



# Protecting Your Financial Interests

Home • Auto • Property

# Preview

## Foreword

Purchasing any type of insurance can be time-consuming and confusing. Even a basic insurance policy typically includes unfamiliar terminology and legalese. As a result, many people may be tempted to rush the process and fail to ask the right questions.

One common mistake is to choose an insurance policy based on price alone, when in reality a cheaper policy is sometimes a barebones offering that could ultimately leave you exposed to a number of risks. That's why it is important to have a clear understanding of what types of coverage are included — or specifically excluded — so you can compare policy features and costs on a level basis.

It is estimated that 60% of homes in the United States are underinsured by an average of 20%.<sup>1</sup> Some homeowners may assume that they can reduce their insurance coverage if home values fall.

However, the cost of labor and materials has continued to rise despite troubles in the housing market. Even building codes have changed. Having insufficient insurance coverage to rebuild could become a serious problem.

This booklet highlights various forms of property and casualty insurance, including policies for homeowners, renters, vehicle owners, and families who may need extra liability protection to help shield their assets from lawsuits. It also provides some disaster readiness tips and advice for creating or updating a home inventory. In the aftermath of a catastrophe, good documentation may help expedite the claims process.

Of course, there isn't a single, all-inclusive policy that works for everyone. The insurance decisions you make should take your age, family situation, and financial picture into account.

Source: 1) Insurance.com, May 28, 2019

# When Hazards Hit Home: Bracing for Potential Peril

## Homeowners Insurance

Homeowners insurance provides compensation (up to the policy limits) if the policyholder's home is damaged or destroyed, or if the family's possessions are stolen or damaged. It can also provide some measure of protection against liability claims and medical expenses that result from property damage or injuries suffered by others on the property.

There are essentially 17 named perils against which you can insure your dwelling. Standard homeowners policies cover the first 11, and you may be able to purchase additional coverage for the others.

### Basic perils:

- Fire or lightning
- Windstorm or hail
- Explosion
- Riot/civil commotion
- Damage caused by aircraft
- Damage caused by vehicles
- Smoke
- Vandalism/malicious mischief
- Theft
- Breakage of glass or glazing that is part of a building
- Volcanic eruption

The next level of coverage includes the above perils, plus six more:

- Falling objects
- Weight of ice, snow, or sleet
- Three kinds of water-related damage from home utilities or appliances (e.g., freezing, rupturing, accidental overflow)
- Electrical surge damage

There are also specifically excluded perils for which you may be able to purchase additional protection through endorsements or specialized policies. (*See page 3 for typical exclusions.*)

**Unoccupied property.** Homeowners policies often have vacancy exclusions for vandalism and damage that could occur when a property is unoccupied for more than 30 or 60 days. An endorsement to standard homeowners insurance — or a separate vacant-home policy — may be available that covers unoccupied property for an extended period of time.

## Condominium Insurance

Insuring a condominium is different from insuring a house due to the way ownership is structured. Because there are areas of common ownership in a condo complex, the homeowners association may have a master policy. The extent of coverage someone might buy will depend on what the master policy covers. Typically, the master policy will cover damage to exterior components such as the roof, stairways, and sidewalks. Some master policies may cover the structure of the unit itself, but not any improvements made to the original design.

The condo association or co-op board should be able to provide information about what the master policy covers so you can purchase a personal policy that helps fill in the gaps. One standard homeowners policy for condominiums is called HO-6. It generally covers your personal property plus any portion of the unit you own under the terms of the condo or co-op documents, and it should help shield your family from some types of liability.

## Renters Insurance

A renters policy is similar to a homeowners policy in that it covers the policyholder's possessions against damage that occurs as a result of fire, smoke, lightning, vandalism, theft, windstorm — even a water problem — up to the policy limits. It also provides some liability protection if someone is injured on the property, and it may help pay for temporary living expenses if the rental property becomes uninhabitable due to a covered hazard.

A common misconception is that the homeowner's **landlord insurance policy** will protect the renters, when it typically covers only the structure, contents that belong to the owner, lost income resulting from damage to the building, and legal fees and liability coverage in the event that the tenant or someone else is injured on the property. *Landlord policies generally do not cover personal property that belongs to the tenants.*

Even so, only 46% of renters purchase renters insurance.<sup>1</sup> Without their own insurance protection, renters may not realize that they could be financially liable for damage they cause to the rental property (such as a kitchen fire), even if it is unintentional.

