



THE USAA  
EDUCATIONAL  
FOUNDATION®

*Good Information for Good Decisions.®*

INSURANCE

# HOMEOWNERS INSURANCE



## OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.



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## 2 PROTECTING YOUR HOME AND POSSESSIONS

A home is often an individual's most valuable possession. If your home and possessions were suddenly destroyed, would you have the financial resources to replace them? Most likely, the answer is no.

Homeowners insurance is designed to protect you from the financial burden you would incur if your home were damaged or destroyed or your possessions stolen. It is a contract between you and an insurance company that provides protection against the circumstances outlined in the policy.

Insuring your home and possessions for the right amount — and keeping your policy up to date as you add to or remodel your home or acquire belongings — will ensure that if you have a claim, your settlement will cover your loss.

**TO FURTHER HELP YOU, CONSIDER ORDERING ANY OF OUR FREE PUBLICATIONS LISTED ON THE INSIDE BACK COVER OF THIS PUBLICATION.**

A homeowners insurance policy generally combines three types of coverage:

- Dwelling coverage provides funds to repair or rebuild your home if you experience a loss due to a covered peril.
- Personal property coverage pays when your possessions or the contents of your home are damaged by a covered peril or are stolen.
- Liability coverage handles your legal expenses and compensates someone else for damages or injury sustained while on your property. Liability also covers accidental damage or injuries caused by you, your family or your pet.

## TERMS TO KNOW

<b>Claim</b>	A demand to recover a loss protected by an insurance policy.
<b>Coverage</b>	A synonym for insurance indicating how much protection the insurance provides. This may mean the dollar amount purchased or the type of loss covered.
<b>Deductible</b>	The amount of money the policyholder agrees to pay toward the total amount of an insured loss.
<b>Exclusion</b>	An event or loss that an insurance policy does not cover.
<b>Liability</b>	Legal obligations resulting from negligent acts resulting in property damage or bodily injury.
<b>Libel</b>	Any false or malicious written or printed statement that publicly ridicules someone or damages their reputation.
<b>Loss</b>	The dollar amount of an insurance claim or the basis upon which a claim is submitted.
<b>Negligence</b>	Carelessness or the failure to use a reasonable amount of care when such a failure could result in an injury or damage to another.
<b>Peril</b>	The cause of a loss that is insured by the policy.
<b>Policy limit</b>	The most money the insurance company agrees to pay for a specific loss.
<b>Premium</b>	The amount of money you pay to the insurance company in return for insurance coverage.
<b>Slander</b>	Anything spoken about an individual that is false and malicious that ridicules them or damages their reputation.

## Homeowners Policies

Homeowners policies are numbered to indicate the type of coverage they provide, each starting with the letters “HO.” HO simply stands for “homeowners.” Here are the most common types of homeowners insurance offered today, along with a description of what they cover.

- **HO-2** — This policy is available to owners of traditional homes, as well as to owners of mobile homes. It covers 16 basic perils: fire or lightning; windstorm or hail; explosion; riot or civil commotion; damage caused by aircraft; damage caused by vehicles; smoke; vandalism or malicious mischief; theft; volcanic eruption; falling object; weight of ice, snow or sleet; accidental discharge or overflow of heating or water from within a plumbing, heating, air conditioning or automatic fire-protective sprinkler system or household appliance; sudden and accidental tearing apart, cracking, burning or bulging of a steam or hot water heating system, an air conditioning or an automatic fire-protective system; freezing of a plumbing, heating, air conditioning or automatic fire-protective sprinkler system or household appliance; sudden and accidental damage from artificially generated electrical current (excluding loss to a tube, transistor or similar electronic component).
- **HO-3** — This type of policy is popular because it provides some of the broadest coverage. In addition to the 16 basic perils covered by an HO-2 policy (listed above), an HO-3 policy covers all perils except those specifically excluded, such as flood, earthquake, war, nuclear accident, landslide, mudslide, sinkhole and others specified in the policy.
- **HO-5** — This policy is considered the most comprehensive homeowners insurance option, covering a home and its contents for all risks, except those specifically excluded.
- **HO-6** — This policy is specifically designed for condominium or co-op owners and covers the 16 basic perils covered by an HO-2 policy (listed above) for the contents and structural portions of the building owned by the policy holder or improvements made to the policy holder's unit. It is important to understand the provisions of an individual HO-6 policy and what is covered through the co-op or condominium association.
- **HO-8** — This policy is designed for older or historic homes and covers 10 basic perils for the dwelling and personal property: fire or lightning; windstorm or hail; explosion; riot or civil commotion; damage caused by aircraft; damage caused by vehicles; smoke; vandalism or malicious mischief; theft; volcanic eruption; falling object and weight of ice, snow or sleet.

