

Little-Known Homeowners Insurance Facts

You may be surprised to learn what is and is not covered.

Provided by Ron Richards

If you have a homeowners insurance policy, you should be aware of what this insurance does and does not cover. These policies have their limitations as well as underrecognized perks.

Some policies insure actual cash value (ACV). ACV factors depreciation into an item's worth. If someone makes off with your expensive camera that you bought five years ago, a homeowners policy that reimburses you for ACV would only pay for part of the cost of a new equivalent camera bought today.¹

Other policies insure replacement cash value (RCV). That means 100% of the cost of an equivalent item today, at least in the insurer's view.¹

Insurers cap losses on certain types of items. If you lose an insured 42" flat-screen TV to a burglar, the insurer could reimburse you for the RCV, which is probably around \$300. An insurance carrier can handle a loss like that. If a thief takes an official American League baseball (say, from the 1930s signed by Babe Ruth) out of your home, the insurer would probably not reimburse you for 100% of its ACV. It might only pay out \$2,000 or so, nowhere near what such a piece of sports memorabilia would be worth. Because of these coverage caps, some homeowners opt for personal floaters – additional riders on their policies to appropriately insure collectibles and other big-ticket items.¹

Did you know that losses away from home may be covered? For example, you have your laptop with you on a business trip. Your rental car is broken into, and your laptop is taken. In such an instance, a homeowners policy will frequently cover a percentage of the loss above the deductible – perhaps closer to 10% or 20% of the value above the deductible rather than 100%. However, if you have cash stolen during a trip, most insurance policies put a limit on what they will reimburse you for; typically, around \$200 to \$250.¹

Your location affects your coverage and your rates. If you live in an area with more frequent property crime, your insurance carrier might cap its reimbursements on some forms of personal property losses. The insurer might even refrain from covering certain types of losses in your geographic area. The best thing to do is to review your policy carefully to make sure that, if the unthinkable happens, you have adequate coverage.¹

Do you have a home-based business? If you do, damage and losses to your residence, resulting from or linked to your business activity, won't be covered by your homeowners insurance policy. The same holds true for a personal umbrella liability policy.²

Having a separate, discrete business insurance policy to protect your home-based company is important. Without such a policy, you have inadequate coverage for your business. If a visiting client has a bodily injury claim, or an employee at your residence file a workers' compensation claim, you could end up losing your home.²

Read the fine print on your policies. Recognizing the basic limitations of homeowners insurance is critical. You should know what is and is not covered to address a weak spot(s) before it becomes a major issue.

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Citations.

1 - USNews.com, May 14, 2020

2 - TheZebra.com, April 22, 2020