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Southern Selection

HOMEOWNER'S INSURANCE — HOW MUCH DO I NEED?

When insurance was first granted on homes, it only provided coverage for one danger or peril, fire. As time went on, homeowners began to realize that there were other dangers, such as vandalism, explosion, windstorm, or smoke that could be just as devastating as fire. They also realized that their personal property — furniture, clothing, and other belongings — was very valuable.

WHAT IS HOMEOWNER'S INSURANCE?

Insurance companies met these increased insurance needs by offering a package of benefits to protect a homeowner against many perils. Homeowners buy insurance based upon the estimated value of the dwelling. For renters or condominium owners, insurance is purchased based on the value of their personal property. All other parts of the package are based upon this amount. The package includes the following:

Structural Insurance. This is purchased based upon the value of the buildings on the property and provides coverage for your house and any structures within 100 feet of your home such as your garage, tool shed, and play house.

Landscaping Insurance. This provides coverage for trees and shrubs that would be damaged by any of the perils. Coverage is limited to 5-10 percent of the structural coverage, with specific dollar limits for individual plantings, such as $500 per tree.

Loss of Use Insurance. This provides living expenses when the structure has been damaged to the point that you cannot live there. The coverage is usually 10-20 percent of the structural coverage. It will pay for renting other accommodations, as well as living expenses, until you can move back into your home.

Personal Property Insurance. This covers all items owned by you, the insured. The amount is usually 50 percent of the amount of insurance carried on the structure. Greater amounts can be purchased at extra cost, but you may be asked to prove that you need the extra coverage.

To recover losses on personal property, you may be asked to provide proof of ownership and value. A household inventory will provide a listing of your possessions, when purchased, model and serial numbers, and the value of the items (see HM 664 *Household Inventory*). Photographs and videotapes can also be useful documentation.

A "package" homeowner's policy is designed to give an average homeowner the coverage he or she needs for personal property. However, your policy may not cover the total value of all of your possessions. Some typical limits are the following:

$500

- jewelry
- china and silver
- electronic equipment
- furs

$200

- guns

Items that may not be included:

- stamp and coin collections
- watercraft
- seasonal homes
- protection of items used in your business
- camping and recreational equipment
- computers

To insure greater amounts, you can buy a "rider" or a "floater," which will boost the coverage limits on these particular types of personal property.

All members of your family are covered. However, non-family members are not covered. Therefore, if you have visitors, their property is not covered, except under the liability portion of the policy, which is discussed later in this publication.

Cash losses are covered, but are usually limited to $200. Separate insurance is available for credit card and depositors forgery coverage.

Worldwide coverage is provided for personal property located at another occupied residence. This coverage for contents is usually limited to 10 percent of the policy. Personal property normally left at a secondary residence that is occupied by the insured is also covered. Personal property such as those items you keep at your office or those kept in your car are also covered. Coverage is also provided for the property of a minor child for whom you provide more than one half of his or her support, even if living away at college.

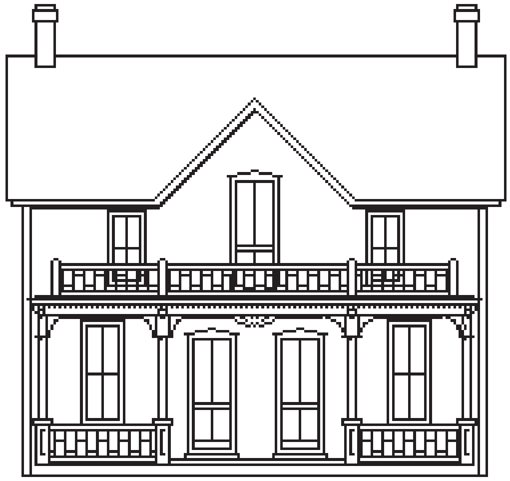
Liability Coverage. The homeowner's policy typically provides personal liability coverage of $100,000. This will protect you in lawsuits, for example if your dog bites someone or your child is involved in a fight at school or vandalizes something. This also covers someone who falls on your property and sues you. This will pay the legal fees of defending you, as well as damages up to your policy limits, awarded by the court.

Medical Payments. This pays the medical bills of someone injured on your property. The coverage limit is usually $1,000 per person. Claims in excess of this amount would fall under the liability portion of your policy.

