

# Saving Money on Your Insurance

BY JOSE MONTE MAYOR

## *Buy Only the Homeowners Coverage You Need*

**I**T'S EASY TO PAY TOO MUCH for your homeowners insurance policy if you don't understand what it pays for. It's also possible to buy too little coverage and end up paying thousands of dollars out of your own pocket after a fire or other loss.

Some people mistakenly believe their homeowners coverage should equal their homes' market value. The truth, however, is that a typical HO-B policy covers a home's replacement cost, up to the policy's dollar limit. And replacement cost may differ considerably from market value, particularly for older homes.

Market value is what a willing buyer would pay for your home, including the lot. Location is a major factor in determining market value.

Replacement cost, on the other hand, is what you would pay to rebuild your house from the foundation up. Unlike market value, replacement cost is not affected by the neighborhood where a home is located.

I know of one case in which a couple living in a desirable older neighborhood saved \$600 a year in homeowners premium by reducing the amount of their coverage from market value to replacement cost.

The flip side is that replacement cost may exceed market value in many situations. In those cases, you might not have enough coverage if you insure for market value.

So how do you find out the replacement cost of your home?

Probably the easiest way is to have your insurance agent or company figure it for you by using widely accepted software and published tables. The software and tables factor in square feet, construction materials, local differences in construction costs and such special features as

fireplaces, finished attics, built-in appliances and decks.

You also can find replacement cost calculators on the Internet.

A local contractor or local builders association might be able to give you a rough idea of construction costs per square foot in your area. Remember, however, that rebuilding a house is more costly than building a new house because of the added cost of tearing out the damaged materials and removing the debris.

A more expensive alternative, which in some cases may be worth the money, is to hire a real estate appraiser, who can tell you the replacement cost and the current market value of your house.

Some mortgage lenders require borrowers to insure their homes for the loan value, which may be closer to market value than replacement cost. If your home's loan value is considerably higher than its replacement cost, your agent or appraiser might help you persuade the lender to accept less insurance. If you don't succeed, you can still reduce the cost of insurance by buying two policies: **1)** a homeowners policy for the home's replacement cost and **2)** a cheaper "dwelling" policy covering the additional market value of the land and outside improvements.

Another issue is whether to cover 100 percent of your home's replacement cost.

A homeowners policy fully covers partial losses such as a hail-damaged roof if your house is covered for 80 percent of its replacement cost. However, such a policy can leave you short by thousands of dollars if you have a total loss. Most property insurance companies now require 100 percent replacement cost coverage. ★

### **Editors:**

- If you need further information, call:  
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*We welcome your questions and suggestions about this column.*