Source: 1) Insurance Information Institute, 2019

## Typical Exclusions

Specific exclusions differ significantly by region and even from one policy to the next, so read your documents carefully. The following perils are typically excluded from standard policies:

- Flood
- Earthquake
- Nuclear or radiological accidents
- Sinkholes (damage to land on which a home sits)
- Environmental contamination
- Mold remediation (unless it results from a covered event)
- Normal deterioration/neglected maintenance
- Intentional damage (by policyholder or family member)
- Liability or losses related to business activities
- Damage caused by pets or other animals
- Vacancy
- Sewer backup

Insurance riders or endorsements that extend coverage might be available for certain home insurance exclusions, such as sewer backups and sump-pump failure.

## Maximizing Coverage

Consider guaranteed replacement cost coverage to help ensure that you can completely rebuild your home. A personal property replacement cost endorsement will help pay to replace your personal property. An inflation guard endorsement increases the dwelling coverage limit annually to help keep pace with inflation.

## When Deductibles Matter

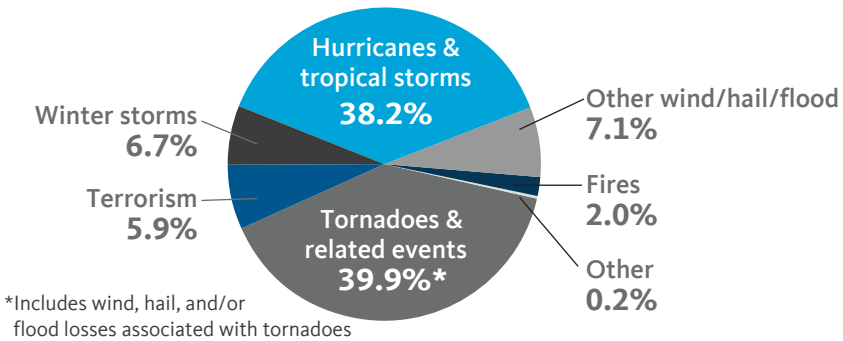
A deductible is the amount a policyholder must pay out of pocket before the insurance company pays the covered amount on a claim (up to the policy limits). Standard homeowners policies typically have a flat deductible such as \$500 or \$1,000.

In some states where there is a greater risk of a major catastrophe, higher deductibles may apply to some forms of coverage. A hurricane, for example, may trigger a specific deductible that is set as a fixed percentage, typically varying from 1% to 5% of a home's insured value but possibly higher in some coastal areas with high wind risk. If a property is insured for \$200,000 and the policy has a 2% hurricane deductible, the first \$4,000 must be paid by the homeowner. Claims for damage caused by windstorms or hail may be structured in a similar fashion.

Source: Insurance Information Institute, 2019

## Catastrophic costs

Percentage of insured losses by type of event (1997–2016)



Source: Insurance Information Institute, 2019

## Supplemental Coverage

Floods and earthquakes can cause extensive property damage and are generally excluded from standard homeowners policies.

A “catastrophe” is considered to be a disaster generating claims that reach a certain threshold (currently \$25 million) and that affects a set number of policyholders and insurers.

Insurance Information Institute, 2019

**Floods.** Floods are the most common natural disaster in the United States.<sup>1</sup> They could result from storms, broken levees, spring snow thaw, poor drainage, and the rapid accumulation of water caused by torrential rain. Flood coverage is available from the National Flood Insurance Program (NFIP) and from some private insurers. There is a 30-day waiting period before a flood policy takes effect.<sup>2</sup>

Even if you do not live in a flood-prone area, a flood could still be a significant threat. More than 20% of claims filed with the NFIP involve properties that lie outside designated high-risk zones.<sup>3</sup>

**Earthquakes.** Supplemental earthquake coverage is available through private insurers. In California, it is also available through a state-run program. Earthquake insurance typically carries a deductible based on a percentage of replacement value, ranging from 5% to 15% of the policy limit, rather than a dollar amount. Policy rates and deductibles depend on the age and construction of the home and how likely it is for earthquakes to occur in the region.