PERILS

The following are the dangers that your property may be protected against in your homeowner's policy.

1. Fire, lightning
2. Loss of property from premises that are endangered by fire or other perils (has been discontinued by many companies)
3. Windstorm, hail
4. Explosion
5. Riots
6. Damage by aircraft
7. Damage by vehicles owned or operated by people not covered by homeowner's policy
8. Damage from smoke
9. Vandalism, malicious mischief
10. Theft
11. Glass breakage
12. Falling objects
13. Weight of ice, snow, sleet
14. Collapse of building or any part of building
15. Leakage or overflow of water or steam from a plumbing, heating, or air-conditioning system
16. Bursting, cracking, burning, or bulging of a steam or hot water heating system, or of appliances for heating water
17. Freezing of plumbing, heating, and air-conditioning systems and home appliances
18. Injury to electrical appliances and devices (excluding tubes, transistors, and similar electronic components) from short circuits or other accidentally generated currents



TYPES OF HOMEOWNER'S POLICIES

Insurance companies have standardized their policies so that consumers can compare coverage and cost. The type of policy you have will determine which perils you will be protected against and what dollar amount of protection will be provided.

FORM 1 This is basic homeowner's insurance. It protects your property against the first 11 perils listed on previous page.

FORM 2 This is broad form coverage. It protects your property against all 18 perils previously listed.

FORM 3 This is all risks coverage for dwellings, other special structures, and loss of use against direct physical loss with certain exclusions named in the policy.

FORM 4 This policy is for renters. You would receive protection for the 18 perils listed for personal possessions and liability coverage, but there would be no insurance on the structure. Your landlord would have to carry this insurance.

FORM 6 This policy is for condominium owners. It provides the same coverage on contents as Form 2 and provides up to $1,000 for building items.

FORM 8 This is a "named perils" policy for older homes that could not be replaced in today's dollars. Historic homes are a good example. The structural and decorative accents found in these homes may not be financially feasible to rebuild. Therefore, this policy provides some protection but would not protect the dwelling in its true replacement cost.

One type of special policy is for people who own and live in a mobile home that is at least 10 feet wide and 40 feet long. Mobile home insurance coverage is usually similar to Form 2 or Form 3 policies.

DEDUCTIBLE

The deductible is the amount you have to pay when a loss occurs, before your insurance pays anything. Some companies may write policies with a $100 deductible, but typical deductibles range from $250 to $5,000. The higher the deductible, the lower your insurance premium. This is because the minor losses will be covered by your deductible, thereby reducing the number of claims you might have. If you choose a high deductible, you should have money available in an emergency fund to pay this cost in the event of a loss.

REPLACEMENT VALUE OR DEPRECIATED VALUE

Replacement value insurance replaces the destroyed items with similar items that are new. For example, if your TV was stolen, the policy would pay the cost of replacing the TV with a similar new model.

Depreciated value insurance takes into consideration the amount of use your property has had. For example, your five-year old TV was stolen, and the insurance company determined that the life expectancy of a TV was 10 years. You would be paid 50 percent of the price you originally paid for that TV. It was assumed that you had used half the life of this product. Check with your insurance agent to find out what depreciation schedule would be used for your household items.

The difference in premium between replacement value and depreciated value insurance is usually very small. Typically, it would be about $25. However, the amount paid in the event of a claim can be very different depending on the age and value of your possessions.

LOSS-SETTLEMENT CLAUSE

This clause states that you must carry insurance equal to 80 percent of the market value of your home. This insures that you will carry enough insurance. If you carry less insurance than this required amount, you are said to be a coinsurer. This means that you would only collect a portion of any loss.

For example, say you have a house valued at $100,000. You hear that most hurricanes only cause maximum damages of $20,000. So you decide to carry only $20,000 in coverage. If you have a loss of $12,000, how much will the insurance company pay? You should have carried 80 percent of $100,000, which is $80,000. You only carried $20,000, which is one-fourth the amount required. Therefore, the insurance company will only reimburse you for one-fourth of the loss, or $3,000. Had you carried $80,000 in coverage, you would be reimbursed for all the damages, or $12,000.

