



# Don't Get Burned by Inadequate Home & Auto Insurance

By John D. Doak, Oklahoma Insurance Commissioner

In light of recent wildfires and the threat of more activity, now is a great time to review your home and auto insurance policies.

Damage caused by fire and smoke is covered under standard homeowners, renters and business insurance policies. The comprehensive portion of an auto insurance policy also covers fire and smoke damage. There is also coverage for water or other damage caused by firefighters in the course of extinguishing a fire.

To make sure you're prepared for a wildfire or other disaster, you should ask your insurance agent or broker two important questions:

## **1. Do I have enough insurance to rebuild my home?**

A homeowners policy needs to cover the cost of rebuilding a home at current construction costs. Unfortunately, some homeowners only buy the minimum insurance protection required by their mortgage company. Others confuse the real estate market value of their home with what it costs to rebuild it. The Insurance Information Institute suggests you consider the following while discussing coverage needs with an agent or broker:

### **Replacement Cost**

Most policies cover replacement cost for damage to the structure. A replacement cost policy pays for the repair or replacement of damaged property with materials of similar kind and quality.

### **Guaranteed or Extended Replacement Cost**

An extended replacement cost policy pays a certain amount above the policy limit to replace a damaged home, generally 20 percent or more. A guaranteed replacement cost policy pays whatever it costs to rebuild the home as it was before the disaster, regardless of the policy limit. These types of coverage can be useful if there is a widespread disaster that pushes up the local costs of building materials and labor.

### **Inflation Guard**

This coverage automatically adjusts the policy limit, upon renewal, to reflect increases in construction costs. Some policies already include this coverage, but it may need to be purchased separately.

### **Ordinance or Law Coverage**

If a homeowner is required to rebuild the home to meet new building code, this coverage pays a specific amount toward those costs.

### **Water Back-Up**

This coverage insures the property for damage caused by the back-up of sewers or drains. Most insurers offer this coverage as an add-on to a standard policy.

### **Additional Living Expenses (ALE)**

ALE pays for the added costs of living away from home, such as hotel rooms and restaurant meals, while the house is being repaired or rebuilt. If part of the home is rented out, ALE also replaces lost income. Many policies provide coverage for 20 percent of the amount of insurance you have on your house and may specify a time limit. Additional ALE coverage is generally available for an extra premium.

## **2. Do I have enough insurance to replace all of my possessions?**

Most homeowners insurance policies provide coverage for your personal possessions for approximately 50 to 70 percent of the amount of insurance on the structure of the home. For example, \$100,000 worth of coverage on the structure of the home would pay for \$50,000 to \$70,000 worth of personal items.

To determine whether that coverage is sufficient, it is important to conduct a home inventory, detailing everything you own and the estimated cost to replace these items if they are stolen or destroyed. A home inventory kit is available for free at [http://www.ok.gov/oid/documents/PC%20home\\_inventory.pdf](http://www.ok.gov/oid/documents/PC%20home_inventory.pdf).

### **Actual Cash Value vs. Replacement Cost**

Possessions can be insured in two ways: either for their actual cash value or their replacement cost. Actual cash value only pays a percentage of the original cost because it is no longer worth what you originally paid for it 10, five or even two years ago. A replacement cost policy reimburses you for the full cost of replacing the item, but not up front. First, you'll get paid for its actual cash value. Later, after you've purchased the new item, you'll be paid the difference between the actual cash value and the replacement cost.

For more information, or help with other insurance questions, please contact the Oklahoma Insurance Department's Consumer Assistance Team at 1-800-522-0071.