Sources: 1–3) Federal Emergency Management Agency, 2019



## Personal Property Endorsements (Floaters)

Basic homeowners, condominium, and renters policies commonly have a maximum coverage limit for the combined value of certain property. Theft of jewelry, for example, might be limited to \$1,000 or \$1,500. There are other disadvantages to the personal property coverage in standard policies, including the fact that they generally protect you only from certain incidents (damage and accidental loss are typically excluded) and may be subject to a high deductible.

A Scheduled Personal Property, or SPP, endorsement to your homeowners, condo, or renters policy can be customized to cover single items or a class of luxury goods, and it typically covers more incidents (except those specifically excluded), including theft, mysterious disappearance, and sudden, accidental loss. Valuable collectibles such as coin and stamp collections, jewelry, silverware, computers, cameras, sporting goods, guns, musical instruments, fine art, and antiques are examples of classes of personal property that might be insured separately.

**About 21% of personal liability awards and settlements are for \$1 million or more.**

Insurance Information  
institute, 2019  
(2015–2016 data,  
most recent available)

## Umbrella Liability Insurance

The liability coverage in standard homeowners and auto policies typically starts at about \$100,000 and rarely exceeds \$500,000. An umbrella liability insurance policy could offer an extra layer of financial protection. Benefits could be used to pay jury awards, plaintiff medical expenses, and legal fees (up to the policy limits) that exceed the protection in your other policies.

You generally must purchase the maximum liability coverage on your auto and homeowners policies, which act as a deductible for the umbrella policy. An umbrella policy often extends coverage for situations that are excluded from standard homeowners policies, such as for libel, slander, invasion of privacy, defamation of character, and some types of personal injuries.

# Preparing to Withstand a Natural Disaster

## Do You Have a Home Evacuation Plan?

If a powerful storm, wildfire, or flood is heading toward the area where you live, there may not be much time to flee. When officials foresee the potential for danger, National Oceanic and Atmospheric Administration (NOAA) weather stations or local television and radio broadcasts may issue evacuation instructions. In some parts of the country, a reverse 911 call may be generated by local emergency agencies to notify you that your neighborhood is subject to an evacuation order.

To help your family leave safely with the things you need most — and to stage a quick recovery if your own home suffers damage — it's best to do some research and preparation in advance.

The federal government declared 124 major disasters in 2018. This compares with 137 in 2017.

Federal Emergency Management Agency, 2019

**Make travel arrangements.** Know where you will go if you must evacuate, and have a backup option in place. Will you stay with friends or family in another town, or head to a hotel or a community shelter? Keep addresses and phone numbers in a readily accessible place such as a wallet or a mobile phone. Map out a route to your destination, as well as an alternate route to take if roads are blocked or impassable.

Identify a safe place to meet and choose a family member who lives in another area to serve as a point of contact in the event that family members become separated.

**Write down a list of items to take with you.** In your haste you might forget things you really need. Remember to add medical supplies and prescription medications; bottled water; clothing and bedding for each household member; one or more flashlights and extra batteries; an emergency battery-operated radio and extra batteries; your computer hard drive or laptop; eyeglasses; photos; and special food or other items for children, disabled or elderly family members, and pets.



**Keep your documents together.** Some documents may be difficult or impossible to replace, and you may need them to get your life back to normal. Either take them with you when evacuating or keep them in a safe location away from your home.

- Insurance policies and contact numbers
- Identification such as driver's licenses, passports, birth and marriage certificates, and Social Security cards
- Employment information, contracts, wills, deeds, and recent tax returns
- Banking and financial account information and account numbers
- Evacuation plan information, maps, and your list of items to pack
- An inventory of your household possessions
- Phone numbers of relatives, neighbors, friends, co-workers, schools

**About 90% of natural disasters in the United States involve flooding, but only 15% of homeowners have a flood insurance policy.**

Insurance Information  
Institute, 2019

**Secure your home.** Depending on the disaster, consider whether you should shut off all utilities. If flooding is expected, consider using sand bags to keep water away from your home. If a hurricane is approaching, cover the outside windows with plywood or shutters and put away items that could fly around and damage property.

## Recovering from Losses

In the stressful aftermath of a burglary, hurricane, or other unexpected disaster, could you recall specifics on all the belongings in your home? To accurately process your claim, your insurance company needs detailed information on all your lost items.

About 6% of insured homes were subject to an insurance claim in 2017, and you can bet that many of the shocked homeowners wish they had been more prepared for the claims process.<sup>1</sup> Make a weekend project of documenting your belongings, and you might sleep easier as the next big storm approaches.

