INSURANCE GUIDE

Homeowner’s Insurance

Shopping for home insurance can be a frustrating and confusing process. It is very import to know exactly what you’re purchasing. Each homeowner’s insurance policy can vary significantly from another. Think of it as buying a new car. You can buy the base model much cheaper than you can buy a model with all the options. In fact, some of these options are so important to you that they may be the determining factor on whether you buy a specific car or not. This decision process is even more important when shopping for home insurance.

Most people make the mistake of shopping for their insurance based on price alone. What they usually end up with is the wrong coverage for a cheaper price!

The following are **very important areas** that you must completely understand in a homeowner’s insurance policy from any insurance company:

Insured to Value Clause: This clause is in every homeowner’s policy, yet few agents or companies ever explain it. It states that your home must be insured greater than 80% of the amount required to rebuild your home in order for the insurance company to fully replace your home. THIS IS VERY IMPORTANT, and the reason why most people with insurance still cannot afford to rebuild their homes after a loss. If you insure your home less than its full replacement cost, you need to be aware of two possible claim penalties.

1.) **The first penalty occurs if you are underinsured for a total loss (the complete destruction of your home).** Say your home, which you insured for $300,000, burns to the ground and the cost to rebuild is $400,000. Since you insured your home for $300,000, you suffer an out-of-pocket loss of $100,000. Why? This is the result of your home being insured less than the 80% Insured to Value Clause required in the policy and disqualifies you for receiving the Extended Replacement Cost Endorsement to fully rebuild your home.

2.) **The second penalty for underinsurance occurs when your home has a partial loss.** Say you insured your home 10 years ago for $250,000 and the cost to rebuild today is $500,000. Let’s assume you had a kitchen fire with extensive smoke and water damage, and the cost to repair your home is $150,000. Your insurance company pays you $100,000. You’re out $50,000. Why? The vast majority of homeowners’ policies will only pay for the full cost to replace partial damage to your home if you insure your home for at least 80% or more of the cost to rebuild a new one. If you insure your home for less than 80%, your claim settlement will be depreciated.

    Translated into English, the policy essentially states that if you insure your home for a depreciated replacement value (in this case $250,000), then the insurance company will settle with you on a depreciated basis. The $50,000 penalty in this example represents the amount of depreciation deducted from the repair costs.

If, on the other hand, you insure your home for its cost to build new today (or at least 80% of that value, according to the formula in the policy), the insurance company settles your claim for the full cost of the damage – up to your policy limit.

You must always insure your home for 100% of the cost to rebuild it today. Most insurance companies will not let you insure for less than 100% replacement cost when you buy a policy, but it is up to you to make sure that you keep up with building cost inflation after you buy the policy. It is dangerous to just sit on a policy year after year assuming it is still adequate. Make sure you review your replacement cost every few years to avoid underinsurance. Don't risk not having enough insurance to rebuild if your home is destroyed or having your repair costs substantially depreciated on partial losses. Ask your agent to run a new estimate every few years to ensure your coverage is adequate to avoid underinsurance penalties.

Personal Liability Coverage: The cost of coverage for your personal liability for injuries and property damage that you're determined to be liable for is a very small part of your total homeowner's policy premium, and it is just about the most important coverage in the policy. Why? Because it is so comprehensive, covering most of your non-vehicle personal liability worldwide.

Here are some examples of claims that personal liability will cover that our clients have experienced:

- A friend stops by your home unannounced and brings their 83-year-old mother. She slips in your kitchen and hits her head on the countertop, causing her to pass away and resulting in a $500,000 liability claim.
- A puppy escapes out of the front door and scares and elderly women, causing her to fall and break her hip and resulting in an $181,000 claim.
- A barbeque grill catches fire and burns a guest who also inhales smoke, resulting in a $125,000 claim.
- A child, who is away at school, is a member of a fraternity. The fraternity puts a pledge member through hazing, and the pledge falls off the roof, causing permanent totally disability and resulting in a $250,000 dollar claim. Our client's child wasn't even at the fraternity that day, but all members were sued.
- A guest falls down the stairs causing a severe head injury, resulting in memory loss and a $500,000 claim.

The bottom line is Personal Liability Coverage is great coverage! Most homeowner's policies include $100,000 of coverage at no extra charge.

The biggest mistake people make with personal liability coverage is not buying more than the free coverage provided in the policy. You don't know where the lawsuit could come from, so you want to make sure you're protected. The cost of higher limits is minimal. Additional Personal Liability Limits is truly one of the best values in insurance. An extra $200,000 only costs approximately $18 per year, and an extra $400,000 is approximately $35 per year. How much should you buy? Anyone with less than $500,000 is underinsured. In California, most people should have at least $1,000,000.

Other Important Homeowner Policy Coverages: In addition to being insured-to-value and selecting adequate personal liability limits, an effective home insurance policy includes several other coverages. For the purpose of keeping this guide short and effective, we've provided a list of other key coverages you need to discuss with your insurance professional.

- Law and Ordinance
- Loss Assessment from your HOA
- Loss of Use/Additional Living Expense
- Guest Medical Payments
- Other Structures such as: pools, detached garages, fences, guest homes, etc.
- High Value Items such as: jewelry, fine art, guns, antiques, cameras, musical instruments, wine collections, etc.
- Workers' Compensation for resident employees
- Business Exposures

Homeowner's policies are outstanding values. They offer tremendous amounts of coverage for very little money; however, they can also be the most dangerous personal policies you can buy because they have the largest numbers of exclusions and limitations when not designed correctly to meet your specific needs.

