

A Consumer's Guide to Homeowners Insurance



This brochure was developed
through the combined efforts of:

Illinois Insurance Hotline
1-800-444-3338

Illinois Department of Insurance

University of Illinois Extension

Why do you need insurance?

Home is where the heart is....and also your sofa, TV, jewelry, etc. Whether you live in a house, apartment, or condo, your home and personal property are subject to unexpected dangers like fire, theft, or storms. Could you rebuild, repair, or replace your home and belongings if an unforeseen loss occurred? If not, you need insurance.

If you own your home, insure the building and your personal belongings. Most lenders require you to have homeowners insurance. Renters need insurance too. The building you live in may be insured, but it doesn't cover your personal belongings.

It's also a good idea to have liability insurance. This will protect you if you're legally responsible for causing injury to others or damage to their property.

You can buy separate policies for theft, liability and other dangers, but package plans combining these coverages are more common. Package plans can vary between companies, so it's important to read your policy. Use this brochure to guide you through this process.

What does a homeowners insurance policy cover?

What is covered:

A homeowners insurance package policy protects you in two basic ways:

Liability Protection:

Liability coverage protects you when you, your family, or even your pets are responsible for injury to people or damage to their property. It pays damages up to the limit of liability insurance you bought. It also pays for a lawyer to defend you if you need one.

Another type of coverage in the liability section of a policy is **medical payments coverage**. It pays medical expenses for someone who's accidentally injured on your property or injured by you, a member of your family, or your pets. It pays up to the limit of medical payments coverage you bought. There's coverage no matter who is at fault. Medical payments coverage doesn't apply to your own injuries or those of family members that live with you.

Liability and medical payments coverages also apply to injuries or property damage to others when you're away from your home.

Property Protection:

Property coverage is the most complex part of your policy. It pays for damage to your home, personal belongings, and detached buildings on your property (like garages or tool sheds).

You'll have to pay a deductible every time you turn in a property claim. The deductible is how much you pay before the insurance company starts paying. Taking a high deductible will lower your insurance premium, but you'll pay more out-of-pocket each time you have a claim.

The policy spells out when damage to your property will be covered. These situations are called "covered perils." They are events that cause sudden and accidental damage to your property. Examples of covered perils are fire, windstorm, and theft.

Your personal property is covered anywhere in the world. The policy pays if you're robbed at gunpoint away from home, or if your luggage is stolen while you're on vacation. Keep in mind though, that policies often limit how much you can recover for belongings damaged/destroyed away from home, or on high-priced items like jewelry and computers.

Most policies include coverage for **additional living expense**. This pays for costs above your normal living expenses when a covered loss forces you to move from your home temporarily. For example, it may pay a portion of your motel and restaurant expenses if fire destroys your house or apartment.

What isn't covered:

Insurance isn't designed to pay for every loss that happens. There are certain circumstances when there's no coverage. These situations are called "**exclusions**," and are specifically listed in your policy. Some situations are excluded because they're not sudden and accidental. For example, there's no coverage for damage caused by wear and tear, age, rotting, or lack of maintenance. Homeowners insurance will not pay to repair a rotting wooden porch. Cars, boats, motorcycles, jet skis, all-terrain vehicles (ATV's), or snowmobiles are excluded because different kinds of policies usually cover them.

Catastrophes like earthquake, flood, war, and nuclear disaster aren't covered by homeowners insurance.

Most policies exclude property damaged by collapse of an underground mine, sewer back up, or sump pump overflow. (Standard policies do cover water damage caused by a pipe bursting, a broken water heater, or a heating system.) Some exclusions affect liability coverage. For example, most policies exclude liability coverage for business activities.

You can “buy back” coverage for some of these exclusions using policy **endorsements**. An endorsement adds to, or changes the terms of the contract.

How much coverage do you need?

On the building:

Your home is probably your largest single investment, so fully protect it. It’s best to choose a coverage limit equal to the cost of completely rebuilding your home. This figure is called the home’s **replacement cost**.

