

Homeowners Insurance

Homeowners Insurance

A home is usually a person's most expensive possession. Protecting it — and what's in it — is extremely important. Whether you own your home or rent a place to live, you'll need to purchase insurance. Coverage for your home and personal belongings should be selected with care.

Types of policies

The two most common types are HO-2 and HO-3. The **Broad Form** (HO-2) covers damage to the dwelling and possessions from specific perils such as explosion, fire, lightning, windstorm, hail, riot, civil commotions, theft, vandalism, falling objects, smoke, and damage from a vehicle or aircraft.

A **Special Form** (HO-3) covers damage to personal property from the same perils as the Broad Form. The structure is covered against **all perils**, except a specific few. There is also a policy to meet the specific needs of condominium owners — HO-6.

Do renters need insurance?

Yes. Renters should not overlook the need for insurance. If a renter's building is destroyed, the landlord or property owner's policy will cover the structure only. To recover for the loss of personal belongings, the renter must have his/her own policy.

There is a policy tailored to fit the needs of renters. The renters policy, or HO-4, covers damage to possessions which result from certain causes. It is similar to the policy purchased by the owner of a house. The primary difference is that the renters policy does not include coverage on the building.

What other coverages are provided?

A homeowners or renters policy provides more than just financial protection for the property and/or contents. The policy also includes liability coverage. This coverage applies to you as well as any family members living in the household.

This portion of the policy provides coverage for legal liabilities if someone is injured on the premises. It also includes the cost of defending you in the event of a lawsuit.

Coverage is also provided for: 1) medical expenses resulting from minor injuries to others occurring on the property, and 2) damage that you or a family member might cause accidentally to another person's property.

Do homeowners policies provide coverage for personal property?

A homeowners insurance policy **does** cover personal belongings as well as the home itself. Coverage for personal property located on the premises is usually 50% of the insurance on the dwelling.

However, both homeowners and renters policies usually provide limited amounts of coverage for certain types of personal property. Those items, which are susceptible to loss include cash, securities, jewelry, firearms, and stamp and coin collections. Coverage for cash has a \$200 limit, while coverage for other valuables varies between \$1,000 and \$2,500. For an additional premium, the consumer can purchase an endorsement that describes and insures each item for a certain dollar value.

Homeowners and renters insurance policies may cover contents on an **actual cash value** basis. That means the insurance company will pay the replacement cost, less depreciation.

However, a policy can be purchased to cover contents on a **replacement cost** basis. If personal property is destroyed, the insurance company will pay if you repair or replace it — without deducting for depreciation.

What is the difference between a replacement cost policy and a repair cost policy?

A **replacement cost** policy is the most common type of dwelling insurance. It pays for replacing, rebuilding or repairing the dwelling to its original condition with materials of like kind and quality. Another option offered by some insurance companies is the **repair cost** policy. This type of policy pays to replace, repair or rebuild damaged dwellings to a similar condition, using contemporary materials.

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Factors That Determine The Cost Of Home Insurance Premiums

For most people, their home is their most valuable asset. It represents not only a major investment of money, but also an accumulation of a lifetime's worth of possessions and memories. For a fairly modest amount of money, homeowners can protect both their home's structure and its contents in case of damage from a variety of causes.

How much an individual pays to insure his or her home depends on a number of factors that reflect the risk of damage to the home and the cost of the insurance company to repair or rebuild the home.

Michigan's Essential Insurance Act provides that rates shall not be excessive, inadequate or unfairly discriminatory. It further limits the factors an insurance company can use to determine the price of a homeowners policy. Following are just some of the classifications used.

Amount and type of insurance coverage.

Homeowners can usually select from good-value, basic policies that will reimburse for the depreciated value of the home up to a deluxe policy that will guarantee to rebuild the home and replace its contents no matter what the cost. Coverage can also be added that is not a part of the regular insurance policy, such as coverage for a home business. The more coverages that are selected, the more expensive the policy will be.

Safety and security. Installation of dead-bolt locks, smoke detectors and fire extinguishers are loss prevention and loss reduction items which can help decrease the cost of a homeowners policy. The availability of law enforcement or crime prevention services also play a part in determining the homeowners policy premium.

Location of the home. Where a home is located has a significant impact on the cost to insure it, for several different reasons. Insurance companies will determine if the home is at risk for hail, tornado or other unusual damage; if the home is located within a reasonable distance from a fire service; if the home is located in an area of the country with high costs of

construction; and if there is unusually high or low incidence of theft and arson where the home is located.

