

Insurance Basics for Homeowners

Your insurance policy should have multiple buckets or limits in which things are covered. It's important to understand what is covered in which bucket so you know how to get the most out of your policy. The declarations page, which is a one page summary of all your coverages, will list the financial limits for each bucket.

The **Personal Property** bucket covers your stuff - everything that would fall out if you dumped your home upside down. This bucket is used to replace all of your clothes, furniture, electronics, and household items that were lost or damaged in the fire. Keep in mind, if you use a restoration company to clean, store, and inventory your items, the cost to do those things will also be taken out of this bucket. So consider the cost of cleaning an item vs. buying it new, as it may be cheaper to replace it then have it cleaned. And of course more sentimental items may be worth the cost to have them cleaned.

Check and see if your policies are Replacement Value or Cash Value, which can be listed under **Loss Settlement Provisions**. This describes how the insurance company pays you out. Replacement Value is the amount it would cost to replace the item, i.e. what it would cost to go out and buy the same thing today. This is the type you want. Cash Value is the value of an item that includes depreciation, i.e. what you would get if you sold it at a garage sale, which of course is not ideal. If you have a Replacement Value policy, Insurance companies also apply a concept called Recoverable Depreciation to your personal property and we've made a [short video](#) explaining how it works.

You may also have an **Additional Living Expenses (ALE) or Loss of Use** bucket that can cover temporary housing and additional expenses. Additional Living Expenses are the costs you incur, above and beyond what you normally spend in your day to day life, as a result of being affected by the fire. This bucket can have a financial or time limit, so check to see what applies. The best policies have no financial limit, also known as "actual loss sustained" as the limit. Here are the costs typically covered under ALE:

- Hotel or temporary rental housing
- Eating out when you are staying in a hotel and don't have a kitchen
- Mileage or gas expenses for commutes longer than you had because you are living farther away from work and school.
- Utility costs that exceed what you paid at your original home (i.e. you are still paying for some utilities at your original house and utilities at your rental housing, therefore ALE will cover the additional costs)
 - In order to submit this to your adjuster, get a copy of your utility bills for the last year from and then compare those to what you are paying now. The difference is what ALE will cover.

Keep in mind that you still have to pay your mortgage, if you have one, and ALE will cover your temporary housing costs.

The **Structure or Dwelling** bucket is what you will use to repair and rebuild your home. Check to see if this part of the policy is Replacement Value or Cash Value. If it's a Replacement Value policy, the Recoverable Depreciation concept also applies here, so a portion of the overall limit will be withheld until your home is finished and you provide proof to the insurance company. It can act as a final payment to the contractor that is not released until everything is completed to your satisfaction and all the punch list items are done.

Some policies will include **Extended Dwelling Coverage**, which is essentially an additional amount of insurance that is added to your overall structure limit as a way to deal with increased costs and inflation over time. You typically have to use all of your Structure limit before this is added to your overall policy limit.

Building Ordinance coverage is often a separate stand alone bucket on your policy. It is used to pay for code upgrades that are required when you rebuild that you didn't have in your home originally. Your insurance adjuster will ask the contractor to separate the code upgrade costs on their estimate so that they can be accounted for in this bucket.

Debris Removal, Other Structures and Landscaping - Your policy also likely has specific limits for debris removal, other structures (like fences and sheds), and landscaping. Sometimes these limits don't kick in until you have maxed out your Structure limit and/or will only provide the actual cash value, meaning the insurance will only cover the depreciated amount and you won't be able to get the recoverable depreciation later. So just check for those details in your policy.

Inflation Coverage Index - This is a slight increase to your overall limits to account for inflation each year. So when you file a claim your limits will be slightly higher than listed, but it's not enough to be significant.

If you own a condo or apartment that has a HOA, then you could also have **Loss Assessment Coverage**. This coverage will cover the cost of a special assessment, but only if the special assessment is the direct result of an insurance claim the HOA has filed. For example, a fire destroys one of four buildings in a condo complex. The total cost of repairs is \$800,000 but the HOA's insurance policy limit is only \$600,000. The HOA issues a special assessment to all the owners to cover the \$200,000 gap for the rebuilding costs and let's say your share is \$10,000. You can utilize your Loss Assessment coverage to cover your \$10,000 special assessment so you don't have to pay it out of pocket.

And remember, Our Front Porch is here to help you understand your policy and answer any questions. So don't hesitate to contact us.