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## Don't let insurance lag as your home appreciates

### IT'S YOUR BUSINESS

Aaron Skloff

**Q: We live in West Windsor. In the last five years the value of our home has increased dramatically, our real estate taxes have done the same, but our homeowners insurance has not. Are we getting a great deal or are we missing something?**

The problem: Homeowners' insurance gap. Over the last five years many homes in and around Princeton have increased in value by over 50 percent. In many cases the increases have been even greater, as property values in New Jersey have outpaced many parts of the country.

While many homeowners established insurance coverage when they purchased their home, they have not reviewed or adjusted the coverage since. The value of your actual home may have increased from \$500,000 to \$750,000, while the insurance coverage has remained at \$500,000 — leaving a \$250,000 gap.

The solution: Proper homeowners insurance. Like many types of insurance, homeowners insurance is a necessary evil. For many households, their home represents their most valuable and most cherished asset. Homeowners need to conduct an annual insurance policy review to keep up with the local building costs, improvements or additions to their homes and the value of personal belongings.

- How to insure your home

Homeowners insurance covers the structure of your home, not the fair market value of the home and the land. In many cases the land your home rests on is actually worth more than the home itself.

There are three ways to insure your home: replacement cost, extended replacement cost or actual cash value. Replacement cost insurance covers the cost of replacing the damaged property without any deduction for depreciation, but is limited to a maximum dollar amount. Extended replacement cost insurance covers costs up to a certain percentage over the limit, usually 20 percent. This provides you protection against a sudden increase in construction costs.

Lastly, actual cash value insurance covers the cost to replace your home minus depreciation. Unless your policy states otherwise, you are covered for actual cash value.

Based on the age and condition of your home, some insurers will not insure older homes for the full replacement value. Insurers may offer modified replacement costs where plaster walls or moldings would be replaced with their modern-day equivalents.

In comparison, let's look at an actual cash value policy. If the life expectancy of your roof is 20 years and your roof is 15 years old, the cost to replace it today is going to be significantly higher than its actual value.

- How to insure your personal belongings

There are two ways to insure your personal belongings: replacement cost or actual cash value. Replacement cost insurance covers the cost to replace personal property with like kind or quality without deduction for depreciation. Cash value insurance covers the replacement value of damaged property minus depreciation. Most insurance policies provide coverage for personal belongings at 50 percent of the amount of insurance on your home.

Remember, that 10-year-old comfortable wrap-around couch you love may not be worth much to your insurer on a cash value policy, but may cost you a pretty penny to replace.

- Deductibles reduce cost

The higher the deductible you are willing to accept the lower the cost of insurance. Discounts generally begin with a \$500 deductible and end with a \$10,000 deductible. Check with your mortgage company before agreeing to a policy with a deductible of \$1,000 or more, as you could wind up violating your mortgage agreement.

Something often overlooked is the fact that you should increase your coverage if you make renovations or additions to your home. You do not want to be "left out in the cold" by forgetting to cover a new deck added to your home.

Inventory your personal belongings. Take pictures, keep receipts and write down serial numbers where applicable. Update your coverage when you make a major purchase.

Action step: Review your homeowners insurance. Protect one of your most valuable assets and the contents inside it through homeowners insurance. Speak with a financial professional to learn the true value of your assets and how to protect them.

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