

Selecting the Proper Insurance Limit for Your Home



You may be surprised to learn this issue is addressed in your homeowners insurance policy.

In fact, it's a matter of simple arithmetic once you know your home's replacement cost and your policy's co-insurance requirement.

Read your contract.

WHAT IS REPLACEMENT COST?

- Replacement cost refers to the costs associated with rebuilding your home using similar materials. There's no reduction for age or wear and tear.
- Features that affect replacement cost include:
 1. Square Footage
 2. Exterior Wall Materials
 3. Style (Ranch, Colonial, One-of-a-Kind)
 4. Number of Bathrooms and Other Rooms
 5. Roofing Materials
 6. Special Features (Deck, Porch, Fireplace, Special Windows)
 7. Attached Garage
- Features that **don't** affect replacement cost include:
 1. Mortgage Value
 2. Market Value
 3. Land Value
- Your homeowners insurance agent can help you determine your home's replacement cost.



WHAT IS CO-INSURANCE?

- Co-insurance refers to the clause that requires homeowners insurance policyholders to insure the dwelling for a specific percentage of its replacement cost.
- Two common policy forms are:
 1. HO-2, Broad Form.

Dwelling limit must match 80% of the home's replacement cost. Coverage is provided for 16 named perils listed in the policy. Structural claims are restricted by the "Section A" coverage limit and based on the cost to repair or replace the damaged property.
 2. HO-3, Special Form.

Dwelling limit must match 80% of the home's replacement cost. All risk coverage is provided with certain exclusions identified in the contract. Structural claims are restricted by the "Section A" coverage limit and based on the cost to re-pair or replace the damaged property.
- Some policies offer guaranteed replacement cost coverage. If so, the dwelling limit must match 100% of the home's replacement cost. The advantage is that structural claims aren't restricted by the policy limit. However, companies often add settlement caps restricting coverage to 120% of the policy limit. Read your contract for more information.

WHAT HAPPENS IF YOUR HOME IS UNDERINSURED?

- Insuring your home for less than the co-insurance requirement will adversely affect your claim settlement.
- Claim settlement for an underinsured dwelling is based on the lesser of:
 1. The actual cash value of the damaged property. (Replacement cost less depreciation.)
 2. The percentage of insurance you have in relationship to the dwelling's replacement cost. (If you're insured for 60% of the home's replacement cost, the loss will be adjusted to pay 60% of the damages.)

HOW CAN YOU AVOID UNDERINSURING YOUR HOME?

- Know the requirements outlined in your contract. Review and update policy limits and coverages annually.
- Add inflation guard protection to the policy. This optional endorsement automatically raises the coverage limit each year based on increased construction costs in your area.

WHAT IF THERE'S STRUCTURAL DAMAGE TO YOUR HOME?

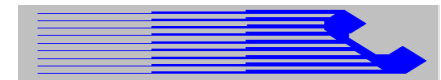
1. Report the damage to your insurance agent or company as soon as possible.
2. Make temporary repairs to prevent further damage. Save the receipts as these costs are covered by most homeowners insurance policies.
3. The insurance company will assign a claim number and claim adjuster to your loss. Keep this information handy as you may need to refer to it later.
4. Complete a claim report describing the loss and listing items that are damaged, destroyed, or missing. Be as specific as possible.
5. Depending on the the loss, the adjuster may need to visit your home. Don't discard anything until the adjuster has seen the damage or given his/her approval to do so.
6. The adjuster will prepare a written damage estimate. Request a copy for your records. Ask questions about items you don't understand. The initial settlement is typically reduced for depreciation, but the company will pay the balance once repair/replacement is complete.

7. Contact your adjuster if you have questions about the claim process or the settlement offer. Whenever possible try to work with company representatives to resolve a disagreement.

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This information is provided by the Illinois Insurance Hotline, an industry-sponsored consumer resource. Consultants are available to answer general insurance questions between 9:00 a.m. and 4:00 p.m. Monday through Friday.

**The Illinois Insurance Hotline
1-800-444-3338**



We're here to help!