DEFINE FINANCIAL

THE RIGHT WAY TO USE HOMEOWNERS INSURANCE

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Homeowners insurance is more than just another bill the mortgage company makes us pay every year! It is the price we pay for peace of mind if our property is damaged in a fire or destroyed in certain natural disasters.

Unfortunately, homeowners insurance is not cheap. And if you do not take steps to mitigate the costs of this coverage, you could wind up paying way more than you need to.

You May Be Paying Too Much For Homeowners Insurance

We see this with our clients a lot. Many people are overpaying for homeowners insurance simply because they stick with the policies they have had for the long run. Because of this, consumer expert Clark Howard says you should [1]shop around for a new homeowners insurance policy at least once every three years.

But, why do you need to re-shop your insurance policy every three years? Because insurance companies implement a loyalty penalty. This loyalty penalty assures that, when insurance companies raise their insurance rates periodically, existing customers take the brunt of price increases. If you are not looking closely, yearly rate increases can cause the price of your premiums to surge dramatically.

Besides getting a competitive rate on your policy by shopping around for homeowners insurance every few years, there is another way to save money on insurance. This strategy to help you save money on homeowners insurance involves keeping an eye on your deductibles. You can read our [2]auto insurance blog post to learn more about how to manage deductibles.

Homeowners Insurance To Protect The Big Stuff

There are many things not covered by conventional homeowners insurance. For example, theft of your jewelry collection is not usually covered by a standard homeowner's insurance policy. Nor is that the case for damage caused by a backed-up sewer line. For this reason, you can purchase additional mini-insurance policies (called riders) for all sorts of miscellaneous coverage. (Riders are a type of mini, or add-on insurance policy.) You can even purchase entirely new standalone insurance policies. But, should you?

If you spend your hard-earned money on any these insurance policies that offer a very limited benefit, that means you have most likely misunderstood the role of insurance. Here is what you need to know: We do not want be purchasing additional riders or entire policies to cover losses of small amounts.

Protecting ourselves from small financial losses is not what insurance is for! **Insurance should only be used to cover big financial losses**. Consider a $1,500 jewelry rider. If you have $1,500 cash in the bank, you don't need to pay for an insurance policy that will pay out $1,500 at most.

Flood Insurance

Damage to a home by a flood could very well be catastrophic. For this reason, you will likely want to buy a flood insurance policy. Believe it or not, we suggest our clients hold flood insurance – even if they are not in a flood zone. This is because [3]not all claims on the national flood insurance program are made by those inside the designated special flood hazard areas. The Federal Emergency Management Agency (FEMA) reports that:

> "More than 20 percent of flood claims come from properties outside the high risk flood zone."

Said another way, if you do not necessarily live in a flood zone, you can still see damage to your property from a flood. And that damage can lead to hundreds of thousands of dollars in losses in a hurry.

Earthquake Insurance

We see our clients forgo earthquake insurance for a few different reasons. The most popular reasons people skip this coverage include:

- the price
- the deductible

Let us start by focusing on the price. Sure, earthquake insurance can cost several hundred dollars per year. Like a lot of insurance policies, it is an expense that many of us would rather not pay. After all, several hundred dollars a year could be spent in any infinite number of ways, such as:

- Several date nights
- A ski trip
- Hoarding [4]cryptocurrency

But remember, we use insurance to protect ourselves from financially catastrophic losses. And losing a house in an earthquake is a financially catastrophic loss. So, go out and get earthquake insurance today!

Now let us talk about the deductible on your earthquake insurance policy. The sheer size of the deductible in an earthquake insurance policy frequently turns off many would-be policy owners. (Remember, the deductible is the amount that you must pay before the insurance company pays up. You can think of a deductible as a financial line in the sand.) If the size of the deductible is turning you off from buying an earthquake policy, there is a simple solution: lower your deductible. In California, you should be able to decrease your deductible to just 5% of your home's value. While a 5% deductible can still mean paying out a large chunk of cash in the event of a loss, it will be a lot easier to handle than a deductible of 15% or 25%.

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At the end of the day, homeowners insurance is important coverage you need to protect yourself from catastrophic losses. On the flip side, however, you should remember that this coverage is not intended to shield you from small losses due to theft or other issues.

And if you want to save money on homeowners insurance, make sure to shop around for a new policy every few years. If you do, you can protect yourself from rising costs by letting the competition bid for your dollars.

REFERENCES

[1] http://clark.com/insurance/car-insurance/auto-car-insurance-annual-mileage-impacts-rates/

[2] https://www.definefinancial.com/blog/save-money-auto-insurance/

[3] https://www.fema.gov/national-flood-insurance-program

[4] https://www.definefinancial.com/blog/invest-bitcoin/

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Clients should contact adviser directly if they believe that there may be an error in their statement.

We urge our clients to carefully compare the information provided on our statements to statements provided by their custodian in order to ensure that all account transactions, holdings and values are correct and current.