## Levels Of Coverage

### **Named-Risk Vs. All-Risk Policies**

Named-risk policies pay only for perils listed within the policy, while all-risk policies cover all perils, unless they are specifically excluded. Since all-risk policies cover more than named-risk policies, they are more expensive.

### **Actual Cash Value Vs. Replacement Cost Coverage**

Actual cash value coverage pays to replace your home or property, minus depreciation. For example, if your dishwasher shorted out because of a lightning strike and you owned an actual cash value policy, your insurance company would settle the claim based on the current value of the dishwasher, taking into account its age. Replacement cost coverage would pay you to replace the dishwasher at current prices, with no depreciation. For this reason, replacement cost coverage is more expensive than actual cash value coverage.

### **Deductibles**

When your insurance company pays a claim, you participate in the loss by paying your deductible, which is an agreed-upon amount of money designated in your policy — often 1 percent of your dwelling coverage. For example, if your home is insured for \$200,000 and your deductible is 1 percent, you would pay the first \$2,000 before the insurance company would pay the rest of the claim.

## 6 PERSONAL PROPERTY AND LIABILITY INSURANCE

The second type of coverage provided by homeowners insurance is personal property coverage. Most homeowners policies cover contents for 50 percent to 75 percent of the amount of the insurance on a home, depending on the policy. For example, if your home is insured for \$200,000, your contents would be insured for \$100,000 to \$150,000, according to your policy stipulations. Most standard homeowners policies offer limited coverage for certain types of high-value items, such as jewelry, silverware, coins, firearms, furs and watercraft. Remember: The policy limit applies to the loss of all items in the category as a group, not to each item individually.

### TYPICAL POLICY LIMITS

Money, gold, silver, platinum, coins and medals (all perils)	\$ 200
Securities, manuscripts, stamps, tickets, valuable papers (all perils)	\$1,000
Watercraft, trailers, outboard motors (all perils)	\$1,000
Jewelry, watches, precious and semiprecious stones, furs (theft only)	\$1,000
Firearms (theft only)	\$2,000
Silverware, goldware, pewter, silver-plate (theft only)	\$2,500

### Endorsements, Riders And Floaters

If your home's contents are valued at more than you would receive on a claim under your homeowners policy, you can increase your coverage by purchasing an endorsement, rider or floater.

- An endorsement or rider adds more coverage to your homeowners policy for a specific peril or property. For example, you could buy an endorsement to increase the coverage for your silverware to its full value and it would be covered for the same perils that are outlined in your homeowners policy.
- A floater is a separate policy that provides all-risk coverage against anything not specifically excluded. The coverage "floats" with the item wherever it is located, except for circumstances specifically excluded in the policy.

## Liability Insurance

Liability insurance is the third major component of your homeowners policy. It provides coverage for claims or lawsuits filed against you by others who are injured or have property damaged as the result of negligent acts by you, your family or your pets. Most standard policies provide \$100,000 in coverage, but many insurance professionals recommend a minimum of \$300,000. The standard amount of medical payments coverage is either \$1,000 or \$5,000. Medical payments also cover the expenses of non-family members injured at your home. This type of insurance reimburses them for their medical expenses, regardless of fault. This does not include liability coverage as a result of an automobile accident.

### **Umbrella Liability Insurance**

If you have substantial assets or the potential to earn a high salary, you might want to consider a separate umbrella liability insurance policy. Besides providing liability coverage beyond the limits of your auto and homeowners policies, some umbrella policies cover you against libel, slander, defamation of character, false arrest, mental anguish, wrongful entry, eviction and malicious prosecution, which often are not covered under the liability portion of your regular homeowners policy.

## 8 ADDITIONAL COVERAGES AND ENDORSEMENTS

Some perils are not covered by a standard homeowners policy. Coverage for these perils can usually be purchased through endorsement or separate policy, including the following:

**Flood insurance** — If you have a federally backed mortgage and live in a high-risk location, you are required to carry flood insurance. However, you might consider buying flood insurance no matter where you live, since flooding can occur quickly in the event of melting snow or heavy rainfall. Many individuals think the federal government will cover their flood losses. Federal disaster assistance only takes effect if the president formally declares a disaster. This consists of low-interest loans that must be repaid. Many insurance companies have an agreement with the National Flood Insurance Program (NFIP) to provide the federal flood insurance policy. For more information on flood insurance, contact your insurer or the Federal Emergency Management Agency (FEMA) at [www.fema.gov](http://www.fema.gov) or (800) 427-4661.

