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FAMILY FINANCIAL MANAGEMENT

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THIS MONTH'S TOPIC:

Preparing for the Unexpected

Many people purchase insurance, such as home, auto, or life, to protect them financially if an unexpected event occurs. It is important to review your policies on an annual basis to ensure they still meet your current needs. The recent spring storms in Kentucky serve as a reminder of the importance of updating and understanding your insurance policies. The best time to plan is always before a disaster or crisis occurs.

Homeowner's insurance is designed to protect the property owner against financial loss from unfortunate events, such as fire, wind, hail, or theft. Homeowner's insurance is required by lenders if there is a mortgage on the property. Because all homeowner's policies are different, it is important to understand the coverage provided by your specific policy. Typically, your homeowner's policy will provide coverage for damage to your house or dwelling and anything attached to the main house, such as an attached garage. Additionally, your homeowner's policy will provide coverage for loss associated with the contents of your house. Examples of home contents which may be covered include furniture, appliances, electronics, and clothing.

In general, a standard homeowner's policy is based on the value of the main house. For insurance to provide coverage for a complete loss, the amount of the policy should be at least 80 percent of the home's value. The insurance value for detached structures (garages, storage sheds, etc.) and contents are then based on the home's insured value. Detached structures are typically insured at ten percent of the home's value and contents or personal property at 50 percent. However, it is important to note that certain items, such as jewelry and electronics, may have a specific dollar amount limit detailed in your policy. If you have not purchased a separate rider (additional insurance policy) specifically for these items, they may not be fully covered. Based on your specific homeowner's policy, you may also have additional coverage for landscaping and loss of use.

Determining Property Coverage

A house is typically insured at 80 percent of its current replacement cost. Replacement cost is simply the amount of money it would take to rebuild a similar home based on today's construction prices. Unfortunately, if you purchased your homeowner's policy several years ago and have not updated the policy amount as construction prices have increased or do not have inflation protection as part of your policy, you may be underinsured. If your home is insured for less than 80 percent of the replacement cost, you will receive a prorated or reduced amount on your claims.

Understanding the Difference between Actual Value and Replacement Cost

The amount you receive for your losses will depend on the type of insurance, actual cash value or replacement cost value, you have purchased. Replacement cost coverage is typically more expensive coverage; however, in the event of a claim or loss, it will pay more. Replacement cost coverage provides enough money to replace the damaged item with a new item, while actual value coverage only pays what the item is currently worth or the depreciated value. Actual cash value coverage assumes you will be replacing the item with a similar item, in terms of age and condition, purchased at a consignment store or garage sale. If you choose to replace items lost with new items, the difference between the replacement cost and amount of money received from the insurance company will be an out-of-pocket expense.

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Making Financial Recovery a Family Affair

When your family faces hard financial times, especially those resulting from a natural disaster, it affects everyone—including children. There are ways to help your older child cope with the aftermath of a natural disaster. When family finances are uncertain, your adolescent may feel frustrated, afraid, angry, or even hopeless. Reassure your child that these feelings are normal, and that together your family can overcome difficult circumstances. One way to help teenagers feel more hopeful about the future is to involve them in the financial recovery effort. Have your child make a list of his/her damaged property, and the degree of damage to each item. Remind them to include any missing items on their list, and if possible, allow your child to take pictures of the damages. Also, suggest that your older children draw pre-damage "blueprints" of their bedrooms or personal spaces while taking inventory. This will help you prepare necessary insurance paperwork as you assess your family's losses. More important, however, is that entrusting older children with tasks helps provide them with a better sense of control during an otherwise uncertain time.

Written by: Nichole Huff, Doctoral Student, Family Sciences

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