
6 Types of Essential Insurance

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I haven't always gotten along with insurance companies. But while their demands may give me heartburn, they might ultimately serve my best interests.

When I bought my house, my insurer insisted at the last minute that I get the seller to repaint the garage. Later, my insurer informed me that I'd not only have to repaint the garage, but re-roof it, too -- in the dead of winter.

Still, there's a very good reason why my insurance company was being such a stickler. Not only was it looking out for its financial interests -- damage to the garage from years of neglect would force the company to pay out if I made a claim -- but it was looking out for me, too.

Any property I stored in my garage -- my car, my woodworking tools, and everything else that I'll eventually dump in there -- could all be lost, should the structure collapse. Most of that stuff could be repaired or replaced, but family heirlooms and other priceless items would be gone forever, no matter how much an insurance company paid.

A good bedtime story

Homeowners' insurance shouldn't be taken lightly. If you get too much coverage, you're throwing money away. But with too little, you won't be able to rebuild if disaster strikes. Instead, we need to employ the Goldilocks principle, securing coverage that's "just right." Get what you need, and you can still find ways to save.

Knowing what your insurance policy covers -- including fire, theft, and earthquakes -- is important. But knowing the things that *aren't* covered -- known as exclusions -- may be even more crucial. As many victims in Louisiana found out, their policies might have covered flooding, but not damage from wind or wind-driven rain.

Some people believe that insurance companies might have been playing a little fast and loose with the causes of damage to policyholders' homes, in an effort to minimize the amount they had to pay out in claims. But knowing beforehand what's in your insurance agreement -- and knowing your rights -- can leave you better prepared for the worst. Forewarned is forearmed.

The coverage you need

Your homeowners' insurance policy should probably cover the following items:

1. **The structure of your house.** Don't base the cost of replacement of your home on what you paid for it, or on the value of the land. You're not replacing the ground around you, and construction costs might be much different from what you paid.
2. **Your personal possessions.** Take an inventory of your home's personal property, especially high-priced items such as jewelry, furniture, and electronic equipment. Determine how much it would cost to replace everything if you lost your goods to theft or destruction. If you think you need more than what the basic policies provide, talk to your agent.
3. **Additional living expenses if you can't live in your home.** Additional living expenses are usually part of your standard policy and total about 20% of the cost of insuring your home. Policies that provide for unlimited expenses for a short period of time may also be available, as are policies for special situations, such as renting out your home.
4. **Liability for injury to others.** While most policies provide a base of \$100,000 in insurance to cover your liability should you be sued, consider getting more: In today's litigious society, potential damage awards could exceed those lower limits in a hurry.
5. **Get special coverage if you need it.** If you live in an area that floods frequently, you'll want to make sure your coverage won't leave you underwater in a flood. Similarly, residents in earthquake-prone areas have to weigh the added costs of earthquake insurance against the risks of being uninsured if the Big One hits.
6. **Consider umbrella insurance.** Umbrella insurance isn't directly connected to your home. But if other types of insurance you have don't provide enough coverage for damages, then your home could be at risk. Umbrella insurance provides additional coverage that makes sure injured parties won't threaten to collect by taking away your home.

You should consider homeowners' insurance to be an integral part of your overall financial plan. It can help minimize the disruption and economic loss you would realize should a calamity strike. And that adds up to more than just a cosmetic paint job.
