

What is the value of your home..& the importance of it!

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The homeowner policy has four property coverages but the dwelling limit is the key and is the starting point for underwriting a homeowner policy. That limit should be what the replacement cost of your home is, which is the amount to actually rebuild it plus debris removal. If that number is not accurate it can have serious consequences in the event of a claim.

Often times people question how that limit is determined because they feel it is too high. "The house is assessed at x, the appraised value is y, I only paid z." These are all valid discussion points but they do not directly relate to how much will it cost to rebuild your home. The assessed value is only a number used by municipalities along with the tax rate to determine real estate tax. An appraised value is the limit that one can expect to sell their home at. This is very reflective of the real estate market. The amount you paid for a home is a byproduct of the real estate market as well. Maybe you bought a 4 family in an urban area and you only paid \$225,000 for it but the replacement cost of the home is \$600,000 because it is 4,000 square feet. You certainly would not want to insure it for only \$225,000 because you could never rebuild the home for that. On the other side of the equation it becomes a morale hazard for the insurance company because if you insure it for \$600,000 and you only paid \$225,000 you could "sell it" to the insurance company and the only question that remains is what time do you want the fire to start?

The loss settlement provision of your home policy says that if you are insured to at least 80% of the replacement value of your home at the time of loss they will settle your claim on a replacement cost basis but not more than the limit of insurance. If you are not insured to at least 80%, your carrier will pay the greater of the actual cash value (replacement cost minus depreciation) or the proportion of what you did carry for coverage in relation to what you should have carried. This could cause significant financial damage to a homeowner.

Because of this loss settlement provision it is imperative that you insure your home to value and keep it insured to value. If you decide to add an addition to your home the replacement cost of your home has just increased and you need to contact your Agent to discuss. Most policies have expanded replacement cost but there is a provision that states if you have increased the value of your home by 5% you must notify the carrier or that provision does not apply.

Insuring your home to value is vitally important and can prevent heartache in a claim. Contact your local Independent Insurance Agent and have them review your limit of insurance.



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Rich and his wife Kristy have lived in Pepperell for 20 years and have raised their 2 children here. He has been an Insurance Agent for 28 years.

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