Replacement cost means how much it costs to rebuild (not counting the cost of the land) with materials of like kind and quality, without subtracting (depreciating) for age or wear and tear. Replacement cost is not the same as “market value.” Market value is a real estate term for the current value of your home if you were to sell it. Market value includes the price of land.

Some homeowners buy only enough insurance to pay for the **actual cash value (ACV)** of their home if it is damaged or destroyed. ACV is replacement cost minus depreciation. Depreciation is the decrease in home or property value due to age or wear and tear.

Loss settlements are depreciated (decreased due to age or wear and tear) if you insure your home on an ACV policy. This means you won’t be paid for the full cost of the repairs. Depreciation is not an issue with a replacement cost policy, which makes it a better option. Guaranteed replacement cost policies are even better.

If you have a loss on a **replacement cost policy**, the company will initially depreciate your claim settlement. But, once the work is done you’ll receive the difference (up to the policy limit) between the cost of repairs and the ACV. You won’t get the additional payment if you don’t repair or rebuild.

You’ll get the most protection with a **guaranteed replacement cost policy** (also called extended replacement cost). It lets you replace your home if it’s destroyed by an insured peril, even if it costs more than the policy limit. Some companies limit this to a certain percentage above your policy’s limit, like 20%. There may be other restrictions. For instance, companies may offer this policy only on homes less than 30 years old.

Types of Policies Available

***ACV Policy...pays...Replacement cost minus depreciation**

***Replacement Cost...pays...Cost to repair or rebuild up to your policy’s limit**

***Guaranteed Replacement Cost...pays...Full cost to repair or rebuild even if it is greater than your policy’s limit (up to a certain percentage)**

***Note: To receive the full benefits of a policy, you may be required to have a certain amount of coverage.**

If you don’t insure your home for its full replacement cost, your claim settlement may not pay the full cost to repair or rebuild. In fact, depending on how much coverage you **did** have, how much coverage you **should have had**, and the amount of your claim, you may get thousands or even tens of thousands of dollars less. It’s important to insure your home for the proper amount!

On your personal property:

Most policies insure personal belongings for half the building limit. If your home is insured for \$100,000, your limit for personal property will often be \$50,000. Talk to your insurance agent if you need more coverage than your policy provides.

Personal property losses are settled on an actual cash value basis (after you pay the policy deductible). ACV means replacement cost minus depreciation. Consider buying contents replacement cost coverage if it’s available. Your claim settlement will be depreciated at first, but once the damage is repaired or the item is replaced you’ll get the difference between the ACV and today’s price.

For example, suppose you spend \$500 on a new sofa. In five years the sofa will be worth about \$300, but it may cost \$800 to replace it. If fire destroys the sofa, you'll get the full \$800 after you replace it with contents replacement cost coverage. Without it you'll only get \$300, its depreciated value.

In most cases the extra protection is worth the additional cost. Replacement cost coverage doesn't apply to all personal property losses, though. Items like art, antiques, photos, and collections (like stamp and coin collections) are usually settled on an actual cash value basis.

What common homeowners policies are available?

Many companies use generic names for their homeowners insurance policies. Others come up with their own names. HO-2 (also called "broad" or "standard" form) and HO-3 (also called "special" or "deluxe" form) are probably most common.

The chart on pages 9 and 10 outlines the kinds of losses covered by HO-2, HO-3, HO-4, HO-6, and HO-8 policies. Buy the right policy for your needs. In general, premiums are higher when more perils are covered.

Does the policy provide any other coverages ?

In addition to the coverages already mentioned, most homeowners policies also cover:

- Debris removal;
- Removal of damaged property;
- Trees, shrubs, plants or lawns damaged by a covered peril;
- Fire department service charges;
- Repair costs after a loss;
- Loss (like theft) from a credit card, fund transfer card, forgery or counterfeit money.

Read your policy or check with your agent for more details.

Are there any optional coverages I can get?