**Mold coverage** — Some policies include limited mold coverage caused by specific perils. To avoid confusion, many insurers are inserting language into their homeowners policies to clarify if or when mold is covered.

**Earthquake coverage** — This coverage provides financial protection from the shaking and cracking that can destroy buildings and possessions (damage caused by resulting fires or explosion is covered under homeowners policies). Earthquake coverage can be purchased through private insurers or, if you live in California, you can buy a policy from the California Earthquake Authority (CEA) through a licensed, authorized provider. For more information on earthquake insurance, contact your insurer. Information about earthquake coverage in California is available online at [www.insurance.ca.gov](http://www.insurance.ca.gov) or, in California, by phone at (800) 927-4357.

**Windstorm, hurricane and tornado coverage** — Homeowners policies generally cover damage caused by windstorms, including hurricanes and tornadoes, unless you live in an especially high-risk coastal location. Because of the higher-than-average risk of damage, you might be required to buy a separate windstorm policy through a state-run insurance “pool.” Storm surge is not covered unless you have flood insurance.

**Computer coverage** — Homeowners policies generally provide only a limited amount of coverage for computers, printers and fax machines. You may want to consider buying an endorsement or rider to provide broader coverage, or a separate business policy if you work from home.

**Extra replacement cost coverage** — If you live in a natural disaster-prone location where rebuilding costs can increase following widespread disaster, you might want to consider buying extra replacement cost coverage. This option provides additional coverage beyond the policy limits of your regular homeowners policy. Some insurers also offer extended replacement cost coverage, which caps the extra coverage at a certain percentage of your homeowners policy.

Besides the major coverages outlined in the preceding pages, some insurance policies include a variety of other minor coverages at no cost. Because these coverages are limited, you should determine whether your insurer offers more extensive coverage through an endorsement. Deductibles may apply to some of these coverages.

- **Debris removal.** Pays a limited amount to remove debris after a covered loss.
- **Additional living expense (ALE).** Pays increased living expenses for a specified time while your home is being repaired or rebuilt following damage by a covered peril.
- **Prohibited use.** Reimburses you for meals and lodging if you have to leave your home by order of civil authorities due to direct damage to neighboring areas that was caused by a covered peril.
- **Landscaping.** Covers damage to trees, shrubs and landscaping caused by covered perils.
- **Loss assessments.** If you are a member of a homeowners, condominium owners or co-op owners association, you may be asked to help cover losses to common property or personal liability that are caused by a covered peril.
- **Lock replacement.** Pays a certain limit to replace, change or rekey door locks if your keys are stolen.
- **Refrigerated products.** Replaces refrigerated or perishable items that spoil because of a power failure or mechanical breakdown.
- **Glass breakage.** Pays for broken glass or damage caused by breaking glass.
- **Landlord's furnishings.** If you rent a room or apartment in your home, your policy may pay a limited amount to cover your furnishings or property in those areas for certain perils, but not theft.
- **Building ordinance or law.** Provides coverage to repair structural damage or rebuild your home under stricter building codes and ordinances.
- **Reasonable repair.** Reimburses you for temporary repairs made to protect your home or its contents from further damage after a covered loss.

- **Inflation guard clause.** Some policies automatically increase coverage to help keep up with inflation. You should not place total reliance on automatic increases. The replacement cost of your home may increase more than average.
- **Identity theft, credit card, forgery and counterfeit money.** Generally, this insurance covers the incidental fees of attempting to correct information on your credit history, including:
  - Fees to reapply for loans that were rejected because of incorrect credit information.
  - Costs to notarize affidavits and other documents to prove your innocence.
  - Expenses associated with certifying and receiving receipts for mail sent to clear your credit.
  - Charges for long-distance phone calls regarding identity theft.
  - Lost wages on days you had to be away from work to clear fraudulent activity.

**THE USAA EDUCATIONAL FOUNDATION'S PUBLICATION, *IDENTITY THEFT*, OFFERS MORE INFORMATION. SEE "RESOURCES" ON THE INSIDE BACK COVER OF THIS PUBLICATION TO ORDER A FREE COPY.**

The answer to this question is important, because it determines how well your policy will protect you in the event of a catastrophe.

## Dwelling Insurance

The value of your home for insurance purposes is the cost of labor and materials to rebuild it exactly as it is today. Many individuals mistakenly think this cost is the market value, tax value or the amount of their mortgage.

