

## Many homeowners don't have enough insurance to cover disaster

BY KATHY CHU, USA TODAY

Financial experts say many U.S. homeowners are woefully unprepared for the threat that wind, storms and floods pose to their home and its contents.

Close to 60 percent of U.S. homes are undervalued — with the average home undervalued by 22 percent, according to Marshall & Swift/Boeckh, which provides building-cost information. That means homeowners often don't have enough insurance to rebuild their home if disaster strikes.

### Review your policies

If you haven't reviewed your insurance policies recently, consider doing it soon. "The peak of the hurricane season is in September, so you have time," says Robert Hartwig, chief economist of the Insurance Information Institute, a trade group. "But the amount of time you have is limited. Don't put it off."

Last year's deadly trio of hurricanes — Katrina, Rita and Wilma — imparted a crucial lesson to homeowners: Standard homeowners insurance isn't a cure-all for property damage. That's especially true as more insurers cut back on the coverage they provide in certain regions or raise the prices they charge for such policies.

Homeowners insurance typically pays for wind, rain and hail damage. But in the riskiest areas, a rising number of insurers now require homeowners to buy a separate policy if they want coverage for

wind damage. Some insurers also impose a hurricane deductible that would require you, in case of a disaster, to cough up 1 percent to 5 percent of the insured value of the home before the insurer's coverage would kick in.

Most such policies don't pay for flood damage. For that, you'll have to buy coverage from the government's National Flood Insurance Program. Yet even in the most flood-prone regions, only about half of homeowners buy this insurance, according to Rand Corp., a research firm. Outside these areas, far fewer do.

Last year's hurricanes pushed up sales of the government's flood insurance — albeit only modestly. As of May 1, homeowners had 4.9 million policies, up 7 percent from last year at the same time. This follows a typical annual increase of about 3 percent in previous years.

### Legal battle

After Katrina, homeowners and insurers squared off in court over precisely what damage is covered by standard homeowners policies. These disputes may be confusing people and dissuading some from buying flood insurance, Hartwig says. "I'm terribly afraid that another storm could roll up the coast of Mississippi, and many people" won't have this insurance, he says.

Mississippi Attorney General Jim Hood, along with homeowners on the Gulf

Coast whose homes were destroyed in last year's storms, have sued to try to get insurers to pay for flood damage. The plaintiffs argue that water damage caused by a hurricane should be covered. Insurers counter that while their policies cover certain water damage — such as from rain that penetrates roofs or windows — they don't cover flood damage, such as from storm surges after hurricanes.

Standard homeowners policies — which pay to rebuild a home, rather than compensate homeowners for its market value — should be reviewed yearly. Now's a good time to do so, because the price of building materials surged after last year's storms, says Peter McMurtrie of Travelers, a provider of home and auto insurance.

### New furniture

Also, "If you've added a big-screen TV or furniture, you may have items in your home worth way more than you're covered for" under your homeowners policy, says Jeff McCollum, a spokesman for State Farm.

When insuring your home, you often have a choice between a "replacement-value" policy and an "actual cash value" policy. Replacement-value insurance generally costs more because it covers the cost of both rebuilding your home up to its full insured value and replacing damaged belongings. By contrast, cash-value policies deduct any depreciation of your belongings or of the house (say, a roof that needed to be replaced) before reimbursing you.

In most cases, you can update your homeowners policy and have new coverage limits take effect immediately. But you generally won't be able to do so if a tropical storm is already barreling your way.



When you are either over insured or under insured, you will be socked with a huge penalty and are forced to duke it out with the insurance company if and when a claim is filed.

However, if your insurance agent is the one who recommended the policy limits, there's a reasonable chance that you can argue that you were simply following your agent's advice (something insurance companies love to recommend) and should not be penalized for errors made by your agent. .