You can add optional coverages, called **endorsements**, for an extra cost. Endorsements change the policy to meet your specific needs. Some common endorsements are:

- **Personal Property Replacement Cost:** Changes loss settlement to replacement cost basis.
- **Building Guaranteed Replacement Cost:** Pays to rebuild your home even if it costs more than the policy limit (usually restricted to a certain percentage above your policy's limit like 20%).
- **Refrigerated Products:** Pays for goods damaged in your refrigerator or freezer.
- **Business Insurance:** Provides limited coverage for business machines, tools, and liability. If you have a business in your home, ask about this endorsement.
- **Earthquake Insurance:** Pays for damage caused by earthquake.
- **Inflation Guard:** Automatically raises coverage limits each year based on price increases for building materials and labor (inflation).
- **Mine Subsidence:** Pays when an underground mine shifts, causing damage to your property. Insurance companies must offer mine subsidence insurance in counties where mines are under one percent or more of the land. Underground mines are common in central and southern Illinois, but other areas of the state are affected as well. You must sign a rejection form to remove this coverage if you live in a county where mine subsidence insurance is required.
- **Scheduled Personal Property (also called a "floater"):** Pays for damage to special belongings like jewelry, furs, coins, computers, antiques, artwork, and silverware. Scheduled items are covered for more perils.
- **Sewer Backup and Sump Pump Overflow Endorsement:** Pays for damage to your finished basement caused by sewer backup or sump pump overflow.

- **Watercraft Endorsement:** Covers small sailboats and outboard motor boats. It broadens the personal liability and medical payments coverage.
- **Flood Insurance:** Pays for damage caused by flood. Flood insurance is available from a variety of insurance companies, as well as the National Flood Insurance Program. You must live in a community that participates in this federal program. Lenders require flood insurance if you live in certain flood hazard areas.

What about a condo policy?

Find out where your responsibilities end and the condo association's start. Most associations have property and liability insurance for the building and common grounds.

The association's policy doesn't cover your personal property. It may not cover the inside walls, built-in appliances, kitchen cabinets, bathroom fixtures, plumbing, or wiring either. You'll need a condo policy to cover these things. An HO-6 policy covers personal property for the same perils as an HO-2 (broad form) policy. It provides personal liability coverage, medical payments, and additional living expenses too.

What about insurance for renters?

Even if you don't own home you should insure your belongings and have personal liability coverage. The owner of the house or apartment building doesn't have insurance to protect you or your belongings. Neither does the property manager.

As a renter you should buy an HO-4 insurance policy. It covers personal property for the same perils as an HO-2 (broad form) policy. It provides personal liability coverage, medical payments, and additional living expenses too.

How is the premium figured?

Hundreds of companies sell homeowners insurance in Illinois. Prices can vary greatly. Some factors companies use to set the cost include:

- **Type of construction (brick, wood, masonry, block):** Wood homes cost more to insure because they're more likely to be damaged by fire.
- **Fire protection:** Premiums are affected by the distance between your home and the fire department, the quality of the department's fire fighting equipment, level of training, and response history.
- **Location:** Rates are higher in areas where crime, fires, or natural disasters are common.
- **Type of policy and amount of coverage:** Policies with high limits that cover the most perils cost more.
- **Deductible:** Taking a high deductible lowers your premium. But, you'll pay more out-of-pocket every time there's a loss.
- **Number of living units:** Multi-family dwellings cost more to insure.
- **Credit:** Those with good credit records may pay less for insurance.
- **Age of dwelling:** Older homes with outdated electrical and heating systems cost more to insure.
- **Claim history:** Some companies charge more if you've had losses.

What discounts can I get?

Some companies offer discounts that can lower your premium. Examples include:

- **Protective devices:** Fire extinguishers, smoke alarms, deadbolt locks on all outside doors, sprinkler system, or security alarm system hooked up to the police station.
- **Mature homeowners:** For those over 55 and retired.

- Non-smoker.
- **Multiple policy:** For having more than one policy with the same company, such as home and car insurance.
- **New home:** Brand new homes, or even those less than nine years old.
- **Fire resistant building materials.**

What other things should I know?