## Take Inventory

There is no single way to make a written inventory of your valuable items, but it helps to have an organized method, such as completing one room before moving on to another. You may also want to list your most valuable items first. Make sure to include the following.

1. Record the name, quantity, and description of each item as well as where and when you purchased it. You could also note the price you originally paid.
2. Detail the brand, model, and serial number of appliances and electronic equipment.
3. Keep sales receipts and/or appraisals for valuable items.

## Add Visuals

Take digital photos or videos of your home, the furnishings, and your additional belongings. Don't forget to open the closets and cabinets so the contents are visible.

You might want to use a software program or mobile app that walks you through the inventory process; it could provide guidance and save time. Regardless of the method you choose, consider storing copies of all documentation in a safe place — outside of your home or even online — so the information can be accessed from wherever you might be staying.

As you acquire new valuables, your records will become out of date. Consider updating your records on an annual basis.

Source: 1) Insurance Information Institute, 2019 (2017 data, most current available)

## Getting to Know Your Auto Policy

Most states require that drivers have at least some auto insurance, and it's important not to skimp on having adequate protection. Bodily injury liability and property damage liability are required in most states, but uninsured/underinsured coverage could be very important, too. Why?

Recent estimates show that the average jury award for vehicular accident liability cases was \$722,614 in 2016. About 13% of U.S. drivers had no insurance at all in 2015, and some people with insurance carried only the minimum liability coverage required by law.<sup>1</sup> Your current and future income and assets could be vulnerable to a large liability claim.

Here's a rundown of the six major types of coverage that may be obtained in a standard auto policy. *Remember that a deductible usually applies for the following types of coverage, and compensation is subject to policy limits.*

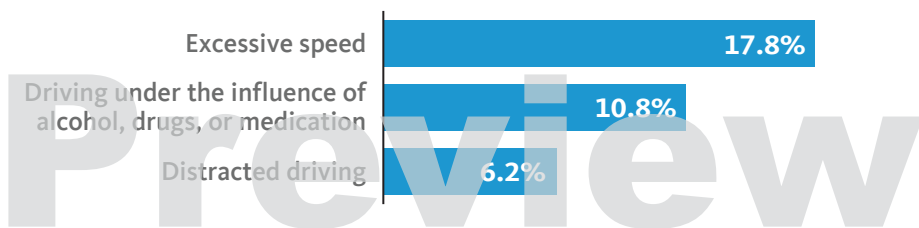
- 1. Bodily injury liability** coverage helps pay for medical bills, lost wages or income, and pain and suffering for those who are injured in an accident for which you (or someone else listed on your policy) are found legally responsible. It also covers you when you are driving someone else's car (with that person's permission) and may help cover your own legal fees, when necessary.
- 2. Property damage liability** helps pay for damage you cause to another person's vehicle or property. This could include not only vehicle repair/replacement costs but also damage to structures (such as buildings) and stationary objects (such as fences).
- 3. Medical payments or personal injury protection** coverage helps pay for the medical treatment of injuries to the driver and passengers of the policyholder's automobile, regardless of fault. Personal injury protection might also cover medical payments, lost wages, and funeral costs.
- 4. Collision** covers the repair or replacement costs of your own vehicle, up to its actual cash value (*less deductible*) — not the original price you paid — in the event you are in an accident involving another vehicle or a stationary object.

Source: 1) Insurance Information Institute, 2019 (most current data available)

**5. Comprehensive coverage** helps pay for damage or destruction resulting from incidents that do not involve other drivers or vehicles. Examples include damage from storms, falling objects, theft or vandalism, broken windows or windshields, and hitting an animal (such as a deer) while driving.

**6. Uninsured/underinsured motorist coverage** helps take care of your medical bills (and those of your passengers) and related expenses when the driver who caused the accident does not have insurance or has inadequate coverage. In some states this coverage may be limited to bodily injury.

## Common factors in fatal crashes



Source: Insurance Information Institute, 2019 (2016 data, most current available)

## Added Protection to Consider

**Full auto glass** coverage pays to replace your windshield in the event it is cracked (*often this does not trigger a deductible*).

