

Home Insurance – Student Guide

Whether you own or rent the roof over your head, that roof and everything beneath it has a value.

Have you considered how hard it would be to replace everything if a tornado leveled your home?

What if someone broke into your house and took your TV, stereo and other valuable items?

What if your home caught on fire? Without home insurance, it may be impossible to ever replace your home and your possessions.

What is home insurance?

Whether you're a homeowner, condo owner or renter, home insurance (or tenant insurance) can pay for the cost of your house (if you own it) and your belongings if you lose them to a peril mentioned in the policy. It will also pay for temporary expenses if your home is damaged and you can't live in it.

The costs of repairing your home or building a new home, as well as replacing your belongings, can be paid one of two ways:

- **Actual cash value** pays the depreciated value of your damaged property. So, the older the item is, the less money you may receive for it.
- **Replacement cost** pays the amount it costs to replace your damaged property with something of a similar type and quality at current prices.

What are perils?

Perils are things or events that can damage or destroy a home or its contents. A home insurance policy lists the perils it covers, such as:

- fire;
- lightning;
- wind;
- hail;
- theft;
- explosion;
- smoke;
- glass breakage;
- vandalism;
- riots; and
- falling aircraft.

Home insurance policies do not cover flood damage. In most cases, however, you can purchase a separate flood insurance policy through an insurance company that participates in the federal government's National Flood Insurance Program.

What about my garage and other buildings? Are they covered by home insurance?

Basic home insurance also protects other property. Private structures on your property which are not attached to your residence are covered. This includes fences, driveways, sidewalks and your garage.

Is my yard also covered?

If your trees and plant are damaged by fire, lightning, vandalism or theft, your insurance will pay for the loss. But there is a limit for each item damaged.

Ask yourself:

What if your house catches fire, and the firefighting equipment damages your lawn and trees? Your home is covered, of course, but so is the landscape because it's all part of your property.

What else does home insurance cover?

Personal belongings

Your personal property is protected by home insurance, too. It's wise to keep a household inventory of everything of value in your home or on your property for this purpose. Include a complete list of your household possessions, and include model and serial numbers, original costs and receipts, whenever possible. Taking photos or videos of your home and valuable possessions is also a good idea. Keep these records somewhere secure, like a safe deposit box.

Certain high-value items and collectibles should be insured for their value. Items like expensive jewelry, silverware or high-end computer systems can have extra coverage limits added through riders or a scheduled personal property endorsement for an extra premium cost.

Scheduling personal property also allows you to:

- insure it for its value;
- cover it for all risks rather than just the named perils in the policy; and
- avoid paying the policy deductible, as it doesn't apply for scheduled property.

The cost depends on the type of property and the amount of coverage you purchase for each item.

You're liable to need liability protection

Liability is an intimidating word meaning legally responsible. Most home insurance policies provide a certain amount of liability coverage, which pays for injury or death of others caused by you on or off your property. Your insurer will pay costs for which you are responsible, up to the limits specified in your policy. Liability coverage will also pay for your legal defense if you are sued for something that is covered under the policy.

Your home insurance's liability coverage can also protect you from having to pay medical costs for anyone injured at your residence, regardless of fault. Medical payment coverage pays for injury to another person who is accidentally injured on your property or injured by you or a family member or pet covered under the policy. It doesn't apply to your own injuries or family members living with you.

Think of the difference between liability coverage and medical payments protection this way: Liability coverage protects you if the injured person wants to take you to court and sue for damages. Medical payments protection covers that person's immediate doctor and hospital bills, even if the injured person doesn't take you to court.

Many insurance companies also offer the opportunity to purchase additional liability coverage to increase the amount of protection above and beyond what a home insurance policy provides.

Ask yourself:

How would you protect yourself if the pizza delivery guy sued you after tripping on a rake you accidentally left on the sidewalk? Think about it – he could take you to court and make you pay for being negligent. Worse yet, if the fall caused a permanent disability, he may sue you for thousands of dollars. With liability coverage, the insurance company will pay for your defense in the court case and whatever amount you're found liable for, up to the policy's limits.

But suppose he broke his ankle, but didn't take you to court? Your medical payments protection would cover his immediate doctor and hospital bills, regardless of whose fault it is.

What other kinds of additional coverage can I purchase?

It depends on what kind of endorsements your insurance company offers. Endorsements can either add to or exclude from a basic home insurance policy. Usually, endorsements you can purchase offer additional protection from a specific peril named in the endorsement.

For example, you may be able to purchase an endorsement to protect your home and belongings from earthquakes or one that covers you against water that backs up from sewers or drains.

Renting is for me!

You may prefer to rent your house or apartment, especially if you're going away to college. A standard renter's insurance policy covers both your liability and your possessions. It covers your belongings if they are damaged or stolen and may pay for temporary living expenses if your rental is damaged and you can't live in it.

A standard renter's policy covers your personal property on an actual cash value basis. You can usually add replacement cost coverage for an additional premium.

Terms to know

Agent – A person who sells insurance; your direct contact with an insurance company.

Claim – A request for payment under the terms of the insurance policy.

Deductible – The amount of money you agree to pay when there is a loss.

Insured – The person receiving insurance coverage under the insurance policy.

Insurer – Another term for the insurance company or anyone who provides insurance.

Negligent – Carelessness or failing to do what a reasonable person would do to avoid an accident or loss.

Policy – A written document that serves as evidence of an insurance contract which contains the pertinent facts about the policy owner, the insurance coverage, the insured and the insurer.

Premium – The amount you pay in exchange for insurance coverage.

Controlling home insurance costs makes sense

Insurance is an important factor in the overall expenses of a home, condominium or even an apartment. Here are several steps you can take to help control home insurance costs:

Explore discounts – Some companies offer discounts on both home and auto if both policies are with the same provider. Others also offer discounts for having an alarm system in place.

Shop around – Not all insurance companies are alike. You'll find quotes can vary, sometimes significantly, from one insurer to another.

Use escrow – Pay into the escrow account established by your mortgage company for insurance as well as property tax. When property insurance is due, the mortgage company pays the premium out of the escrow account.

Raise your deductible – You'll pay more out of pocket if you have a claim, but your premium will go down.

Assignment

Make an inventory of everything you own in your home. Include everything from furniture and clothing, to computers and game systems. As you make your list, assign a monetary value for each item.

Now review your list. How would you replace these items if they were damaged by a fire or some other peril?

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