Comparison shop. Call several agents to compare quotes. You may also want to use the Internet, as a growing number of insurance companies and marketing firms are on-line now. In addition, the Illinois Department of Insurance website (www.state.il.us/ins) lets you see sample rate comparisons for companies licensed to sell insurance in Illinois. The quotes you're comparing should provide the same types of coverages and limits. Ask about discounts and deductible options.

When choosing an agent, think about such questions as:

- Can the agent explain your coverage in terms you can understand?
- Is the agent interested in your total insurance needs?
- Do the agent and staff seem polite and want to help?
- Will the agent inspect or photograph your home to make sure it meets the insurer's guidelines? (This benefits both you and the company.)
- What kind of finance plan is available to help you pay the premium? (Keep in mind that most companies add a service charge when you pay your premium more often – for example, monthly instead of annually.)
- How much do you need for a down payment?

Consider the insurance company's financial rating and complaint ranking. A.M. Best, Standard & Poor, and Moody's are among the services that give financial ratings on insurance companies. These ratings evaluate company financial strength, which can indicate ability to pay claims. Satisfied customers are less likely to file complaints. The Illinois Department of Insurance keeps track of written complaints from consumers and releases these statistics annually. You can get an insurance company's financial rating and complaint ranking by calling the Illinois Insurance Hotline or the Illinois Department of Insurance. Complaint information is also available on the Department's website www.state.il.us/ins.

Be sure the company and agent are licensed in Illinois. Illinois insurance law applies only to companies and agents licensed in this state. In addition, companies not licensed in Illinois don't participate in the Insurance Guaranty Fund. The Guaranty Fund protects Illinois consumers if a licensed insurance company is placed in liquidation.

Make sure you have enough coverage. Can you rebuild your home at the limit it's insured for? Do you need extra insurance for antiques, furs, computers, coins, art, silverware, etc.? What about guaranteed replacement cost, sewer backup, earthquake, mine subsidence, or flood?

Read your policy. An insurance policy is a legal contract between you and the insurance company. Know what it does and doesn't cover BEFORE a loss occurs. Ask your agent to explain parts you don't understand.

Take an inventory of your personal property. Make a list, take pictures, or better yet videotape your belongings. Include receipts whenever possible. Get appraisals for high value items. Update the inventory often. Store it in a safe place away from home. The inventory will provide proof of lost or damaged items if a loss occurs.

Pay your premium by the due date. Insurance companies don't have to give grace periods for late payments.

Review your policy once a year. Make changes as needed.

What if I can't find a company to insure me?

If you can't get insurance, ask an agent about the Illinois FAIR Plan. The FAIR Plan is an association that operates like an insurance company. All the property and casualty companies that sell basic property insurance in Illinois fund it.

There are two main requirements for the FAIR Plan.

- There must be three unsuccessful attempts to buy homeowners coverage from insurance companies.
- The property must meet basic fire, loss prevention, and safety standards.

The FAIR Plan offers most of the home, personal property, and personal liability coverages that you can get with a private insurance company. However, the FAIR Plan should be your last resort. You may be able to get a better deal with a traditional insurance company.

What should I do if there's a loss?

- Report criminal damage to police right away.
- Report the loss to your insurance agent or company as soon as possible.
- Make temporary repairs to protect property from more damage. Save receipts for materials. Give them to the insurance company for reimbursement.
- The company will assign a claim number and adjuster to your loss. Keep this and other important claim information in a central spot.
- Fill out a claim report. Describe the loss.
- Use your personal property inventory to make a list of things that are damaged, destroyed or missing. Photograph or video tape the damaged property. Return the proof of loss report, damage estimates, and other information the adjuster requests.
- Don't throw anything away until the adjuster has seen the damage and given you approval to do so.
- If the damage is severe, you may have to move out of your home temporarily. Save receipts for expenses that are above your normal cost of living. Give them to the insurance company for reimbursement if you have additional living expense coverage.
- Find your insurance policy. Review the declarations page to identify the policy limits and deductibles that apply to the loss. In addition, read the "Coverage," "Exclusions," and "Conditions" sections. Follow through on any conditions you haven't met.
- Talk to your agent or adjuster about the claim process or settlement offer if you have questions.

