

Is your home underinsured?

Did you know that according to a recent study, 2 out of every 3 homes are underinsured? That is a pretty striking number and, as high as it is, I am actually just a little surprised that it is not higher.

Not too long ago, I was talking with a neighbor about a massive home renovation that they had completed nearly a year ago. This person had almost doubled the size of their home but she had not contacted her insurance agent to notify him about the changes to her home. If she had suffered a fire, she definitely would not have received enough money from her insurer to rebuild her home. She could have been on the hook to pay hundreds of thousands of dollars to rebuild and all because she didn't think to call the agent and notify him of the work she had done. And I am sure that this is a very common occurrence. Living through a large scale renovation can be very stressful, and checking in with your insurance agent on a regular basis is probably not at the top of anyone's to-do list.

It is important to note that this problem is not unique to people who have taken on huge remodeling projects. Even people who have not made drastic improvements to their home can find themselves underinsured.

This is because homeowners insurance has changed quite a bit over the years. Guaranteed replacement cost coverage used to be fairly common. When you had this coverage, the odds were good that you would be able to rebuild your house exactly as it was with very little cost to you.

Now, it is very hard to find guaranteed replacement cost coverage. Instead, insurers offer replacement cost coverage. It sounds like the same thing, but it isn't. With replacement cost coverage, your insurer will cap the amount they are willing to pay to rebuild at 120 or 125 percent of the policy's coverage amount. That means that it is your job to ensure that the coverage amount is adequate.

How do you do that? Start by contacting your agent and asking them to recompute your coverage limit. This will probably involve answering a detailed questionnaire. Expect the agent to ask about square footage, number of bedrooms and baths and any "upgrades" like hardwood floors, granite countertops, etc. And don't stop with the inside of your home, if you have extensive landscaping or a pool, be sure to tell the agent about that as well.

If you have a top-of-the-line custom built home, you shouldn't rely on an over-the-phone conversation. The high end insurers are generally willing to send someone to your home to do a custom appraisal. If you still think that number is low, you can talk to builders in your area and get an estimate from them.

The important thing is to not overlook this important area. Make sure you call your insurance agent if you are taking on any kind of home improvement project. Your premiums may go up, but at least you won't find yourself unable to replace your current home in the event of a disaster.