

What is homeowners insurance?

(Example only)

Homeowners insurance provides financial protection against disasters. A standard policy insures the home itself and the things you keep in it.

Homeowners insurance is a package policy. This means that it covers both damage to your property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people. This includes damage caused by household pets.

Damage caused by most disasters is covered but there are exceptions. The most significant are damage caused by floods, earthquakes and poor maintenance. You must buy two separate policies for flood and earthquake coverage. Maintenance-related problems are the homeowners' responsibility.

What is in a standard homeowners insurance policy?

A standard homeowners insurance policy includes four essential types of coverage. They include:

1. Coverage for the structure of your home.
2. Coverage for your personal belongings.
3. Liability protection.
4. Additional living expenses in the event you are temporarily unable to live in your home because of a fire or other insured disaster.

Following is an explanation of each of the four elements of a standard homeowners insurance policy

Your personal belongings:

Your furniture, clothes, sports equipment and other personal items are covered if they are stolen or destroyed by fire, hurricane or other insured disaster. Most companies provide coverage for 50% to 70% of the amount of insurance you have on the structure of your home. So if you have \$100,000 worth of insurance on the structure of your home, you would have between \$50,000 to \$70,000 worth of coverage for your belongings. The best way to determine if this is enough coverage is to conduct a home inventory.

This part of your policy includes off-premises coverage. This means that your belongings are covered anywhere in the world, unless you have decided against off-premises coverage. Some companies limit the amount to 10% of the amount of insurance you have for your possessions. You have up to \$500 of coverage for unauthorized use of your credit cards.

Expensive items like jewelry, furs and silverware are covered, but there are usually dollar limits if they are stolen. Generally, you are covered for between \$1,000 to \$2,000 for all of your jewelry and furs. To insure these items to their full value, purchase a special personal property endorsement or floater and insure the item for its appraised value. Coverage includes "accidental disappearance," meaning coverage if you simply lose that item. And there is no deductible.

Trees, plants and shrubs are also covered under standard homeowners insurance. Generally you are covered for 5% of the insurance on the house -- up to about \$500 per item. Perils covered are

theft, fire, lightning, explosion, vandalism, riot and even falling aircraft. They are not covered for damage by wind or disease.

Liability protection:

This covers you against lawsuits for bodily injury or property damage that you or family members cause to other people. It also pays for damage caused by your pets. So, if your son, daughter or dog accidentally ruins your neighbor's expensive rug, you are covered. However, if they destroy your rug, you are not covered.

The liability portion of your policy pays for both the cost of defending you in court and any court awards -- up to the limit of your policy. You are also covered not just in your home, but anywhere in the world.

Liability limits generally start at about \$100,000. However, experts recommend that you purchase at least \$300,000 worth of protection. Some people feel more comfortable with even more coverage. You can purchase an umbrella or excess liability policy which provides broader coverage, including claims against you for libel and slander, as well as higher liability limits. Generally, umbrella policies cost between \$200 to \$350 for \$1 million of additional liability protection.

Your policy also provides no-fault medical coverage. In the event a friend or neighbor is injured in your home, he or she can simply submit medical bills to your insurance company. This way, expenses are paid without their filing a liability claim against you. You can generally get \$1,000 to \$5,000 worth of this coverage. It does not, however, pay the medical bills for your family or your pet.

Additional living expenses:

This pays the additional costs of living away from home if you can't live there due to damage from a fire, storm or other insured disaster. It covers hotel bills, restaurant meals and other living expenses incurred while your home is being rebuilt. Coverage for additional living expenses differs from company to company. Many policies provide coverage for about 20% of the insurance on your house. You can increase this coverage, however, for an additional premium. Some companies sell a policy that provides an unlimited amount of loss-of-use coverage -- for a limited amount of time.

If you rent out part of your house, this coverage also reimburses you for the rent that you would have collected from your tenant if your home had not been destroyed.

