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Home Insurance FAQs

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Whether you've owned your home for decades or are a first-time homeowner, having a home is a big deal. Yet, it's not uncommon for even the most seasoned property owners to still have homeowners insurance questions about their specific policies or insurance in general as new risks arise and old ones stop being as relevant.

When those questions come up, it's important to seek out thorough answers from qualified specialists so you can make changes to your policy as needed and make sure that your home is adequately covered in all of the places where it is most vulnerable. Whether you want to know what factors affect your home insurance premium or are curious about actual cash and replacement cost value coverage, make sure you're asking all of the right questions. Here are some of the important homeowners questions you should ask and the answers to them.

What are the components that affect my home insurance?

Home insurance premiums are affected by a variety of factors, ranging from the value of the property and the goods stored in it to the probability of some kind of natural disaster occurring that could damage or completely destroy the home. The premium cost also takes into account the likelihood that someone who doesn't live in the home could get injured while visiting and considers the likelihood that theft or damage to personal belongings could occur.

Costs also depend on the home's geographic location. For example, some states like Vermont and Utah have a low exposure risk to natural disasters, such as hail, lightning or fire. As such, insurance providers know that it's unlikely that they will

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lightning or fire. As such, insurance providers know that it's unlikely that they will suffer a lot of legitimate claims relating to property damage from natural hazards in these areas. Homeowners in these areas will have lower premiums.

However, states with more risk will have higher averages. For example, Mississippi is in the top five most expensive states for insurance at **$2,530**. Mississippi registered the second-most **home invasions** in the U.S. in 2018 with 697.8 per 100,000 inhabitants. It's much more likely that a policyholder will file a claim regarding damaged or stolen goods, so premiums are more expensive.

What are the coverages that make up home insurance?

Home insurance policies generally all include a few basic coverage components with a couple of variations depending on the provider. For the most part, home insurance policy will feature dwelling, other structures, personal property, loss-of-use, personal liability and occasionally medical payments insurance.

- **Dwelling and other structure insurance** cover most damage that a house, a garage and any other standalone structures like sheds or carports on a policyholder's property suffer.
- **Personal property insurance** covers the theft or damage of a policyholder's valuables on the premises of their property or, in some cases, anywhere in the world. For example, if your laptop is stolen while you're on vacation, your insurance might be able to cover it.
- **Loss-of-use coverage** takes care of any costs associated with a temporary move when the homeowner's house is not habitable for a period of time due to covered damages and the need for repairs that can't be done with people in the house.
- **Personal liability** coverage pays for costs associated with another party's injuries while on a policyholder's property, including legal and medical costs.

How do I calculate how much home insurance I need?

To figure out how much home insurance you need, you should calculate the replacement cost of your home, which your insurance provider can help you with. Essentially, the replacement cost is the amount that it would cost your insurance provider to rebuild your house and replace all of the goods within it if it were completely destroyed.

Because the insurance company needs to restore the home to its original state, the replacement cost is what the home and the valuables within it were valued at when everything was first insured, as opposed to what their value may have been after having depreciated somewhat and at the time that the damage took place.

Apart from this highly-technical calculation, homeowners insurance policies will often vary terms of the coverage that they offer in different areas. It's not

uncommon, however, to see loss-of-use and personal property coverage expressed as a fraction of the overall dwelling coverage.

What are home insurance deductibles?

A home insurance deductible is the amount of the loss payment that you pay out of pocket when damage to your home, loss of valuables, loss-of-use, or a liability incident occurs. For example, if you have a $500 deductible and suffer $10,000-worth of damage, you will be responsible for paying $500 of the $10,000 out of pocket before your insurance provider steps in and covers the rest.

The general rule of thumb for homeowners insurance is that the higher your deductible is, the lower your premium will be and vice versa. Most home insurance policies allow users to decide whether they want to pay a dollar-based deductible or a percentage-based deductible on their policy. A dollar-based deductible is like the example above, whereas a percentage-based deductible is calculated using the dwelling value as a base number. For example, if the dwelling were valued at $500,000 and the homeowner paid a 1% deductible, they would pay a $5,000 deductible.

What is the difference between home and renters insurance?

Home insurance covers the components listed above: liability, dwelling, medical, loss-of-use and personal property that gets stolen or damaged.

Renters insurance is designed for individuals who don’t own the space within which they live but have valuables in nonetheless. n renters insurance plans, policyholders are effectively protecting the items that they own and themselves in the case that they have a guest over whose injury they could be found liable for. In short, renters insurance is just the personal property and liability coverage of homeowners insurance.

What is not covered by homeowners insurance?

The things not covered by standard homeowners insurance will vary from provider to provider. Generally, though, events like floods, earthquakes, government mandates and hail, in some cases, are not covered.

To make sure that your home is protected in such hazardous circumstances, you may have to purchase an add-on or “rider” to your home insurance policy.

Is homeowners insurance required?

While homeowners insurance is not legally required, any homeowner who used a mortgage to help finance their home will be legally required to purchase insurance for their home by the lender. This is because the home does not technically belong to the homeowner as long as there is still an outstanding debt to be paid to the lender.

In doing this, the mortgage provider protects their investment by making sure that in the event of damage occurring to your home, you are able to collect a lump sum, get your home repaired and continue making payments to the lender lump sum, get your home repaired and continue making payments to the lender without any interruptions.

What is the difference between actual cash value and replacement cost value?

If your valuables are stolen or damaged, insurance companies have two options with respect to how they choose to replace it. One option is via an actual cash value (ACV) pay-out, which gives policyholders the money it would cost to replace the item, minus estimated depreciation. The other option is via a replacement cost value (RCV) pay-out, which provides a lump sum payment that is equal to the value of a brand new version of the item.

Because it's more expensive to replace an item with a brand new item than with its depreciated value, having a replacement cost value caveat in your insurance policy is more expensive.

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