



Overcoming Underinsurance

Protecting Your Home with Enough Coverage

If you're like most homeowners, you probably purchased enough insurance to equal the market value of your home. Unfortunately, this can lead to underinsurance. Why? Because the cost to rebuild your home completely is usually greater—often tens of thousands of dollars greater—than its market value.

According to a 2009 survey, nearly two-thirds of houses in the United States are underinsured. Of those houses, the average homeowner has enough insurance to rebuild only about 80 percent of his or her home.*

Example: Tough Math for Underinsured Homes

Estimated reconstruction cost:	\$200,000
Amount your home is insured for:	\$150,000
What your out-of-pocket expenses may total if your home is destroyed:	\$ 50,000

Reconstruction Costs vs. Market Value

Instead of insuring your home based on market value, it's best to purchase homeowners coverage based on the reconstruction cost.

While market value is based on fluctuating marketplace conditions for a house and a lot in a specific area, reconstruction cost is the amount of money it takes to completely rebuild your house with building materials that match the type and quality of the originals as much as possible.

When the reconstruction cost exceeds the market value, your home is underinsured.

That means without enough of the right coverages, you could be stuck with a big bill after a catastrophic loss—when you're least able to afford it.

What Makes Reconstruction Costs Rise?

There are a number of factors that can increase reconstruction costs:

- Building materials are very susceptible to inflation and are more expensive for reconstruction contractors who purchase them in smaller quantities than new home builders do.
- Changes in building codes can add complexity and additional labor charges to a reconstruction project.
- Access to the reconstruction site due to old growth trees and neighboring homes can equal more costs.
- Increased contractor demand after a disaster can also drive up costs.
- Homeowners who reconstruct their homes face extra costs for demolition and debris removal, which is usually necessary before a home can be rebuilt.

Insuring Your Home Improvements

If you've updated or renovated your home, but haven't increased the home value listed in your policy, you could be underinsured. Additional square footage and upgraded materials are just a few things that can boost a home's value.

How Your Independent Agent Can Help

The good news is Integrity and your local independent agent can help you overcome the all-too-common problem of underinsurance. If you have questions about reconstruction cost and underinsurance, or if you plan to update your house, contact your agent to be sure you have enough coverage to protect you and your family.

* Marshall & Swift/Boeckh 2009 Insurance to Value Index