**Rental reimbursement** coverage pays for a rental car while your damaged auto is in the shop (*subject to limits*).

**Towing** pays for roadside assistance if your automobile is not drivable from the scene of an accident.

**Sound system** coverage may be useful if you have upgraded or expensive sound equipment.

## Do You Need Rental Car Insurance When Renting a Car?

People often wonder whether their own auto insurance policy would cover a rental vehicle. Often their existing coverage and deductibles will apply as long as the rental is being used for recreation and not business. However, if they don't have adequate collision or comprehensive coverage, they would not be fully covered if the rental car was stolen or damaged in an accident. In some cases it might be necessary to purchase an insurance rider to cover towing, loss of use, and administrative charges. It's generally wise to review coverage with your insurance agent.

## Calculating Auto Insurance Costs: How Do You Rate?

Insurers customize auto policy premiums for each policyholder using criteria that reflect the perceived level of risk. Of course, the types and level of coverage that you choose to purchase (over and above a state's required minimum liability amounts) will determine premium costs.

The following factors typically influence the cost of auto insurance premiums.

- **Driving record.** If you have a clean driving record, you will generally pay less for insurance than will drivers who have had accidents or have been cited for traffic violations. Inexperienced drivers may have to pay more for coverage than will those who have been insured for a while.
- **Credit history.** Many insurers use credit-based insurance scores to analyze the likelihood that a person will file a claim. Therefore, your credit report could have an effect on your premium costs.
- **Age and gender.** Both age and gender tend to influence the cost of premiums. As a group, women have fewer accidents than men, so they may be rewarded with lower premiums. It's also not surprising that teenagers and young drivers under age 25 are often charged more for coverage.
- **Number of miles driven.** Spending a lot of time behind the wheel could increase the odds of being involved in an accident. Consumers who log more miles during the year will generally pay more for insurance, whereas occasional drivers may qualify for a discount.
- **Where you live and/or park your car.** You may pay more if you happen to live in a ZIP code where claims are prevalent or in an area that is subject to higher medical or auto repair costs.

The typical U.S. driver paid \$936 for auto insurance in 2016 — \$47 more than in 2015.

Insurance Information Institute, 2019 (most current data available)

## Specialized Policies for Recreational Pursuits

Here's what you need to know about insuring your investment in an RV, boat, or motorcycle. It's important to have the appropriate protection for your situation.

**Recreational vehicle.** Although you may be able to add an RV to your auto policy, it could be more appropriate to purchase a specific RV policy. An RV policy typically includes coverage similar to a standard automobile policy, such as bodily injury, property damage liability, uninsured/underinsured motorist, comprehensive, collision, and medical payments (up to the policy limits), with features suitable for larger, more expensive vehicles and the RV lifestyle. Many insurance companies have special packages for “full timers” (people who use their motor homes as a primary residence).

**Boat.** A boat insurance policy can be customized for any type of watercraft, whether it's a yacht, power boat, sailboat, fishing boat, pontoon, or other variety. Coverage may include bodily injury and property damage liability, physical damage, and medical payments. The amount of coverage might be tied to the current market value of the boat, the full replacement cost, or a specific amount of coverage agreed upon when the policy is purchased. You might want optional coverage for a range of hazards including theft, fire, flood, vandalism, uninsured/underinsured boaters, and the replacement of personal property kept onboard. Common insurance claims involve hitting submerged objects, collisions with other vessels, theft, storm damage, and flooding or sinking while tethered to a dock or anchor.

**Motorcycle.** If you own a motorcycle, you need motorcycle insurance. A motorcycle policy helps pay for covered expenses, subject to deductibles and other limitations (up to the policy limits). Most states have specific minimum liability coverage requirements similar to those for automobiles. Because guest passenger liability might not be included in a standard policy, you may have to purchase it separately. Standard collision and comprehensive insurance will cover only the factory parts on your motorcycle. If you have special upgrades or accessories such as a side car, chrome parts, or a custom paint job, you may want to obtain additional coverage for optional equipment.

## Adequate Protection Is the Key

Accidents and other unfortunate events don't happen every day, but when they do the results could be devastating.

**Is your insurance coverage appropriate in light of your present circumstances?**

**Are there contingencies you may have overlooked?**

Keeping track of one or more policies and determining whether they still meet your needs are ongoing financial tasks that can easily fall through the cracks.

Your insurance agent can answer any specific questions you may have about the costs and benefits of the insurance policies included in this booklet.

Preview



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