



NW Insurance Council

Consumer Alert

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Many homes may be uninsured. Is your policy keeping up with your property?

SEATTLE, July 8, 2020 – If tragedy struck your home – as wildfires have done to homeowners in the Northwest and California in recent years – would your homeowners policy pay to completely replace your home and its contents, or would you reach your policy limits before construction could be finished?

In 2018, a report by the insurance and business analytics firm [CoreLogic](#) estimated that three out of five homes in the United States are underinsured by at least 20 percent of their full value. That could lead to an unpleasant surprise for any insured homeowner whose home is completely destroyed by, for example, a wildfire – only to discover that the rising cost of rebuilding their home and replacing its contents have risen above the limits of their [homeowners insurance](#) policy.

The good news is, there is a remedy for this potential problem – if consumers act *before* a tragedy strikes. That's why **NW Insurance Council** urges homeowners to review their policies with their insurance company or agent – and inquire about extended or guaranteed replacement cost coverage for their homes and possessions.

Many homeowners insurance policies include automatic “inflation guard clauses” that increase the policy’s limits equal to inflation – but not all do. And even if your policy includes that guard, inflationary increases may not reflect the rapid increase in the value of homes or the true cost of construction materials many communities have recently witnessed in the Northwest. For that peace of mind, homeowners may want to consider “extended” or “guaranteed” replacement cost policies.

An *extended replacement cost* policy pays a certain percentage above the limit. A *guaranteed replacement cost* policy pays to rebuild a home as it was before the disaster without regard to the limit.

“Many people are looking for the most affordable option for insurance when they buy a home, and a fixed-limit homeowners policy with or without an inflation guard clause may be less expensive,” said NW Insurance Council president, Kenton Brine. “But the limits of that policy may not be enough if the cost of rebuilding and refurnishing your home have risen in the way many Northwest communities have seen lately.”

Not every home may be eligible for replacement cost coverage – some older homes with unique or costly architectural features, for example. But there are typically options offered by insurers to increase the coverage limits on most dwellings to help cover rebuilding costs if a home becomes a total loss. It all starts with estimating your home’s value and the cost to rebuild if it were destroyed.

The [Insurance Information Institute](#) offers a free brochure with [tips and information](#) on determining your home’s replacement cost and whether you should consider additional coverage through an endorsement or switching to extended or guaranteed replacement cost coverage. Tips include:

- **Learn more about “actual cash value” vs. “replacement cost”** policies by talking with your insurance company or agent. Know which type of policy you have – and which best fits your budget and your needs.

- **Learn about other coverage options for your home and its contents**, including endorsements that change conditions or limits of your policy or “floaters” – policies that apply to possessions that are movable and unique or expensive, like jewelry, art or collectibles.
- **Make sure you know the limits – for dwelling as well as contents** – under your current homeowners policy.
- **Find out your home’s value** – not just the market value, but the cost to actually rebuild your home as it is today and to replace all of its contents. Your insurer, agent or real estate professional may be able to help you find a home appraiser for this task.
- **Keep a complete and up-to-date inventory of your possessions** in case they are lost or stolen, and have those items appraised as well to determine whether the “contents” limits on your homeowners policies are keeping up with the value of your possessions.
- **Find out about any significant building code changes in your community** – they could affect the cost of rebuilding, and those costs may not automatically be included in your policy limits.
- **Remember that standard homeowners insurance policies specifically *exclude*** some perils, including floods, earthquakes, mudflow/landslide and sinkholes. If you live in an area where there is a threat of these perils, coverage is likely available through the [National Flood Insurance Program](#), from companies that write earthquake insurance, or from specialty “Surplus Lines” insurance brokers that write [“Difference in Conditions”](#) policies.

For more information, call NW Insurance Council at (800) 664-4942 or send an email to info@nwinsurance.org.

NW Insurance Council is a nonprofit, insurer-supported organization providing information about home, auto and business insurance to consumers, media and public policymakers in Washington, Oregon and Idaho.

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