

Real Estate

YOUR HOME

Deciding How Much To Insure

BY JAY ROMANO

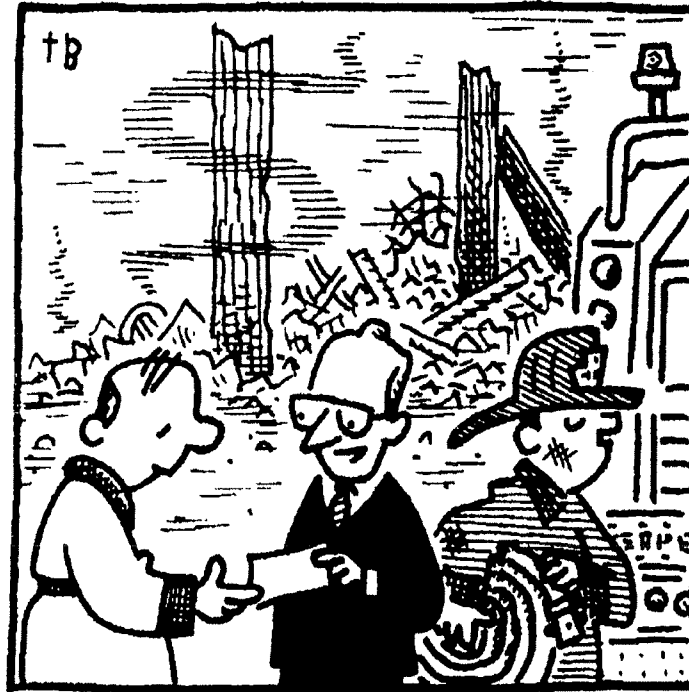
If your house burned to the ground tomorrow, and all of your personal possessions were destroyed, how much would your insurance policy pay?

If you cannot answer with some degree of confidence, how about this one: What kind of coverage do you have on your house and its contents—actual cash value or replacement cost?

If you cannot answer that question either, insurance experts say, it may be time to talk with your insurance agent.

"I think that underinsurance generally result from the lack of knowledge of what it would actually cost to replace what you now have in your home," said Ann Ferris, an appraisal manager for the Chubb Group of Insurance Companies in Warren, N.J. "People need to think about this because when you have a loss, things add up quickly."

Robert E. Mackoul, president of Mackoul & Associates, a Long Beach, N.Y., insurance broker, agreed. "What most people don't realize is that over the years they have probably made a lot of improvements in their homes and apartments,"



Additions and renovations to a home may mean that more coverage is needed.

Mr. Mackoul said. "And they only find out when it's too late that they've never increased their coverage to keep up with the improvements."

In most cases, he said, people initially base their insurance needs on how much they paid for their home. Someone who pays \$250,000 for a home, he said, will rarely buy more than \$250,000 of coverage on the structure itself. And since the cost of the home usually includes the value of the land, he said, the \$250,000 in coverage would usually provide more than enough money to rebuild the structure in the event of a total loss.

Many homeowners, however, continue to invest money in their homes long

after they buy them. And those investments can be significant. "It's easy to spend \$50,000 on a new kitchen," Mr. Mackoul said, adding that additions of new rooms and extensive renovations of other areas of the house—like bathrooms and basements—as well as the installation of amenities like built-in pools, decks, patios, and terraces, all add to how much it would cost to replace the house if it is a total loss.

When taken in conjunction with steadily increasing construction costs, this could mean that a homeowner who still has only the original coverage may be significantly underinsured. And even though many insurance policies provide for automat-

ic increases in coverage, typically tied to rises in cost of living, such increases are often not enough.

"It's simply going to cost a lot more to build your house today than it did 35 years ago," Mr. Mackoul said. "And in Manhattan, you have to almost double the ordinary construction costs."

One way to be certain of having enough insurance to cover a total loss, he said, is to get "guaranteed replacement cost" coverage. Such coverage will provide enough money to rebuild the house completely as it was before it was destroyed. (Some homeowners' policies, Mr. Mackoul said, provide for "replacement cost" coverage but then cap the amount the company will pay at the policy limit.)

The least desirable coverage, he said, is coverage for the "actual cash value" of the structure, in which the insurance company will pay the cash value of the structure but only after taking depreciation into account.

"That means that if you have a fire and the house is a total loss, the insurance company is going to be deducting a certain percentage to account for depreciation," he said. "So if the actual cost to rebuild the house is going to be \$100,000, they might take a 25 percent depreciation deduction and only give you \$75,000."

Mr. Mackoul said that while the premium rates for all three types of coverage are about the same, guaran-

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teed replacement cost coverage will require that the homeowner have a higher amount of coverage.

Ms. Ferris, the appraisal manager for Chubb, said that for higher-priced or historic homes, it was wise to have a representative of the insurance company personally appraise the property to make sure that unique or difficult-to-reproduce features are accounted for.

"Our goal is always to replace what was lost," she said. "And you don't want the replacement to be of inferior quality."

For example, Ms. Ferris said, a floor in a house she recently appraised had an unusual pattern called zebra oak herringbone.

"Our policy would replace that floor with the same kind of floor," she said. "And that would be considerably more expensive than a plain oak floor because you have to find specialized craftsmen

who do that kind of thing." Having the home appraised by an expert, Ms. Ferris said, also makes it unnecessary for the homeowner, in the event of a loss, to document special features or materials used in the house. "That means that when a claim is made, there's usually no need for a discussion about what was there," she said.

Another area in which many homeowners are underinsured relates to the objects inside the home. "Based on my experience, I would say that most people are not carrying nearly enough insurance on their personal property," said Damon Gersh, president of Maxons Restorations, a Manhattan company that specializes in restoring damaged property. "And the reason seems to be because people just don't realize what their stuff is actually worth." Even everyday items can be costly to replace.

"I tell my friends and

clients to just open their clothes closet and list every single piece of clothing they have," Mr. Gersh said. "Your wardrobe alone can cost thousands of dollars to replace. But most people aren't aware of that because they've accumulated their things over the years, one piece at a time."

Andrew M. Schutzman, president of AMS Risk Management and Consulting in Rockville Centre, N.Y., said that as with coverage for personal property should be insured on a "replacement cost" basis. Under most standard homeowner policies, Mr. Schutzman said, personal property is insured only for its actual cash value. "And we all know that personal property depreciates extremely rapidly," he said.

In addition to taking inventory of personal property—and documenting the inventory with photos or on videotape if possible—it is important to make sure that

the policy limit adequately covers the replacement cost. "If you have a serious loss, and you haven't purchased enough coverage, your not going to get a full recovery," Mr. Schutzman said. Finally, he said, certain items that have special intrinsic value must be specifically covered by what is known as a "valuable articles endorsement."

Among these items are paintings, sculpture, coins, furs, and jewelry.

"I can't tell you how many times I see wealthy, intelligent people fail to get special coverage for things like fine art and jewelry," Mr. Schutzman said, adding that under most policies, a \$20,000 diamond ring would be covered for only \$1,000 unless a valuable-articles floater has been purchased. Such coverage, however, can be expensive. The cost of insuring a \$20,000 diamond ring would be about \$400 a year.

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