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HEG79-103 Homeowners Insurance Insights

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Homeowners Insurance Insights

This publication provides basic information about homeowners insurance.

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Most of us have property we want to protect against unknown dangers that might damage or destroy it. Homeowners or renters insurance can provide that protection. These policies include both property and liability insurance. They usually exclude motor vehicles for recreational or highway use.

The properties covered and the perils those properties can be insured against are listed in the policy. Your house, garage, and other structures on your lot are covered. Personal properties including household contents and other personal belongings are covered up to specified limits. Perils are listed under various homeowners policy types, referred to as "forms." A comparison of the coverage available in each form is in the chart in this publication.

The limitation of the liability insurance that will protect you when claims or suits are filed against you by persons who consider you responsible for their injuries or damage to their property is included in the policy.

Coverage for living expenses you would have if your home couldn't be occupied because of one of the listed perils is a feature of the homeowners policy. This amount is usually 10 to 20% of the total coverage on the home.

The amount of coverage you need on your property is an individual matter. Several types of coverage are available. The homeowners policy types or forms that follow show how coverage increases as you add more perils against which properties are insured.

Policy Choices

Insurance companies provide at least seven different kinds or types of homeowner's insurance (HO-1 through HO-7). If you own an house, you may choose from HO-1, HO-2, HO-3, and HO-5. The policy for renters is HO-4. It is a wise purchase if you want to cover risk of loss of personal property.

HO-6 is designed for condominium owners. Like the renter's policy (HO-4), its main coverage is for personal property. Generally, coverage of the condominium structure itself is included in one overall policy for the condominium community.

HO-7 is designed especially for mobile home owners. HO-7 is not sold by all companies, and another policy may cover mobile homes.

As indicated in the chart, coverage varies with each form. Generally, the more protection offered--or perils insured against--the higher the premiums. Rates vary with building materials and location of property. Coverage will also vary from company to company.

If you're a homeowner, the basic form (HO-1) will satisfy most lenders carrying a mortgage loan on your home, but it offers scanty protection. The more expensive comprehensive form (HO-5) is sometimes referred to as an "all risks" policy. But don't let the term fool you into thinking you are covered against everything. Damages caused by earthquakes, floods, sewer backups, and other perils may be exceptions. Check the policy for coverage limitations. Probably the most popular form of homeowner's insurance is the HO-3. It offers adequate coverage at relatively low premium rates.

Liability Coverages

All forms of homeowners (including renters) insurance provide the same standard liability protection. These apply not only to the policyholder, but also to all members of his family who reside with him. The following are the minimal liability limits in a homeowners policy.

Personal Liability

Personal liability provides protection from a disaster you may or may not be held liable for causing. The minimum amount for each form of the homeowners policy is generally \$25,000, but this amount is too small for most policyholders. Larger amounts of coverage are available.

Medical Payments

Medical payments cover the policyholder for injuries to persons other than members of the policyholder's own family occurring on your property, as well as those occurring elsewhere if they were caused by you, a member of your family, or your pets. The basic amount is \$500, but larger amounts are available.

Supplementary Coverage

Supplementary coverage covers damage that you or someone in your family might cause accidentally to another person's property, regardless of fault. This coverage could be used, for example, when you have accidentally spilled a drink on someone's new table or broken a window in someone else's home. The amount a policy will cover for one incident is generally \$250.

How Much Insurance is Needed?

Determine the present-day replacement cost of your house and the money you would need to rebuild the house if it burned to the ground. Generally, you can exclude the cost of replacing the foundation and the underground water, sewer, and other utility lines, or about 10 percent of the total construction.

Most insurance companies require that your home be insured for at least 80 percent of its replacement value in order to collect in full or for a loss. The impact of inflation on homeowners is recognized by the growing trend toward putting an "escalator clause" in property insurance policies to help keep the insurance coverage up with inflation.

It is wise to check the amount of deductible you agree to pay in the case of each loss. For example, paying the first \$100 or \$500 (or more) of any loss can mean important savings. Premiums can be reduced if you as the

policyholder agree to stand the small losses yourself. This means that you agree to pay the first \$100 or \$500 of any loss and the company pays the rest of the amount. The larger the deductible amount, the lower the premium.

