Reprinted with minor edits from the Rocky Mountain Insurance Information Association website.http://www.rmiia.org/homeowners/Walking_Through_Your_Policy/Homeowners_Insurance_basics.asp

Most people don't even want to consider insurance until they need it the most. But understanding what is and isn't covered in your homeowner's insurance policy can mean the difference between being able to rebuild your home and replace your personal belongings. Homeowners need to do annual insurance policy "checkups" to ensure they keep up with local building costs, home remodeling, and inventories of their personal belongings.

The typical homeowner's insurance policy covers damage resulting from fire, windstorm, hail, water damage (excluding flooding), riots, and explosions, as well as other causes of loss, such as theft and the extra cost of living elsewhere while the structure is being repaired or rebuilt.

Your policy also covers your legal liability (up to policy limits) if you, members of your family or even your pets hurt other people or their property, not just in your house but away from it. Click here for more information on general liability coverage and umbrella policies.

When you insure your home, you are really insuring two distinct things:

1. The structure of your home
2. Your personal belongings

The Structure of Your Home

Three ways to insure the structure of your home:

1. **Replacement Cost.** Insurance that pays the policyholder the cost of replacing the damaged property without deduction for depreciation but limited to a maximum dollar amount.

2. **Extended Replacement Cost.** An extended replacement cost policy, one that covers costs up to a certain percentage over the limit (usually 20%). This gives you protection against such things as a sudden increase in construction costs.

3. **Actual Cash Value** covers the cost of replacing your home minus depreciation costs for age and use. For example, if your roof's life expectancy is 20 years and it is 15 years old, the cost to replace it in today's marketplace will be much higher than its actual cash value.

Tips for Insuring Your Home to Value
You should insure your home for the total amount it would cost to rebuild it if it were destroyed. That's not the market value but the cost to rebuild. If you don't have sufficient insurance, your company may only pay a portion of the cost of replacing or repairing damaged items. Here are some tips to help make sure you have enough insurance:

- **For a quick estimate on the amount to rebuild your home:** multiply the local building costs per square foot by the total square footage of your house. To find out the building rates in your area, consult your local builders association or a reputable builder. You should also check with your insurance agent or company representative. *(Note: This is only an estimate and shouldn't replace annual coverage reviews)*.

- **Factors that will determine the cost to rebuild your home:** a) construction costs b) square footage of the structure c) type of exterior wall construction—frame, masonry or veneer d) the style of the house (ranch, colonial) e) the number of rooms & bathrooms f) the type of roof g) attached garages, fireplaces, exterior trim and other special features like arched windows or unique interior trim.

- **Check the value of your insurance policy against rising local building cost EACH YEAR.** Check with your insurance agent or company representative if they offer an "INFLATION GUARD CLAUSE." This automatically adjusts the dwelling limit when you renew your policy to reflect current construction costs in your area. However, you still should keep up with local building costs by checking in periodically with your local builder's association.

- **Check the latest building codes in your community.** Building codes require structures to be constructed to minimum standards. If your home is severely damaged, you might have to rebuild it to comply with the new standards requiring a change in design or building materials. These generally cost more.

- **Do not insure your home for its market value.** The cost of rebuilding it may be higher or lower than the price you paid for it or the price you could sell it for today.

- **Most lenders require you to buy enough insurance to cover the amount of your mortgage.** Make sure it's also enough to cover the cost of rebuilding.

- **Advise your insurer and increase the limits of your policy if you make improvements or additions to your house.**

Your Personal Belongings

Two ways to insure your personal belongings:

1. **Replacement Cost Coverage.** Insurance that pays the dollar amount needed to replace damaged personal property with items of like kind or quality without deduction for depreciation.

2. **Actual Cash Value.** Insurance under which the policyholder receives an amount equal to the replacement value of damaged property minus depreciation. Unless a homeowners policy specifies that property is covered for its replacement value, the coverage is for actual cash value.

Here are a few things to keep in mind when you're insuring your stuff:

- **Check the limits of your policy on personal items,** such as jewelry, silverware, furs and computer equipment. If the limits are too low, consider buying a special personal property endorsement or a "floater." An endorsement is an addition to your policy. A floater is a form of insurance that allows you to insure valuable items separately.

- **Make an inventory** of everything you own in your home and in other buildings on the property. Write down major items you own along with all available information, such as (a) serial numbers (b) make and/or model numbers (c) purchase prices (d) present value (e) date of purchase. Click here for more on home inventories.

- **Document your inventory.** Take either still or video pictures and attach receipts to the inventory when available. Store the inventory and visual records AWAY from your home—perhaps in a safe deposit box.

- **Update the inventory** when you make major purchases.