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## CHAPTER 1

# How to Use This Book

*In this chapter you will learn how to make the most cost-effective, yet protective decisions for your family's insurance needs.*

Insurance is a necessity in this day and age. We live in an exciting era, and developments in technology have taken us to a level of high-speed communication no one could have imagined possible.

**The most important thing to remember when buying insurance is to find a trusted agent and work with him or her to get the best protection for your needs at a cost you can afford.** Having a local agent who knows you personally and develops a working relationship over time is much more effective than calling a number and waiting on hold forever.

It can be confusing to wade through all the information we come into contact with on a daily basis, and often we can overlook simple ways to save money

and protect ourselves. You may even be so overwhelmed by piles of mail, a full email inbox, and the rush of your daily life that adding one more thing is just too much.

That is why I am outlining specific examples of how to save money and protect your family in this book. I have compiled information on home, auto, life, boat, and other types of insurance, as well as information on protecting yourself from identity theft.

Please use it as a reference tool to help you make the most informed decisions for your insurance needs. **There is space provided to take notes and jot down ideas** as they come to you. Use these notes the next time you talk to your agent.

Finding the right insurance agent is important; and after you study this information on insurance, you will feel more prepared when going to buy insurance. *You don't want to feel like you're lost in the shuffle. You want an agent who knows you and wants to help you choose the coverage that works best for your life.*

## C H A P T E R 2

# Homeowners and Property Insurance

*Get the coverage you need and a price you can afford by working with your insurance agent.*

For most people, their home is the most expensive thing they own and it contains all of their prized possessions. Many types of damage happen every day like fires, wind damage and theft. If your home is damaged or destroyed and you don't have enough insurance on it, you're not only left out of the comfort of your shelter, but you've lost the money you've paid into your home (equity) and all of your personal items.

Like most people, you probably borrowed money from a bank to buy your house. The bank insists that you insure your home, but deciding what kind of coverage and how much to buy can be confusing. The best way to get familiar with your homeowners policy is to

talk to your insurance agent. This book will give you a better understanding of insurance and you will be more informed when you meet with your agent.

Your agent **knows what types of insurance fits your needs.** I have specialized in the insurance needs of homeowners and their families for many years. I want to help explain the basics of homeowners insurance to give you a better understanding so you'll feel more prepared, protected, and informed. In the following section, you'll learn the some rules for saving money and getting the best coverage.

The typical homeowners insurance policy covers your house, garage, and other structures (buildings) on the property, as well as personal possessions inside the house such as furniture, appliances, and clothing against damage, destruction, and theft. The extent of situations covered depends on the type of policy.

There are six major types of coverage provided by a homeowner's insurance policy:

**Dwelling** coverage pays to rebuild your home. Make sure you have enough insurance to cover the cost of rebuilding your house at current construction costs. To find out the amount of coverage needed, take the total square footage of the house and multiply by current local rebuilding costs per square foot. For example, 2,000 square foot home with local rebuilding costs of \$150 per square foot (2,000 x 150) comes to \$300,000 of dwelling coverage.

**Other Structures** covers any buildings that are detached from your home itself. This could include a garage that is separate from your house (attached

garages are included in your dwelling coverage), a storage building, or any other structure. These are usually covered at about 10% of the cost to rebuild your home.

**Personal Property and Contents** covers household contents—furniture, clothes, appliances, etc.—up to 75% of the amount your house is insured for. This means if you insure your house for \$100,000, its contents are insured for up to \$75,000. You can get more coverage by paying a higher premium. This automatic coverage pays only the actual cash value of damaged, stolen, or destroyed household goods.

**Family Liability** provides coverage for you or someone in your family who lives with you if they are at fault for injuring a person or damaging his or her property. If you are sued as being at fault, this coverage also pays your legal fees.

**Guest Medical** covers the medical costs for accidental injuries caused to visitors while on the property, such as a guest slipping and falling down improperly maintained stairs. If a visitor trips and falls, injuring him or herself badly, he or she could sue you. These are serious problems that could damage, if not destroy, your financial security.

**Loss of Use** covers additional living expenses. This reimburses the policyholder for the extra cost of living somewhere else while the house is being restored after a disaster. *Coverage for flood and earthquake damage is excluded and must be purchased separately.*

Before buying home insurance, you need to understand the difference between “replacement cost” and “actual cash value.”

**Actual cash value** is an item’s replacement cost minus depreciation (how much the value of the item goes down over time).

**Replacement Cost** policies give you more protection than actual cash value coverage. For example, what happens if a burglar steals your six-year-old television set? With actual cash value coverage, you get only what you would expect to pay for a six-year-old television set. With replacement cost coverage, the insurance company pays to replace your TV with a new set similar to the stolen one.

**Extended Replacement Cost** coverage pays a certain amount above the policy limit to replace a damaged home, generally 120 or 125%. It is similar to a guaranteed replacement cost policy, which has no percentage limits. Most homeowner policies limit track inflation in building costs. Guaranteed and extended replacement cost policies are designed to protect the policyholder after a major disaster when the high demand for building contractors and materials can push up the normal cost of reconstruction.

