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IS YOUR HOMEOWNER'S INSURANCE COVERAGE ADEQUATE?

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Lauree Murphy, CFP®, EA
Financial Planner
Tax Specialist
650 610-9540 x 304
lauree@mamportfolios.com

"Here are items to consider to ensure that your homeowner's insurance is adequate."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



It was a rough time here in Northern California in the Fall of 2018. While the smoky air was certainly uncomfortable in the Bay Area, imagine how difficult things were for those people who were directly impacted by the fires. Many fire victims from the 2017 and 2018 wildfires found themselves underinsured due to inadequate insurance payouts and the high cost of rebuilding. Insurers place the responsibility on homeowners to periodically check their policies for increases in replacement costs.

In 2017, I had a small fire in my kitchen caused by a faulty dishwasher. It destroyed the dishwasher and part of the countertop. Luckily, we were in the next room and caught it quickly. If we had not been, things could have been much worse. This event heightened my awareness about how quickly all your possessions can go up in flames. After listening to a seminar presented by an insurance agent at the NORCAL Financial Planning Association Conference, I decided to review my insurance policy with my agent. If you have not reviewed your policy with your agent in a while, I suggest you do so.

Find the declarations page of your homeowner's insurance, as well as the detailed pages that come with your renewal and review the following:

Dwelling Coverage- *Make sure the coverage is based on replacement cost, not actual cash value.* Actual cash value will pay based on the depreciated value of the home. Replacement cost is without depreciation. Divide the coverage by the number of square feet in your home. Example: your dwelling coverage is \$550,000 and your home is 2,000 square feet, then your coverage is \$275/ square foot. Compare that to how much it would cost to rebuild your home. *If you have a high-end home with custom finishes, is that taken into account?* A high-end home may cost \$800+ a square foot. An ordinary home might be half or a third of that. To get some idea of the replacement cost, you can take a free survey at <http://www.building-cost.net>. While taking the survey, be sure to account for any customized items in your home. The survey may be a good starting point for your discussion with your agent. Some insurance companies that specialize in insuring high-end homes will send a person to inspect the home. An actual inspection will produce a more accurate estimate.

Extended Replacement Cost- This is calculated as a percent of the dwelling coverage. Your dwelling coverage may not be enough, especially when there is a major fire affecting many homes. *The forces of supply and demand will make it costlier to replace your home. The extended replacement cost can help with that.* Multiply the dwelling coverage by the extended replacement cost percent. Add that to the dwelling coverage. Example: your dwelling coverage is \$550,000 and your extended replacement cost is 50%. Your coverage then is \$825,000. ($\$550,000 \times .5 = \$275,000$, then $\$550,000 + \$275,000 = \$825,000$)

Personal Property- This covers the items inside your home including: furniture, appliances, clothes, and household items. It's usually a percentage of the dwelling cost. *It's a great idea to take videos or pictures of the inside of your home to use if needed.* Store these outside your home or in the cloud. Additionally, Allstate Digital Locker App is available on your phone for free. You don't need to be an Allstate customer to use the App. I tried this App and found it very useful and easy to use. Other insurance companies may have something similar. If you have a claim for personal property, you need to submit a list of everything you own. Pictures will make it much easier to remember your household goods.

Scheduled personal property coverage- If you have: jewelry, art, collections, sports equipment (like golf clubs), musical equipment, expensive equipment (like cameras), these are covered at very minimal amounts under your standard personal property. Therefore, they should be itemized and insured separately. Check with your agent to see exactly what is and what isn't covered as personal property.

Home Business- If you are running a business from your home, you should purchase a rider for home office equipment protection.

Loss of Use or Additional Living Expenses- If you can't live in your home while it is being repaired, you want to be sure you have adequate coverage for the cost to live elsewhere over some period of time.

Other Questions to Ask:

Will I be covered if I have a sewer line back up?

If my home is destroyed and I decide I don't want to rebuild, is there a cash out option?

Other Coverages:

If you have Earthquake insurance, you will want the same dwelling coverage as your homeowner's base coverage. The deductible is much higher for Earthquake insurance. If your damage is greater than the deductible, you will probably be out of the house for a while, so it makes sense to have adequate loss of use coverage.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

Homeowner's insurance does not cover floods. If you live in an area near the ocean, bay, or in a low-lying area, you might want to consider flood insurance.

If you find you need to increase your coverage, it will increase your premiums. Consider a higher deductible. That will take some of the sting out of the increased costs, while leaving you better covered if the worst should happen. Be careful if you decide to shop insurance companies. A cheaper insurance company is not necessarily better. You want to make sure you have the coverage you need. You can usually save money by insuring your home and autos with the same insurance company. Be sure to ask your agent if there are other discounts you might qualify for.

Check out the details of your insurance policy on the CA department of insurance website. Choose the Homeowner's Coverage Comparison Tool:

<http://www.insurance.ca.gov/01-consumers/105-type/5-residential/index.cfm>

Disclaimer- I do not sell insurance or have an insurance license. The information in this article is intended to help you get a conversation going with your property insurance agent.