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Know your homeowner insurance policy before a disaster strikes - by Jonathan Berman

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For most homeowners, an insurance policy is something that you begrudgingly pay for each year. The majority of homeowners do not know what is in their policy let alone which desk drawer they stuffed the policy into. Typically, the policy is renewed annually and the homeowner is content until the day that the homeowner needs the policy. We call this The Day of Reckoning.

The Day of Reckoning could come as the result of a fire, storm, pipe burst, or any other host of events that can cause serious damage to your home. Once this unfortunate day arrives, policyholders scramble to find their policy and they finally learn the coverage within. We strongly recommend that homeowners educate themselves before this day arrives. Doing so will ensure that they have the proper insurance coverage to rebuild your home, replace your personal property, and cover living expenses. The more knowledgeable a homeowner is about insurance coverage, the better equipped they will be when The Day of Reckoning arrives.

For property damage, the basic coverages within most homeowners policies are the following: Coverage A – Dwelling, Coverage B – Other Structures, Coverage C – Contents, and Coverage D – Loss of Use. The policy limits for these coverages are located in the Declarations Pages. Additionally, there are many policy endorsements that homeowners can add to their policy (for additional premium) to provide more coverage.

Coverage A provides coverage for the building itself. The amount of building coverage that you need is not the same as the real estate market value. For example, if you buy a home for \$1 million, you do not necessarily need \$1 million in building coverage. The amount that you need for Coverage A is the value that a contractor would need to rebuild the home from the ground up. The reconstruction value is different (usually much lower) than the real estate market value.

For building coverage, we highly recommend purchasing endorsements for Replacement Cost Value (RCV), Ordinance or Law Coverage, Back Up of Sewers or Drains, and Mold. If you do not

have these endorsements, then this could result in the forfeiture of tens of thousands of dollars or more.

The endorsement for RCV is critical. This endorsement allows the homeowner to recover the full value of the building repairs and does permit the insurance company to withhold for depreciation. If you do not have RCV coverage, then you will forego a substantial percentage of your loss in depreciation. For most claims, insurance companies will withhold 20% - 30% in depreciation and sometimes more.

Ordinance or Law Coverage is commonly known as code upgrade coverage. This covers homeowners who are required by building inspectors to bring the building up to code. After a loss, if old electrical wiring is discovered during the course of reconstruction, then the homeowner will be required to replace the wiring to meet the current building code. Without Ordinance of Law Coverage, a homeowner will need to pay for the code upgrade work out of pocket. This can cost homeowners a tremendous amount of money.

The endorsements for Back Up of Sewers or Drains and Mold are self-explanatory. However, it is important to know that these endorsements are not included in a basic homeowner policy. Coverage for Back Up of Sewers or Drains would cover damage resulting from a bathtub, toilet, sink, or sump pump. The Mold endorsement affords coverage for mold that results from a covered peril (covered cause of loss). You will need to review your insurance policy with your insurance agent to find out what causes of loss are covered in your policy. The expense for treating / remediating mold can be very costly.

Coverage B provides coverage for other structures located on your property. The other structures may include a fence, detached garage, shed, driveway, or swimming pool.

Coverage C provides coverage for contents, which is also known as personal property. This portion of the policy covers your tangible belongings that are not affixed to the building (e.g. electronics, furniture, and clothing). Many homeowners policies provide 50% of the building coverage for the contents coverage limit. Similar to dwelling coverage, we strongly recommend purchasing replacement cost coverage for your personal property.

Coverage D provides coverage for Loss of Use or Additional Living Expense Coverage (ALE). Loss of Use coverage will pay for you to live in a rental home, rental apartment, or hotel if you cannot stay in your home. The best way to calculate how much ALE coverage you need is to get a general sense on how much it would cost to rent a home similar to yours for a year. Typically, a contractor can rebuild a single-family home within 12 months.

Finally, make sure to speak with your insurance agent and review the policy credits you are due. Many insurance policies give homeowners credits for having a burglar alarm system, water leak detection system, and car insurance with the same carrier. These credits will help lower your annual premium and they will help protect your home from damage.

If homeowners are educated and purchase the right insurance, then they will be far better off in the event of a disaster.

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