## SEVEN WAYS TO SAVE AND PROTECT YOURSELF

Be sure to take notes in the space provided at the end of the chapter, so you’ll be able to ask your insurance agent any questions you may have regarding your policy.

### 1. Higher Deductible = Lower Premium

The deductible is what you must pay first before the insurance company will begin paying. A \$500 deductible means you pay \$500, and then your insurance will start paying. If the damage costs \$3,000, you pay \$500, and the insurance company pays \$2,500. It may seem like a “no-brainer” to choose a lower deductible, but it actually saves you money in the long run to have a higher deductible. A high deductible means your premium, or policy price, is lower per year. Just make sure you have enough money set aside to pay a deductible if something happens.

### 2. Combine Your Policies with One Company

Using one insurance company for your homeowners, auto, life, and other types of insurance you may need will save you money. As a driver, you are required by law to have auto insurance. If your car insurance is with a different company than your homeowners insurance, speak to your agent about placing all of your insurance policies with his or her company. If you have had one insurance company for many years and are pleased with its service, keep that company. The longer you’re with one company, the more money you’ll save, and you’ll be treated better.

### 3. Safety Equipment Discounts

Smoke detectors, burglar alarms, and deadbolt locks are usually worth discounts of at least 5%. ***You can get even bigger discounts, 15% to 20%, if you install a sophisticated sprinkler system or an alarm system that rings at the police station or a security company.*** However, not all of these systems qualify for discounts. Before you install one, check with your insurer to find out what type of system qualifies for a discount and how much you would save on your premium if you installed the system.

### 4. Make an Inventory of Your Belongings

Make a list of all of your belongings. Start with one room and write down the name and price of the item. Use a digital camera to take pictures or videos, and keep this visual record on a disc or jump drive in a safety deposit box so you'll have visual proof to go with your list. Every year, look over your policy and check the coverage you have for your valuables. If you purchase an expensive item, you may need to increase your limits of coverage. With a visual record you can very easily add new photos of new items and delete the photos of items you have sold. Pay particular attention to items that have limitations on the amount, such as jewelry and valuable art. You will need to add endorsements, or "floaters", to your policy to insure such items for their maximum worth. Your agent will have a complete list of these.

### 5. Location IS Important

Where do you live and what material was used to make your home? If you live in the Eastern United States, it's better to have a brick or stone house because it has a greater resistance to wind damage. By contrast, frame homes are better in the earthquake-prone West. ***The right structure in the right region can save you 5% to 15%.*** If your home is near a fire station, you will pay less for homeowners insurance. If you live in an area that is prone to flooding, you may be required to buy a flood insurance policy, which costs about \$400 a year. *If you are not required to buy the coverage and still live in a flood-prone area, your homeowner's policy will not provide coverage for losses arising from flooding.* Ask your insurance agent about flood insurance.

### 6. Big Discounts if Your Home is NEW

You get a discount if your home is new. The reason for this is that in a newer home, it is less likely that something will go wrong with the newer systems. The plumbing, wiring, and central heat and air systems are major expenses involved in owning a home. The building is also newer and therefore sounder.

### 7. Insure the House, Not the Land

Nobody is going to steal your land. Fire and high winds won't "destroy" it. When deciding how much homeowner's coverage to have, do not include the value of the land, only the value of the house and any other buildings on the property. Market value is the total value of your home, including the land, so lakefront property could be worth \$400,000 (\$300,000 for the property

and \$100,000 for the house). The bank may ask you to insure up to \$400,000; but as mentioned, land can't be destroyed. Your insurance agent may need to step in for you to negotiate with the bank. ***If you include the value of the land, you are paying too much.***

### Is Your Coverage Adequate?

Saving money is important to us all, but we have to make sure we are protected as much as we can be for the money we spend on insurance to be worthwhile. Ask yourself, "Is my coverage adequate?" Is it meeting the needs of you and your family? In the following section, I will briefly outline how to find out if your homeowners insurance is working for you.

I won't avoid the facts. There really is more to homeowners insurance than saving money. In fact, while it's nice to lower your insurance costs, it's probably even more important to make sure you, your loved ones, and your assets are covered adequately. It is not a pleasant thought, but ***insurance is about worst-case scenarios. It is mostly about peace of mind, knowing that you have the worst-case scenarios covered.***

I want to let you in on the knowledge I have accumulated as an insurance industry professional and insider. I want to do this because I have found, time and time again, that generosity and the willingness to provide really great service come back to me ten fold. That's how I have built my business.

### Two Steps to Protection

There are two basic steps you can take to protect your and your family's financial well being. The *first is to have an insurance specialist conduct a risk analysis of your home, car(s), and family. If you have not had your risks assessed by an insurance professional, you could be inviting financial disaster. Insuring your home is not a "do it yourself" project.* You need a professional, a knowledgeable insurance insider, to put together a comprehensive insurance plan that truly protects you.

*The Second step is do not trust the financial protection of you , your family, and your assets to an insurance agent who is not a homeowner's insurance specialist. A specialist in the field is an absolute necessity. I am glad to share my expertise with you. Your agent should gladly do the same. Insurance is a huge industry. There is insurance for everything and that is why I am helping you to educate yourself using this book to make informed choices for you and your family's insurance needs.*