Type of home. A home's size, type of construction, building material components and number of units are just some of the important factors which determine a home's insurance costs because they affect what it would cost the insurance company should they have to rebuild the home.

Saving Money on Homeowners Insurance

Shop around. Prices vary from company to company, so it pays to shop around. Get at least three price quotes. You can call companies directly or access information on the Internet. Check the financial health of insurance companies by calling the Insurance Information Hotline at 800-777-8005.

Raise your deductible. A deductible is the amount of money you have to pay toward a loss before your insurance company starts to pay a claim. The higher your deductible, the more money you save on your premium. Consider a deductible of at least \$500.

Buy your home and auto policies from the same insurer. Most companies that sell homeowners insurance also sell auto insurance policies. Some insurance companies will reduce your premium by 5 percent to 15 percent if you buy two or more insurance policies from them.

Ask about other discounts. You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm or dead-bolt locks. Some companies may cut your premiums by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the police, fire or other monitoring stations. Before you buy one, find out what kind your insurance company recommends, how much the device would cost and how much you'd save on premiums. Seek out other discounts for being in a group or being a senior citizen.

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Average Homeowners Insurance Premiums By State - 2005

<u>State</u>	<u>Average Premium</u>
Alabama	\$847
Alaska	837
Arizona	635
Arkansas	775
California	895
Colorado	807
Connecticut	823
Delaware	498
District of Columbia	963
Florida	1,083
Georgia	672
Hawaii	837
Idaho	457
Illinois	660
Indiana	639
Iowa	594
Kansas	836
Kentucky	628
Louisiana	1,144
Maine	553
Maryland	696
Massachusetts	827
Michigan	734
Minnesota	790
Mississippi	939
Missouri	688
Montana	663
Nebraska	767
Nevada	671
New Hampshire	636
New Jersey	682
New Mexico	605
New York	842
North Carolina	644

North Dakota	736
Ohio	531
Oklahoma	996
Oregon	491
Pennsylvania	624
Rhode Island	849
South Carolina	817
South Dakota	622
Tennessee	692
Texas	1,372
Utah	477
Vermont	646
Virginia	641
Washington	589
West Virginia	640
Wisconsin	495
Wyoming	649
Countrywide	\$764

Source: National Association of Insurance Commissioners



Top Writers of Home Insurance in Michigan

<u>Company/Group</u>	<u>Written Premium</u>	<u>Market Share</u>
1. State Farm	\$421,914,000	19%
2. Home-Owners	299,298,000	14%
3. Auto Club	226,910,000	10%
4. Citizens	203,399,000	9%
5. Allstate	115,445,000	5%
6 .Farm Bureau	105,810,000	5%
7. Fire Ins. Exchange	58,085,000	3%
8. Frankenmuth	52,909,000	2%
9. Pioneer	51,906,000	2%
10.MEEMIC	43,976,000	2%

Source: Michigan Office of Financial and Insurance Services

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Premium Dollar Breakdown In the United States - 2005

PREMIUMS EARNED: **\$100**

CLAIMS:

Property Damage:

Fire and lightning	\$16	
Wind and hail	30	
Water damage and freezing	11	
All other property damage	4	
Theft	2	
Subtotal		\$63

Liability:

Bodily injury and property damage	\$2	
Medical payments and other	1	
Cost of settling claims	9	
Total claims		\$75

EXPENSES:

Commissions, other selling expenses	\$21	
General expenses	5	
State taxes, licenses and fees	3	
Dividend to policyholders	1	
Total expenses		\$30

Claims and expense total **\$105**

BOTTOM LINE:

Investment gain	\$8	
Pretax income (\$100-\$105+\$8)	3	
Tax	1	
Income after taxes		\$2

Source: Insurance Information Institute estimate based on data from ISO and the National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.

Renters Insurance

Renters shouldn't overlook the need for insurance.

If a renter's building is destroyed, the insurance policy purchased by the landlord or property owner will cover the structure only. To recover for the loss of personal items, including furnishings, a renter must have purchased a policy.

However, a study released by the Independent Insurance Agents and Brokers of America indicated that nearly two-thirds of those living in U.S. rental properties are uninsured.

There is a policy tailored to fit the needs of renters. The renter's policy or HO-4 covers damage to possessions which result from perils such as explosion, fire or lightning, windstorm or hail, riot or civil commotion, theft and vandalism. It is similar to the package policy which is purchased by the owner of a house.

The average cost of a renter's insurance policy in Michigan is \$184 annually.

