

## **Insurance considerations before you have an event**

It took only 6 minutes for Keith and me to lose everything. We were shocked out of bed at 3:30 am on Sept 21, 2006, by an explosion in the garage. The fire department came right away and our neighbor took us to his house, because there was nothing we could do and we needed clothes and looking after.

The fire is really just an instant that set in motion what is to follow. The real event starts shortly thereafter and lasts for about a year. The first action you take is to call family and friends. You call the insurance agency and work.

People show up. Crowds gather. The fire department and police ask questions. You are in shock but want to answer questions. You want answers. You are confused. You don't know what to do next. You need to move on. The Red Cross may show up and help. Your insurance agent may show up and help. An independent insurance adjuster may show up and want to represent you through the insurance process (taking 15% off the top).

From experience, I recommend that you stop and breathe. You don't have to respond to every question right away. You don't have to make decisions that minute. Some suggestions will just make sense. Go with your gut and follow those. If you follow some of our advice (to be prepared before an event happens,) the "after" part will go a lot smoother.

The first and most important thing for everyone reading this to do, RIGHT NOW, is take a picture of EVERYTHING in your house. Open up every drawer, cabinet, medicine cabinet, closet, attic, and garage. Take a picture of books on book shelves and all your Christmas ornaments and tool boxes. Be sure to include light fixtures and the box with all the computer cables you aren't using, the toy box, and linen closet. This is for YOU, not the insurance company. When it comes time to build your content list, these photos will make it much easier. Then be sure and store your pictures away from the house. Work is usually a good place.

If you have a safe deposit box and you store pictures in there, unless your key is outside the house, you will have a hard time getting into the box. Banks will let you in without a key but from what I was told, getting into the box without a key is a real problem, which you don't want to add to an already stressful situation.

Check your insurance. Look at your declarations page. This is where the details of your coverage are spelled out. You will see figures for:

- Loss of use
- Structure
- Content
- Debris removal

Here is the most important point, whatever is stated on your declaration page as the limit for your dwelling, content, debris removal, loss of use THAT IS ALL YOU WILL GET. You probably think, "but I have coverage for the replacement cost". You may, but you will only receive funds UP TO YOUR LIMIT, AS DEFINED ON THE DECLARATION PAGE. That's all. PERIOD.

- In North Carolina, it is the mortgage company that requires homeowners insurance, not the state. So your limit may be for the amount of your mortgage. Mortgage companies require that their investment be insured. For example, if you paid a 25% down payment, your maximum coverage for the dwelling may equal only the balance left on your mortgage. I found this out while investigating other things, so I'm not sure how prevalent this practice is. You just need to check your amounts. You want your insurance to cover what you are entitled to: exactly what you had before the fire/hurricane/water damage/explosion. You will not get any more or any less.
- "Loss of use" is how much you will get to live on until you rebuild. The limit may be based on a dollar amount, for example "\$30,000 or 12 months, whichever comes first." Get familiar with what your policy covers. Although it is hard to estimate what you might need, use your current mortgage payment and current bills as a guide.
- "Structure or Dwelling" is the cost to rebuild your house. This figure usually does not include the slab or foundation replacement. It does include the subfloor for a foundation. Ensure that your coverage is total cost of rebuilding at the current building rate. For example, in September, 2007, it costs \$100/square foot (SF) to build a house. A 2300 SF house should have structure coverage of \$230,000. That figure covers only the cost of rebuilding your house. You may have paid less than that for your house originally, but cost to rebuild is affected by today's construction rate. Keep in mind that the dwelling coverage does not include money for land or landscaping.
- "Content or personal property" is the cost of everything in your house -- from the contents of your medicine cabinet, to clothes closet, to the attic and garage. Here's where your photos will help.
- "Debris removal" is the cost to demolish and remove your burned house and all its contents. The cost of this service usually exceeds your coverage. We got 3 estimates ranging from \$8k to 20K. We were covered for \$12000. The cost of debris removal is based on weight (all that wood and wire weighs a lot. Here's a hint: you can recycle copper wire. We got \$34 for our efforts! )

Replacement cost is important to understand, but confusing. I am still trying to get answers about it. Two phrases are used repeatedly by insurance agents: Actual Cash Value (ACV) and complete replacement cost. ACV is defined as "old for old." In other words, if you have a 10-year-old couch, you will be reimbursed for a 10-year-old couch. To claim the ACV benefit, you need a content list that includes what you had, how old it was, and possibly what you paid for it. Coverage for replacement cost means you should receive an amount equal to the cost of a new item to replace the old item. Estimate what it costs to replace your couch. If it was leather, go to a

store and get the cost to record on your content list. HERE IS THE CATCH: You only receive the amount listed as the content limit on the declaration page. You may have \$200,000 worth of content in your house and can list it all, but you will only get up to the limit (replacement cost or ACV) that is on your declaration page. See why this amount is so important? As a minimum, consider \$10,000 per room and \$20,000 for your kitchen. Depending on the type of window treatments, they may be considered part of the structure cost and not eligible for listing on your contents list, but include them when figuring your content limit.

Here are some content and structure considerations:

- When figuring the cost of your structure, your built-in appliances are included, for example: the dishwasher, possibly the oven/range and microwave, and garbage disposal. Your refrigerator and washer/dryer are not. BUT when you rebuild, you need to make sure that built-in appliances are covered in the cost to rebuild.
- If you have jewelry or collectors rider, make sure it is covered for fire. Most riders are only for theft. If it is only for theft, make sure your collectables are covered under your contents figure or purchase another rider to cover a loss in all circumstances.