A homeowner's personal property is often worth more than 50 percent of the coverage on his dwelling. This is the standard amount written in policies. If you own personal effects that increase in value through the years, a reasonably current appraisal can protect the items to that value. The "floater" is an important addition to your policy for increasing and broadening the coverage. Each article is listed on the floater policy and the value of the article is indicated. An additional premium is charged for the floater policy.

Other "floaters" (also called "endorsements") available with homeowners and renters insurance can cover jewelry, furs, stamp or coin collections, antiques, heirlooms, items used in your business, as well as others. Check with your agent to see what "floaters" are available with your policy.

Annual Household Inventories

How much investment do you have in personal property? Do you have an inventory of all property written down with photos for proof in case of a loss? The average person can't guess within hundreds of dollars what the total value of his personal property really is. The only way to get an accurate idea of the worth of your household things is to list them one by one, room by room. This listing takes a little time, but it need not be a dull chore. A good inventory serves a two-fold purpose--planning and protection.

Planning because:

- It is a large factor when determining new worth at the beginning or end of the year.
- It can help you plan for replacements.
- It is the best basis on which to determine the amount of household insurance needed (replacements have nearly doubled in price in many instances.)

Protection because:

- You have a definite record of the number and value of the things in the house so it is easier to prepare a cost claim. Recent photographs help substantiate claims; insurance companies prefer having both an inventory and current pictures.
- It assures neither over-insuring nor under-insuring your personal property. Take time to start your own personal inventory of possessions, and then update the inventory at least once a year.

Pointers for Policyholders

- Be sure you have enough homeowners (or renters) coverage. Look at your policy in light of inflation and the ever-increasing cost of replacement.
- If possible, combine auto and homeowners (renters) insurance.
- Raise your deductibles.
- Update your household inventory. Keep this inventory in a fireproof place.
- Buy "floaters" to provide the additional coverage you need for personal items that do not fall under regular coverage such as jewelry, furs, stamp and coin collections, and antiques. Have these items appraised and keep the written appraisal with the pictures of personal property and one copy of the household inventory in your safe deposit box.
- Allow for depreciation of household items.
- Check into "umbrella" liability coverage for both your property and auto. An "umbrella" liability policy provides all your liability coverage in one policy.
- Install smoke detectors in your home. Some companies offer lower insurance rates.

HOMEOWNERS POLICY FORM

An "X" means the column applies to that specific form.

Form	Covers home losses due to:		Personal liability included	Specified losses not covered	Personal contents only	Detached building	Personal property away from home	Temporary living expenses	Fire department service charge	Medical payments	Damage to the property of others
	See Footnote 1 below	See Footnote 2 below									
Basic Form HO 1	X		X	X	X	X	X	X	X	X	
Broad Form HO 2	X	X	X		X	X	X	X	X	X	X
Special Form HO 3	X	X	X	See Footnote 3 below	X	X	X	X	X	X	X
Renters Policy HO 4			X		X		X	X		X	X
Comprehensive Form HO 5	X	X	X	See Footnote 3 below	X	X	X	X	X	X	X
Condominium Policy HO 6			X		X		X	X		X	X
Mobile Home Policy HO 7	X	X	X	----	X	X	X	X	X	X	X

1. Fire; lightning; loss of property removed from endangered premises; windstorm; hail; explosion; riots; aircrafts; vehicles (not your own); smoke; vandalism and malicious mischief; theft; breakage of glass that is part of a building.
2. Falling objects; weight of ice and snow; certain accidental damage to or from steam and water systems, or bulging of a steam or hot water heating system or of appliances for heating water; collapse of building, accidental discharge, leakage of water or steam from within a plumbing, heating, or air conditioning system; freezing of plumbing, heating and air conditioning systems; certain accidents involving electrical equipment, fixtures, and wiring.
3. Usually covers all risks except earthquake, landslide, mud flow, floods, tidal wave or waters, war, nuclear radiation, sewer back up and seepage. See policy for a list of specific losses not covered.

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