What if I Disagree with the Company's Offer?

- Talk to your insurance adjuster. You may be entitled to an adjustment if something was overlooked. State your case and offer documentation to support your position.
- Talk to your insurance agent. Agents have valuable insight that can help you through the claims process.
- If the problem is about the amount or value of your loss, you can request that appraisers decide on the amount of damage. Read the "Appraisal" clause in your policy for more information.
- Try to work with the company to resolve the issue whenever possible.
- If you still have questions you can call the Illinois Insurance Hotline or the Illinois Department of Insurance.

More Questions?

Start with your insurance agent or company. They have the specifics of your policy and can answer most of your questions. If you need more help, you can call the Illinois Insurance Hotline or the Illinois Department of Insurance.

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Common Insurance Terms Used in this Brochure

Actual Cash Value (ACV): Replacement cost minus depreciation.

Deductible: How much you agree to pay out of pocket for losses before the insurance company begins paying.

Depreciation: Decrease in home or property value due to age or wear and tear. **Endorsement:** Written attachment that adds to or changes the terms of the policy.

Exclusions: Specific situations or circumstances listed in the contract describing when benefits will not be paid.

Floater: Additional coverage for personal property such as jewelry, artwork, or antiques not otherwise included in a homeowners insurance policy.

Guaranteed Replacement Cost Coverage – Building: Endorsement that lets you replace your home without subtracting for depreciation, even if it costs more than the policy limit.

Liability: What you would legally pay when your fault or carelessness causes injury or damage to other people or their property.

Peril: Event causing damage to your property (for example: fire, tornado, theft, or vandalism).

Personal Property: Personal belongings such as furniture, appliances, clothes, jewelry, and bicycles.

Premium: How much the insurance costs.

Replacement Cost: How much it costs to replace contents, rebuild your home, or repair damages with materials of like kind and quality, without subtracting for depreciation.

Replacement Cost Coverage – Building and/or Personal Property: Changes loss settlement to replacement cost basis.

What is the Illinois Insurance Hotline?

The Hotline is a consumer service funded by the insurance industry and operated by the Illinois Insurance Association. Hotline consultants answer questions about insurance issues, provide public information on insurance companies, and distribute free educational literature. Consultants don't recommend companies, agents, types of insurance, or amounts of coverage. Help is available from 9:00 a.m. to 4:00 p.m. Monday through Friday by calling 1-800-444-3338.

What is the Illinois Department of Insurance?

The Illinois Department of Insurance is the state government agency regulating insurance companies and agents licensed to do business in Illinois by enforcing Illinois insurance laws and regulations. The Department protects Illinois citizens by providing insurance information, investigating their problems, overseeing the conduct of insurance companies and agents, and monitoring the financial stability of insurance companies.

You should always try to first resolve your problems directly with the company and/or agent involved. If you are not satisfied with the answer you receive, you may contact the Department at:

100 West Randolph Street, Suite 15-100
Chicago, IL 60601
(312) 814-2427

or

320 West Washington Street
Springfield, IL 62767-0001
(217) 782-4515

or

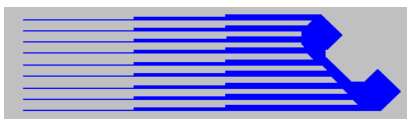
via the Internet at: <http://www.state.il.us/ins>

What is the University of Illinois Extension?

University of Illinois Extension is the outreach arm of the University of Illinois College of Agricultural, Consumer, and Environmental Sciences. It helps people solve problems through education. Extension has offices in more than 80 counties. You can get quick answers to many questions by calling a local Extension office. You can also stop by an office and pick up a fact sheet or publication. You'll also find that Extension offers many informal educational programs. Look for the nearest office listed under University of Illinois Extension in your local phone directory. Or, visit their website at <http://www.extension.uiuc.edu>.

If you have questions about your insurance,
your main source of information
should always be your agent or your insurance company.
The Illinois Department of Insurance
and the
Illinois Insurance Hotline
are two other resources available to you.

Call the Illinois Insurance Hotline.
1-800-444-3338



We're here to help!