Contact your insurance company representative, who has up-to-date information about building materials and costs in your location. Discuss features of your home, including other structures on the property such as a detached garage, tool shed or barn so you can get an accurate estimate of the replacement cost of your home and other buildings.

## Personal Property

The best way to determine the value of your possessions is to complete an inventory. Doing so will help you get a claim settled more quickly, verify losses for your federal income tax return and identify high-value items you may want to insure for more than your policy limits.

Consider photographing your possessions. Store a copy of the inventory, receipts, photographs and a hard copy of important electronic documents in a safe deposit box at your financial institution or in another secure location away from your residence. Another option is to scan the information to a disk and store it appropriately.

### GET MORE FOR YOUR MONEY

- Compare premiums
- Raise your deductible
- Ask about discounts
- Consider group coverage
- Review your policy annually

INVENTORY POSSESSIONS WORK SHEET		
LIVING ROOM	PURCHASE PRICE	DATE PURCHASED
Furniture		
Paintings, art objects		
Draperies, rugs		
Lighting, ceiling fan		
Electronics		
Other		
DINING ROOM	PURCHASE PRICE	DATE PURCHASED
Furniture		
Paintings, art objects		
Draperies, rugs		
Lighting, ceiling fan		
China, crystal		

**INVENTORY POSSESSIONS WORK SHEET (CONTINUED)**

<b>DINING ROOM (CONTINUED)</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Silver, pewter		
Other		
<b>KITCHEN/UTILITY ROOM</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Furniture		
Curtains, rugs		
Dishes, glassware, silverware		
Lighting, ceiling fan		
Appliances		
Other		
<b>OFFICE</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Furniture		
Draperies, rugs		
Lighting, ceiling fan		

<b>INVENTORY POSSESSIONS WORK SHEET (CONTINUED)</b>		
<b>OFFICE (CONTINUED)</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Computer equipment		
Books		
Other		
<b>MASTER BEDROOM</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Furniture		
Paintings, art objects		
Draperies, bedding, rugs		
Lighting, ceiling fan		
Electronics		
Clothing		
Jewelry		
Other		
<b>BEDROOM #2</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Furniture		

**INVENTORY POSSESSIONS WORK SHEET (CONTINUED)**

<b>BEDROOM #2 (CONTINUED)</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Draperies, bedding, rugs		
Lighting, ceiling fan		
Electronics		
Clothing		
Other		
<b>BEDROOM #3</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Furniture		
Draperies, bedding, rugs		
Lighting, ceiling fan		
Electronics		
Clothing		
Other		
<b>BATHROOMS</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Towels		
Curtains, rugs		

<b>INVENTORY POSSESSIONS WORK SHEET (CONTINUED)</b>		
<b>BATHROOMS (CONTINUED)</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Electrical appliances		
Other		
<b>LAWN AND GARDEN</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Furniture		
Lawn mower		
Edger, blower		
Other		
<b>MISCELLANEOUS</b>	<b>PURCHASE PRICE</b>	<b>DATE PURCHASED</b>
Luggage		
Musical instruments		
Cameras, video equipment		
Exercise, sports equipment		
Hunting, fishing equipment		
Bicycles, toys		
Tools		
Other		

When choosing an insurer, be sure to get quotes from at least three different agents or companies. In addition to comparing prices:

- Review your current insurance, updating information as necessary. This will be your baseline for comparison.
- Ask family, friends and neighbors what they like or dislike about their insurers.
- Access your state's department of insurance Web site to find out if there have been complaints about the insurers you are considering.
- Check each company's financial strength through consumer ratings or by contacting one or more rating agencies.
  - A.M. Best Company, Inc.  
(908) 439-2200
  - Moody's Investor Services  
(212) 553-0377
  - Standard & Poor's  
(212) 438-2400

### FACTORS AFFECTING YOUR INSURANCE RATE

- Claims history. Historically, the fewer claims you have, the lower your rate.
- Credit rating. Most insurers use credit history as a factor to set rates. Studies have shown that individuals who have good financial habits generally file fewer claims. You can check your credit rating at [www.annualcreditreport.com](http://www.annualcreditreport.com) or by calling (877) 322-8228.
- Home maintenance. You can avoid unnecessary and costly claims by inspecting your home, taking preventive action and making repairs. The fewer claims you file, the lower your homeowners insurance rate.
- Home construction. Homes made of brick and masonry generally cost less to insure because they are resistant to fire, unless they are constructed in an earthquake-prone location.
- Location. Where your home is located and its likelihood of being damaged by certain natural disasters may affect your rate.

## 18 HOME MAINTENANCE

One of the best ways you can save money on your insurance is by properly maintaining your home. This is as simple as routinely inspecting water pipes, appliance hoses and other features of your home that can fail and cause major damage.