South Carolina is a valued policy state for fire and lightening protection. This means that a homeowner will collect the value of the policy if the home is a total loss because of fire or lightening.

You may wonder why anyone would purchase less than the required amount. This usually happens when the homeowner's policy is not updated to keep pace with rising property and construction costs. When prices are rising at 5 percent per year, if you do not update your coverage often you could easily fall below the required coinsurance amount. If your $100,000 home is insured for $80,000 and prices rise 5 percent, then you must purchase $84,000 in coverage or you do not have enough. Many insurance companies have an inflation adjustment rider which automatically updates your coverage to keep pace with the rising building costs.

HURRICANE INSURANCE

There are many elements of nature that can and do cause catastrophic losses through a general area. Most homeowner's policies provide windstorm and hail coverage, the coverage needed to protect a home from wind and hail, ravages of a hurricane, tornado, or heavy thunder showers accompanied by hail.

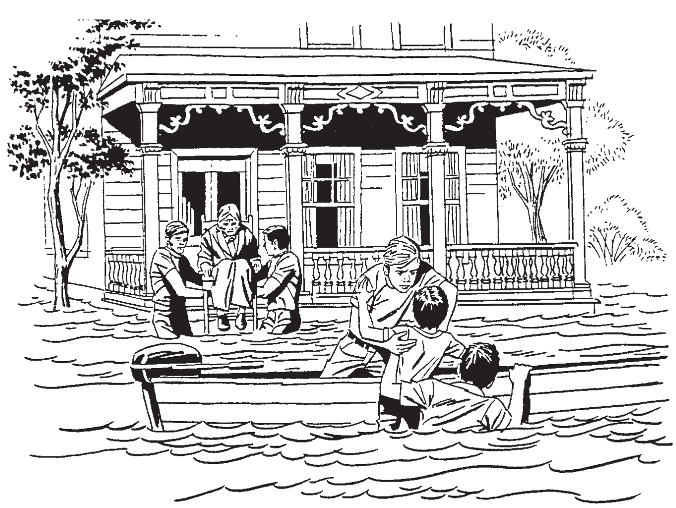
However, if your home is located in a beach or seacoast area (generally the area east of the Intercoastal Waterway in South Carolina with special geographical situations in certain localities) your company may exclude windstorm and hail insurance. This exclusion must be in the form of an endorsement form attached to your homeowner's insurance policy. A separate policy must then be purchased from the South Carolina Windstorm and Hail Underwriting Association or some other source to provide this important coverage.

EARTHQUAKE INSURANCE

Insurance against the loss of property by earthquake is not commonly purchased in South Carolina. However, land formations in some parts of South Carolina suggest an earthquake is a realistic peril for which homeowners should consider insurance.

FLOOD INSURANCE

Flood insurance is available for homeowners through the Department of Housing and Urban Development (HUD). In order to qualify, property owned must be located in a designated flood plain. Maps are available from local government officials.



UMBRELLA LIABILITY INSURANCE

If you feel that your policy limits for liability are inadequate, you can purchase an umbrella liability insurance policy. This increases your liability limits to $1 million or more. It typically links your homeowner's policy to your auto policy, increasing the liability limits on both. A $1 million policy would typically cost between $100 and $200 per year.

HAZARD INSURANCE

Most lenders will require you to provide proof of homeowner's insurance before closing a mortgage on a home. This is usually referred to as "hazard insurance" during the real estate transaction. You may also be required to pay money into an escrow account to cover your insurance premiums. Be sure to select insurance based on your own needs, not just the minimum coverage required by the lender.

INSURANCE POINTERS

1. Compare premiums and coverage from three or more different insurance companies.

2. Choose an insurer with a good reputation for claims service.

3. Select the highest deductible you can afford to lower the premium on your policy.

4. Check to see if the company offers discounts and special rates for the following:

   - nonsmokers
   - burglar alarms
   - smoke alarms
   - dead bolt locks
   - fire extinguishers
   - location in a low-risk area close to fire station and fire hydrant
   - a new home

5. Make sure all of your possessions are covered and that their value is not more than the policy limits.

Your homeowner's insurance is very valuable. It will insure you from the economic cost of the loss of your possessions. However, that protection is only as good as the insurance you carry. Review your insurance coverage every year to be sure that you are getting the best protection possible for your money.

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