Although the renter's policy covers personal belongings such as furniture, appliances, clothing and jewelry, there are limitations on the amounts of coverage for certain types of personal property which are especially susceptible to loss. For example, coverage for cash generally has a \$200 limit. Dollar limitations for other valuables, such as jewelry, furs, firearms and silverware vary between \$1,000 and \$2,500 for loss by theft. Also, most renter's policies provide limited or no coverage for home computers. For an additional premium, consumers can purchase a policy endorsement which specifically describes each item and includes its dollar value.

The renter's policy usually includes several other coverages, such as additional living expenses which might be incurred if the residence is temporarily uninhabitable following a loss; personal liability insurance if someone is injured in your residence; and alterations or improvements the renter has made to the building at his/her own expense.

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Michigan Basic Property Insurance Association

Michigan Basic Property Insurance Association was established on October 29, 1968, along with 27 other state FAIR Plans (Fair Access to Insurance Requirements). The FAIR Plans were a result of the Federal Omnibus Housing Bill, passed on August 1, 1968.

The Omnibus Bill passed by the federal government provided for riot reinsurance if insurance companies would join together in statewide pools to offer basic property insurance to those who were ineligible in the voluntary market. The bill gave the responsibility of the formation of FAIR Plans and their operations to individual states.

Michigan Basic's purpose is to provide fair access to property insurance at standard rates regardless of property location.

Flood Insurance

In 1968 Congress created the National Flood Insurance Program (NFIP) in response to the rising cost of taxpayer-funded disaster relief for flood victims and the increasing amount of damage caused by floods.

The NFIP makes federally-backed flood insurance available in communities that agree to adopt and enforce floodplain management ordinances to reduce future flood damage.

Currently, about 797 Michigan communities participate in the federal program, and over 27,600 policies are in force with coverage of nearly \$4 billion. Under the NFIP, a flood is defined in part as a general and temporary condition of partial or complete inundation of normally dry land areas from overflow of inland or tidal waters, or from the unusual and rapid accumulation of runoff of surface waters from any source.

It is important to note that this flood definition covers general street flooding that enters a home, and not

just from a river. In the standard flood insurance policy, direct physical losses by flood are covered. Also covered are losses resulting from erosion caused by waves or currents of water exceeding anticipated cyclical levels or erosion accompanied by a severe storm, flash flood, abnormal tidal surge, or the like. Basement flooding is a covered hazard under the NFIP policy. However, homeowners should be aware that personal property is not covered in a basement location. Losses from water seepage, sewer backup, or hydrostatic pressure are covered only when they occur in conjunction with a general condition of flooding.

To purchase flood insurance under the program, residents must live in one of the participating communities. Coverage can be obtained through most licensed property/casualty insurance agents. If you would like more information about the NFIP, please contact the Michigan Department of Environmental Quality, Land and Water Management Division, P.O. Box 30458, Lansing, MI 48909, by email to thomasl@michigan.gov, or by telephone at 517-335-3448.

Tornadoes In Michigan

An average of 16 tornadoes occur in Michigan each year. Since 1950, 242 persons have been killed due to tornadoes. During this same time, Michigan has experienced 906 tornadoes.

Most tornadoes occur during the months of May, June, July and August in the late afternoon and evening hours. However, tornadoes can occur anytime of the day or night in almost any month during the year.

A tornado/severe thunderstorm **watch** is issued whenever conditions exist for severe weather to develop. Watches are usually for large areas about two-thirds the size of Lower Michigan and are usually two-to-six hours long. Watches give you time to plan and prepare. A tornado **warning** is issued whenever a tornado has been sighted or Doppler Radar indicates a thunderstorm capable of producing a tornado. If a **warning** is issued, take cover immediately.

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Tornadoes in Michigan

Tornadoes By County - 1950-2006

County	1950-07	2007
Alcona	10	0
Alger	6	0
Allegan	24	0
Alpena	14	2
Antrim	9	1
Arenac	7	1
Baraga	2	0
Barry	17	0
Bay	12	0
Benzie	4	0
Berrien	28	0
Branch	15	0
Calhoun	15	0
Cass	14	0
Charlevoix	4	0
Cheboygan	6	1
Chippewa	6	0
Clare	7	0
Clinton	17	0
Crawford	10	0
Delta	10	0
Dickinson	7	0
Eaton	23	1
Emmet	5	0
Genesee	41	2
Gladwin	9	0
Gogebic	3	0
Grand Traverse	4	0
Gratiot	14	0
Hillsdale	23	0
Houghton	1	0
Huron	12	1
Ingham	26	2
Ionia	17	0
Iosco	11	0
Iron	5	0
Isabella	13	0
Jackson	17	0
Kalamazoo	22	0
Kalkaska	7	1