If you take it a step further and retrofit your home to better withstand natural disasters common to your location, you may be eligible for additional insurance discounts. The Institute for Business and Home Safety (IBHS) has numerous tips on its Web site, [www.disastersafety.org](http://www.disastersafety.org), on how to keep your home in good shape and how to retrofit through the “Fortified...for safer living®” program.

### HOME MAINTENANCE CHECKLIST

- Replace standard hoses on washing machines, dishwashers and icemakers with flexible reinforced hoses. Regularly inspect the hoses and consider replacing them every 5 years.
- Drain and clean your water heater as recommended by the manufacturer; inspect it annually for rust, cracks and leaks.
- When turning the air conditioner on for the season and during monthly use, pour a cup of mild bleach solution down the drain line to reduce algae and mold. Check the drip pan under the evaporator coils monthly for standing water.
- Cracks or mold on caulking around tubs, showers and sinks may indicate the seal is no longer water tight. Remove old caulk, clean thoroughly and dry before applying new caulk.
- Inspect your roof, looking for cracked or missing shingles, rotted wood or exposed areas near vents, vent pipes and chimneys. If you cannot get on your roof, hire an inspector or roofing company to check it annually. Use silicone caulk around chimneys, skylights and vents and replace missing or damaged shingles and flashing.
- Clear gutters once or twice each year, replacing deteriorating wood around them. Ensure downspouts are connected properly and carry water away from the foundation.
- Insulate pipes that are susceptible to freezing and seal gaps around outside pipes and faucets to maintain heating inside your home.
- If your home has a sump pump system, test it regularly and clear away debris. If possible, choose a system with back-up battery power and test the batteries regularly.
- Make sure everyone in your household knows where the main water valve is and how to turn off the water. Before traveling, turn off the water at the main valve or at major appliances.
- If you are building or remodeling your home, consult with builders and your insurance company to choose the best type of shower pan and installation method for your area. Remember that pans will eventually fail as a result of water penetration through cracked tile grout or deteriorated caulk.
- Check and replace the fill valve or float if your toilet tank takes a long time to fill or the toilet runs constantly.

The following tips can facilitate the process of filing a claim.

- Report a burglary or theft to the police immediately.
- Make a list of stolen or damaged property.
- Review your insurance coverage before reporting a claim and notify your insurer as soon as possible.
- Meet the insurance adjuster to survey the damage. Offer any documentation you have to support your claim.
- Photograph damage to your home or property.
- Make only temporary repairs that help prevent further damage to your property. Do not allow contractors to make permanent repairs until your claims adjuster has inspected the damage.
- Keep receipts of materials and repairs made for reimbursement.
- Complete any paperwork your insurer sends you quickly and completely and make copies.
- Document any conversations you have with your insurer, contractors, estimators or anyone else associated with your claim.
- If you have to move out of your home due to a disaster, keep receipts of your expenses.

In the case of a major hurricane or other widespread disaster, insurance adjusters may be under a strict deadline from state officials to see everyone who has filed a claim within a certain time period. In this case, adjusters may provide a rough estimate of damages and give you an initial check. If more damage is discovered later, you can submit an amended claim.

### Consumer Rights

If you cannot reach an agreement with your insurer, notify your agent or the claims department manager. Make sure you have adequate information to verify your claim.

For disagreements beyond this point, most policies allow for an independent appraisal of the loss. Both you and the insurance company would hire independent appraisers who select a mediator. The decision of these experts is typically binding. You and your insurer will share the expense of the mediator. Some companies prefer to hire an arbiter, who listens to both sides and makes a binding decision.

If your claim is not settled to your satisfaction, contact your state's department of insurance.



## RESOURCES



The USAA Educational Foundation offers the following publications.

**BASIC INSURANCE COVERAGES (#530)**

**LIFE INSURANCE (#507)**

**MANAGING CREDIT AND DEBT (#501)**

**FINANCIAL PLANNING AND GOAL  
SETTING (#511)**

**PLANNING FOR RETIREMENT (#508)**

**ESTATE PLANNING (#518)**

**MANAGING YOUR PERSONAL RECORDS  
(#506)**

**BUYING OR REFINANCING A HOME  
(#502)**

**PLANNING A MOVE (#509)**

**LIVING A GREENER LIFE (#560)**

**MAKING YOUR HOME A SAFER PLACE  
(#531)**

**PREPARING FOR DISASTER (#524)**

**RECOVERING FROM DISASTER (#522)**

**IDENTITY THEFT (#520)**

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