

THE EARLY SHOW Ray Martin

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Is Your Home Underinsured?

Ray Martin On How Many People's Homes Are Underinsured

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NEW YORK, July 4, 2007 (Page 1 of 2)



A house burns in the South Lake Tahoe, Calif., wildfire, June 25, 2007. (CBS)

(CBS) The Early Show's financial guru, Ray Martin, explains why taking a closer look at your home insurance policies is a good idea. As it turns out, more than half of all American homes are underinsured, meaning that if disaster does strike, your costs to rebuild may not be entirely covered.

FAST FACT

Nearly six out of every ten American homes are underinsured, with folks having only enough insurance to pay about 80 percent of the costs to replace or rebuild their homes.

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Most people have homeowners insurance that provides "extended replacement

coverage," which means that if their home is damaged or destroyed due to a covered peril, their policy will pay out no more than up to 120 percent of the dwelling limits in the policy - and not a penny more. The problem with this is that it could cost a lot more to rebuild or replace your home and if your policy limits are not enough you will end up paying the difference.

Nearly six out of every ten American homes are underinsured, with folks having only enough insurance to pay about 80 percent of the costs to replace or rebuild their homes. This is according to Marshall & Swift/Boeckh LLC (or MSB), a leading provider of building replacement cost data.

With the median value of an existing single family home of about \$220,000, a homeowner with this average shortfall in coverage is at risk to pay an additional \$44,000 or more towards the actual cost to rebuild their home that their insurance does not cover.

How Home Underinsurance Can Creep Up On You

Most people buy insurance on their home when they buy the home. The amount of dwelling coverage is typically an estimate of the market price people pay for the home and it may be a good starting point. But the mistake many people make is that once they buy home insurance, the only thing they keep up with is paying the premiums - they never read their policy and never revisit whether the coverage in their policy is adequate. This "set it and forget it" thinking is what gets many people into an underinsurance situation. The really sad part is that most people only find out that they are underinsured when they have a loss and then it's too late to increase the coverage. In fact, if you do want to increase the amount of coverage on your home, you can't do so when the peril is upon you. Insurance companies generally place a moratorium on coverage changes in areas that are in the path of a storm, typically several days before the expected peril is forecast to strike.

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Many homeowners do not update or periodically increase the coverage on their homes. When you remodel and improve your home, you also need to call your insurance agent to update your coverage. And even if you don't make improvements to your home, you can be sure that it will cost more to replace it

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CBS NEWS VIDEO player featuring a video of Ray Martin. Includes navigation controls and 'Ready' status.

Homeowners Insurance Alert

Financial Adviser Ray Martin has tips for homeowners on getting the right insurance. He tells Harry Smith the recent wildfires are a perfect example of why it's important not to be underinsured.

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today versus when you bought it. The reason is the surging price of building materials, energy and labor, all which have increased replacement costs up by over seven percent a year since 2001.

And if your home is located in an area prone to severe weather, such as tornados or hurricanes, then your rebuilding costs could also be pushed higher by new building codes that protect against wind damage or earthquakes and therefore adding to the costs to rebuild the home.

Owning a home is a big responsibility and the homeowner bears the responsibility to select the proper policy coverage limits, a position that is supported by laws in many states. If you have a home insurance policy that costs \$2,000 per year, you could be wasting your money. If you have a loss and the dwelling coverage falls short, you may not have enough money to rebuild your home.

Continued

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I can understand the issue of "under-insured" - but what about the concept of being "over-insured"?

I recently received a quote for my H-O insurance renewal and the amount for personal contents is at least 3 times more than what I have in my house. There is no way they would pay me that much for replacement values of my contents.

Additionally - the amount for my dwelling is nearly 2X the amount that any home in my area is going for... I know I need to have them provide me a different quote.

I was shocked to see my annual premium go up 2X the usual - and as I evaluated the coverage - it made sense...

Could this be a trick for the insurance to get higher premiums?

Posted by [sjw1253](#) at 04:40 PM : Jul 04, 2007

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