Kent	31	0
Keweenaw	2	0
Lake	2	0
Lapeer	20	1
Leelanau	3	0
Lenawee	31	0
Livingston	24	1
Luce	2	0
Mackinac	5	0
Macomb	18	0
Manistee	1	0
Marquette	6	0
Mason	4	0
Mecosta	9	0
Menominee	7	1
Midland	8	0
Missaukee	8	0
Monroe	28	0
Montcalm	11	1
Montmorency	6	0
Muskegon	7	0
Newaygo	12	0
Oakland	31	1
Oceana	5	0
Ogemaw	13	0
Ontonagon	2	0
Osceola	15	0
Oscoda	5	2
Otsego	3	0
Ottawa	18	0
Presque Isle	6	0
Roscommon	8	0
Saginaw	21	0
Sanilac	14	1
Schoolcraft	3	0
Shiawassee	25	2
St. Clair	20	0
St. Joseph	9	0
Tuscola	17	2
Van Buren	16	0
Washtenaw	24	1
Wayne	27	0
Wexford	7	0

Source: Michigan Committee for Severe Weather Awareness

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Fire In Michigan

The number of fires in Michigan decreased slightly from 35,956 in 2005 to 34,858 in 2006. Losses from fires totaled \$1,661,514,089 in 2006.

<u>County</u>	<u>2006</u>	<u>\$ Loss</u>
Alcona	69	\$1,170,000
Alger	36	165,600
Allegan	278	3,484,200
Alpena	61	486,100
Antrim	110	95,800
Arenac	67	408,580
Baraga	12	not reported
Barry	207	4,875,926
Bay	200	1,368,430
Benzie	36	113,400
Berrien	683	6,393,421
Branch	153	1,536,536
Calhoun	241	1,627,190
Cass	237	2,873,120
Charlevoix	58	157,710
Cheboygan	37	958,050
Chippewa	94	974,752
Clare	170	837,550
Clinton	170	2,411,130
Crawford	83	843,970
Delta	96	5,507,895
Dickinson	49	506,720
Eaton	312	4,156,883
Emmet	41	183,370
Genesee	643	20,451,614
Gladwin	101	198,600
Gogebic	33	379,200
Grand Traverse	268	1,379,208
Gratiot	187	718,000
Hillsdale	149	2,919,580
Houghton	114	632,380
Huron	85	1,438,550
Ingham	545	6,376,806
Ionia	213	1,540,221
Iosco	82	1,742,675
Iron	77	427,578
Isabella	211	3,525,800
Jackson	455	4,965,055
Kalamazoo	472	5,636,096
Kalkaska	62	133,540

<u>County</u>	<u>2006</u>	<u>\$ Loss</u>
Kent	1,851	14,556,277
Keweenaw	18	454,300
Lake	42	not reported
Lapeer	145	2,867,650
Leelanau	30	294,800
Lenawee	310	3,427,153
Livingston	358	1,800,288
Luce	9	302,000
Mackinac	48	669,500
Macomb	2,073	31,701,375
Manistee	84	1,062,150
Marquette	165	1,560,730
Mason	116	1,515,000
Mecosta	115	836,165
Menominee	88	632,700
Midland	123	1,478,522
Missaukee	36	731,000
Monroe	398	4,785,320
Montcalm	178	2,566,096
Montmorency	44	111,700
Muskegon	574	2,920,653
Newaygo	144	662,800
Oakland	2,599	35,452,569
Oceana	119	525,650
Ogemaw	104	777,000
Ontonagon	30	284,620
Osceola	59	1,755,255
Oscoda	47	1,981,880
Otsego	71	434,000
Ottawa	438	2,601,049
Presque Isle	31	11,000
Roscommon	105	2,168,950
Saginaw	1,053	9,923,593
St. Clair	426	11,006,735
St. Joseph	194	3,088,294
Sanilac	61	525,575
Schoolcraft	30	279,700
Shiawassee	176	1,141,570
Tuscola	187	4,385,801
Van Buren	245	1,868,300
Washtenaw	618	5,993,229
Wayne	14,042	1,408,669,692
Wexford	77	102,300
TOTAL	34,858	\$1,661,514,089

Source: Michigan Bureau of Fire Services