. Consider that when deciding whether to raise the standard homeowners deductible.

## ***Ask about discounts and bundle options.***

Most insurers provide discounts for home modernization improvements and security devices such as smoke detectors, burglar and fire alarm systems, or deadbolt locks. These measures can be costly and may not produce a discount for every policy, so talk to your insurance professional for recommendations before spending money.

Many insurers that sell homeowners policies also sell auto and umbrella liability policies and may offer premium discounts for bundling (purchasing multiple insurance products). Check whether any combined price from one insurer is lower than buying the coverages separately from different companies.

## ***Make your home more disaster resilient.***

Is your home in a disaster-prone area? In that case, you may still be able to widen your insurance options by taking preparedness steps, such as installing storm shutters and shatterproof glass to resist hurricane damage or reinforcing the foundation to withstand earthquakes better. Use fire-resistant building materials and defensible space (a buffer between your home and the surrounding area) if you live in areas prone to wildfire risk. Consider modernizing heating, plumbing, and electrical systems to reduce the risk of fire and water damage. Discuss with your insurance professional how these precautions may lower premiums and help to prevent excessive damage and rebuilding costs.

## ***Don't confuse the total amount you paid for your house with the rebuilding costs.***

A house—but not the land underneath it—can be at risk from windstorms, fire, theft, and other perils and need repairs. To avoid paying a higher than necessary premium, focus on potential rebuilding costs for the structure of your home instead of the total real estate value, which includes the price of the land.



## ***Review your insurance coverage annually.***

Track the updates and changes made to your home and maintain an inventory of your belongings. Discuss this information with your insurance professional to ensure your coverage is adequate and you are not paying for coverage you no longer need.

Be aware that homeowners policy prices can vary by hundreds of dollars from company to company. Getting at least three insurance estimates when shopping around is a good idea. Making policy comparisons and potentially a few suggested home modifications and improvements can save money while adequately protecting your home and assets.

## ***Keep in mind value includes service, so do your research.***

Don't shop by price alone. If you need to file a claim, the last thing you'll want is a company that cuts corners on service. Instead, you'll want a company that provides a high-quality customer experience.

Talk to your relatives, friends, and trusted colleagues about their policies. Look at the information on consumer complaint ratios maintained by your state insurance department or the National Association of Insurance Commissioners. Remember that the attention you receive during the shopping phase can indicate how a company will respond when you need to file a claim.

## FAQs

### ***What if insurance coverage is hard to find?***

If you are not able to find affordable coverage for your home, you can explore options with excess and surplus lines carriers or with the Fair Access to Insurance Requirements (FAIR) plans that are available in most states. These markets exist to offer coverage for risks that traditional carriers may not be willing or able to write.

### ***Why is it important to call your agent annually and check your coverage if I've recently renovated?***

The cost to repair your home or replace your possessions usually increases each year as prices rise. This has been especially true in 2021-2023 as inflation drove the prices of construction materials and labor upward at a far higher rate than long-term averages. Reviewing your coverage annually with your insurance professional is the best way to ensure you are insured properly for any future claims.

### ***Why are insurance rates rising?***

Several factors can lead to more frequent claims and higher claims costs, ultimately driving insurance rates up:

- Rising property values.
- Frequent disasters (wildfires, storms, etc.) that lead to severe damage and loss.
- Regional price surges for labor and materials due to increased demand after these events.
- Continued construction and increased migration in areas prone to these disaster risks.
- Labor and supply chain shocks, such as the pandemic and the invasion of Ukraine.

However, as risks and costs grow, the insurance industry is intensifying its focus on predicting and preventing future damage and losses. Homeowners can do their part by being aware of the risks specific to their property and region and taking preventive measures. Keeping an open dialogue with your insurance professional can enhance your efforts to protect your investment cost-effectively.

## Key Definitions of Basic Homeowners Insurance Coverage

**Actual Cash Value:** Sometimes referred to as depreciated cash value, this policy can provide a payout needed to fix or replace your home and belongings minus the value of your property because of age or use. Therefore, the amount you receive for a covered claim can be significantly less than the total cost of repairing damages to your home or replacing your belongings with new ones at current prices.

**Replacement Value/Cost:** This coverage can defray costs to repair or replace your property without a reduction in payout for depreciation. If your home is damaged, replacement cost coverage can pay to restore it using materials of similar quality. Replacement cost coverage for your personal belongings can help cover the cost of buying a new item at today's price.

**Extended Replacement Cost:** Also known as extended dwelling coverage or increased replacement cost, this coverage is an add-on policy option that expands your dwelling coverage by 10 percent to 50 percent of the cost of rebuilding your home. Homeowners in disaster-prone areas may find it especially beneficial to have this extra protection, as prices for construction materials and labor can rise significantly after a disaster.

**Guaranteed Replacement Cost:** This coverage pays out any cost needed to rebuild your home in the event of a total loss, even if the bill exceeds the limits of your policy. Be aware that while many homeowners find this coverage to be the gold standard, not all insurers offer it.

For a side-by-side comparison between these main types of homeowners insurance and examples of how they may work, please see the grid on page 1.

