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Homeowner's Insurance — are you taking a risk?

"Most people go to their insurance agent to buy [homeowner's] coverage and figure they're fully covered," said J. Robert Hunter the director for insurance at the Consumer Federation of America. "But often they're not."

The issue of being underinsured has not gotten much publicity, since only 2% of claims are for the total loss of a house. But the wildfires in California and the hurricanes in Florida have brought the issue to light, so I believe we all need to take a look at our policies.

Why are homeowners finding themselves in trouble on insurance? Well, it's basically due to a change in the insurance industry that has gone largely unnoticed. Back in the early '90s when hurricane Andrew ripped through the Southeast, many insurance companies suffered big losses and several carriers actually went out of business.

So in the late '90s, insurance companies began to phase out coverage that guaranteed replacement of a destroyed home. In its place, companies put coverage that covers the limits of the policy, plus 20% to 25%. The old policies

were called guaranteed replacement; the new ones were called extended replacement. Subtle but effective; "People look at this and it says 'replacement' and they think, 'That's good, I get my house replaced.'" Said John Garamendi, the insurance commissioner in California. "But they don't get their house replaced. They get money up to the set limits plus the extended 20% or 25%."

Industry observers now estimate that some 64% of American homes are underinsured by an average of 27%, with some homes underinsured by 60% or more. One industry company thinks that upper-income homes in New England are underinsured by 30% to 40%.

The gap has been widened by the national housing boom that has been driving up the cost of lumber, bricks, cement and other construction materials. To make matters worse in Southern California, rebuilding costs soared even higher as the demand for contractors and building supplies suddenly jumped after last October's