

Family Living Focus

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Is Your Homeowners Insurance Adequate?

If your home were to be damaged by fire, how much of the loss would be covered by your insurance?

It may not be what you think if your home is not considered to be fully insured. All homeowners insurance policies contain a replacement cost provision on losses to the dwelling. So if you experience a loss, the insurance company must pay for the full amount of replacing the damage to the home, less the deductible, right? Wrong.

Many people don't understand how the replacement cost provision works. First, there are two types of replacement coverage. Replacement coverage to the dwelling, which is standard on most policies, and an optional replacement cost coverage or endorsement for personal property.

Second, there are two ways insurance companies will value the loss. One is the actual cash value, or the depreciated value. The other is the replacement cost. That is the cost of rebuilding the structure with materials of the same kind and quality at current costs or the cost of replacing the personal property. Replacement cost should not be confused with market value

or loan value of the house. The market value is what the house will sell for, but it may cost considerably more to rebuild the home because of the type of materials and workmanship of the original house.

Replacement cost coverage on the dwelling provides that if, at the time of loss, the amount of insurance covering a building is at least 80 percent of the replacement cost of the building, the loss will be paid on a replacement cost basis. Being paid on a replacement cost basis means that the loss will be paid without a deduction for depreciation up to the limit of the policy. The 80 percent figure works as a co-insurance provision. That is, in the event of a total loss, you are responsible for the last 20 percent. Alternatively, if the building is insured for 100% of the replacement cost coverage, the insurance company will pay the full cost to rebuild the structure, even if the cost exceeds the amount of insurance.

So far, we've been looking only at the case of a total loss. Suppose you suffer only a small or partial loss. Here again the 80 percent co-insurance provision becomes important. If your home is insured for at least 80 percent of the replacement cost of the dwelling, you will still be insured in full for

losses of less than the policy limit. For example, on a house whose replacement cost is \$100,000 and is insured for 80 percent of replacement cost, a loss of \$15,000 would be covered in full, less the deductible. Assuming the deductible amount of \$250, the first \$250 (the deductible) is your loss. After that, any amount up to \$80,000 is covered by the insurance. And any loss greater than that is yours. But if your coverage is for less than 80 percent of replacement cost, you would not be reimbursed in full for partial losses. In that case the amount the insurance company would pay would be only a fraction of the loss. The fraction is determined by the ratio of the actual coverage to 80 percent of the full replacement cost. If, for example, your house was insured for only \$60,000 when full replacement cost would be \$80,000, the insurance company would cover only 75 percent—\$60,000 divided by \$80,000—of the loss after the deductible. The maximum is still the limit set by the policy. One reason people get in trouble is because they have not adjusted their policy limits to account for inflation or higher construction costs. A home that was once fully covered is no longer because its replacement cost has increased over the years while the insured amount remained the same. An inflation guard endorsement on the policy will take care of this situation by automatically increasing the coverage. As explained earlier, an unchanged value or loss in market value is irrelevant because it is the replacement cost that is the critical factor.

For personal property, the standard homeowners policy will cover losses up to an amount that is 50 percent of the coverage on the dwelling. Losses are in terms of

actual cash value, that is, the depreciated value. Coverage for replacement value of personal property is available for a nominal additional cost. This would mean that the eight-year-old television that still works perfectly would be replaced with a new television of comparable quality rather than

using the depreciated value which may be nearly nothing. If you haven't reviewed your coverage within the last year or two, make an appointment with your insurance agent to do so. Finding out you have insufficient coverage can be a costly mistake.

Father And Son

(Continued from Page B2)

most immediately."

Pastures have been divided off to allow separate grazing for the best milkers, the slow milkers, and those which are about to come fresh.

Recent winters have not been kind to the farming industry. Several years ago, heavy snows caused a barn to collapse which caused consequences to the dairy herd. "We couldn't get them under roof, the weather was bad, and we had a number of cows get sick," Don recalls.

"We had insurance on the barn but had trouble getting the insurance company to pay up. We were glad when everything finally got settled."

"We even had trouble with breeding. We've finally been able to solve that problem by getting a bull and this past winter, we've had a healthy herd again."

This past winter caused some problems with the alfalfa. "We're not sure if it was the flooding or

what, but the older crops don't look good," Don says. "However, the younger crops seem to be doing well."

Don and Steve both feel the biggest problem with farming today is cash flow. "You just can't seem to get ahead," Don says. "You have money coming in but there are always bills waiting to be paid."

The Replogles are concerned about the future of farming. "We see a lot of herds going on the auction block," Don says. "Younger people can hardly get started at farming these days because machinery, land, and cattle are all too expensive. And, there is more money to be made elsewhere. I couldn't interest my two younger sons in the farm. But, some day, the country will realize that value of the farmers. We hope it's not too late."

"There's going to continue to be changes, lots of them," adds Steve. "But someone will always be around to do it."



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