

Have You Outgrown Your Homeowner's Insurance?



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Several years ago I met with a potential client who had an extraordinarily beautiful Seattle home. As I reviewed the couple's current insurance policy, I was shocked to discover that the home was insured for \$3 million, only half of the \$6 million replacement cost. When I questioned this, the couple told me their carrier could only provide a maximum \$3 million limit on a homeowner's policy. Their insurance agent had assured them that there was no reason to worry; he had sold them a \$3 million umbrella liability policy to make up the difference.

As an insurance professional, I have encountered many instances of inadequate limits and misunderstandings about coverages, but this was a stunning instance of ineptitude. The insurance carrier had knowingly written a policy with inadequate limits and left their client grossly under insured. The agent, through his own ignorance of basic insurance, attempted to correct the problem by selling the insured additional insurance that did nothing to fill the gap. Umbrella liability is designed to cover third party liability claims and specifically excludes coverage on the insured's own property. The couple was appalled and outraged when they understood the extent of their exposure to loss under their current insurance program. Although this is an extreme example, it illustrates a common problem. They had outgrown their insurance carrier, who could not fully insure their high-value home, and their agent, who lacked the expertise to implement an adequate insurance program. It's a reminder to all of us that we need to periodically assess our own situation and ask, "Have I outgrown my insurance coverage?"

Most of us begin our adult lives with standard insurance needs. We have starter homes, an auto or two, and perhaps an engagement ring—all exposures that are easily covered under standard insurance policies. As we advance in our careers and enjoy a measure of success, we begin to accumulate higher valued possessions. We move up to larger, more expensive homes, acquire nicer cars, and begin to collect jewelry and art. As our assets grow, it's all too easy to overlook protection of those assets through our insurance program. Do your own policies reflect your current needs or do you still have "starter, general purpose" policies?

It is wise to do an annual checkup to be sure you have appropriate coverage for your lifestyle and exposures. Step back and review what changes have occurred over the past year. Have you bought or sold a home? Have you acquired or disposed of autos? Have you renovated your home or do you plan to in the near future? Have you upgraded your security system? Have you placed assets in an LLC or trust? These are just some changes that indicate that you are due for a thorough review and upgrade of your homeowner's insurance coverages.

The purpose of insurance is to protect your assets and your net worth. You should be confident that your insurance program can provide the appropriate coverage for your needs. The worst time to discover that your insurance has not kept pace with your lifestyle is at the time of a loss.

A word of warning: all insurance policies are not the same. Coverages, limits and premiums can vary greatly. For example, not all carriers offer coverage for building code compliance and increased construction costs, which can be significant if you must rebuild your home after a loss. Your home may have been built before sprinkler systems were required, but current code requires that you include a full sprinkler system when you rebuild. Many standard homeowner policies only pay to replace the home as it was at the time of the loss—that is, without a sprinkler system—and so the additional cost would be out of pocket. Based on your own situation, coverage for building code and increased cost of construction may be an important consideration when choosing your carrier.

You may have outgrown your current deductible, too, if you are able to absorb a greater portion of a loss. Insurance companies give credits for higher deductibles. You can save premium dollars as long as you are comfortable self-insuring larger losses. Deductibles of \$5,000 and \$10,000 are readily available and some carriers offer deductibles as high as \$100,000. It's up to you to decide how much risk you are willing to assume.



A thorough, periodic review of your exposures and coverages is important to be sure that you have not outgrown your current coverage. Begin your review with these questions:

- Have you created a Trust or LLC for residences, vehicles, or watercraft or do you share ownership with others? Are these entities listed on your policies?
- Do you have any full or part-time domestic employees?
- Have you made any renovations to your home or are you planning to do so within the next year?
- Have you purchased, leased or disposed of any homes, rental properties, cars, trucks, RV's, boats or watercraft?
- Do you serve on any not-for-profit boards?
- Does your homeowner policy provide coverage for earthquake, flood, sewer backup and mold?
- Are you acting as the Trustee for your family's funds or estate?
- Do you own any jewelry, camera equipment, fine arts, musical instruments or collectibles not currently insured?
- Do you lease space away from your residence, such as a boat slip, storage unit or personal office space?
- Do you have a unified insurance program in place or do you have multiple policies with multiple companies?
- Have you reviewed your insurance program with your insurance agent within the last year?
- Has your agent recommended any newly available coverages or options?

Your home is likely to be your most valuable asset. Take the time to analyze your exposures and make educated choices with your insurance program. Our Personal Insurance Representatives at Parker, Smith & Feek will be happy to conduct a thorough analysis with you, addressing your current exposures, providing options and advice, and conducting an annual review of your coverages. It's important that your homeowner's insurance coverage grow with you.