When you're buying a homeowner's policy, work with an insurance professional to figure out which risks you're exposed to that fall outside the box of built-in coverage. Then you can develop a strategy for dealing with those risks. After your needs are defined, find the best-priced insurance company that can meet your needs. Don't fall into the temptation of focusing on price first, or you won't get what you need. When you focus on coverage needs first, most likely, you'll find you can still save money with an insurance plan that is right for you.

Auto Insurance

Your automobile is the greatest possible source of catastrophic lawsuits and legal judgments for major injuries, death and property damage. That's why it is so important to spend time setting up a solid auto insurance plan that will keep you from suffering significant financial losses following a serious car accident. Most cases that result in a large claim don't involve you flat out hitting someone. More likely, it's the situations that you get caught up in and are found liable for that cause the damage.

The following are very important areas of the auto policy that you must understand:

Liability for Bodily Injury: Liability Insurance provides defense for you and pays legal judgments on your behalf. The single biggest mistake people make when selecting liability limits is that they buy far too little. How much is enough? It depends on who the victim is and how suable you are.
Your Suability Factor is the probability of an injured party suing you for large sums greater than the amount of insurance you decided to buy. In order for this to happen you must be worth something now or are expected to be worth something in the future. Everything you have and make now or can make in the future is at risk. Why? Because if there is nothing to go after, most attorneys won't take the case to help an injured party sue you.

Your **Suability Factor** is influenced by several elements:

- **Your Current Income:** The more you make, the more your wages can be garnished.
- **Your Current Assets:** If you have expensive cars and homes, savings and investments, and other assets, there is more to go after. The courts can force liquidation to pay a judgment for which you're found liable.
- **Your Future Income:** If you're a medical intern, law-school student, MBA student, or in training for any other high-income potential training, your suability is higher. They'll go after what you potentially can make in the future, even if you're currently living in a studio apartment and eating ramen noodles every night.
- **Your Future Assets:** If your parents are wealthy or you stand to inherit a chunk of money, they'll go after it and wait for you to receive it to collect.

People with high current income or assets usually are aware of their suability, but people with little income or assets often overlook their future income or asset potential and the effect it has on their current stability. If you have one or more of these elements contributing to a high suability factor, the more you're open to be sued for amounts greater than your insurance limits, and you need higher liability limits to protect you. An added advantage of higher liability limits is that the closer your liability limits come to the economic value of the injury you cause, the greater the likelihood that the injured party will settle for your insurance policy limit and not pursue you – personally and beyond.

The Cost of Higher Liability Limits: It actually costs very little to raise your liability limits – you'll be amazed. When you look at what you're paying for the first $100,000 in coverage, it's only about $100 more per year to raise your limits to $250,000. Typically coverage more than $250,000 are sold in $1 million increments in a separate policy referred to as an umbrella policy. Consult with your insurance professional to make sure you have adequate liability limits for your specific situation.

Here are some examples of claims that Auto Liability Insurance will cover that our clients have experienced:

- A client was merging onto a freeway, and a motorcycle driver came into his blind spot causing the motorcycle driver to fall off the bike. The motorcycle driver had significant lifestyle-changing injuries. The result was an $850,000 claim. Thankfully our client had a $2 million umbrella policy and was fully covered.
- A client's foot slid off their brake while stopped at a stoplight, causing him to bump into the car in from of him. The driver in front of him had a prior neck injury, and it led to a $130,000 liability claim.
- A client was backing out of a parking lot and hit an elderly pedestrian, resulting in a small but expensive accident. The result was a $110,000 liability claim.
- A client was involved in heavy traffic on the freeway that came to a quick halt, causing him to rear end the auto in front of him. There were three people in the car. The passenger had $180,000 in injuries, the driver had $100,000 in injuries, and the other passenger had $55,000 in injuries.

Underinsured and Uninsured Motorist Coverage: When you're injured in a car accident caused by another driver, you can legally sue that driver in most states to collect the fair value of your injury. If that driver has auto liability insurance, his policy pays you on his behalf up to the policy limits he purchased. The economic value of your injury equals your out-of-pocket expenses plus compensation for your pain and suffering.

What happens if the other driver has no insurance at all? Or what if the insurance limit they have is less than the costs of your injury? You can get a legal judgment against them and try to collect from them personally, but that can be an expensive, long, drawn-out process. Plus, if they're not worth very much and have limited income, you may not collect much at all.

Fortunately, your own car insurance policy can solve the problem if you buy adequate limits of Underinsured Motorists and Uninsured Motorists Coverage.

- **Uninsured Motorists** are drivers who have no insurance at all.
- **Underinsured Motorists** are other drivers who have some auto liability insurance coverage but the economic value of your injury exceeds their policy limit.

See this coverage as *reverse liability* in that you collect some of all of the economic value of your injuries caused by the other driver from your own insurance company, almost as if they're the other driver's insurance company. In short, your policy would make up the gap between the other driver's liability coverage that he would have needed to pay your claim in full. Of course this assumes that you purchased adequate limits on underinsured or underinsured liability limits for yourself.

How does this work? Say you're injured in a non-fault accident by a driver that runs a stoplight. The economic value of your accident is $450,000. Now assume you bought $500,000 of Uninsured and Underinsured Motorists coverage on your own auto policy. For an underinsured, you would collect the other driver's liability limit (typically $100,000). Then you collect the balance of $350,000 from your own insurance company under your Underinsured Motorists coverage. If the other driver had been without any insurance at all, you would have collected the entire $450,000 under your Uninsured Motorists coverage.

The cost of Underinsured and Uninsured Motorists coverage is one of the cheapest parts of the auto policy. Buy as much protection for your own injuries (caused by another person) as you buy to cover the injuries you yourself cause unto someone else. Why? Because you're worth every bit as much as a complete stranger whom you might injure, and other people may not carry enough coverage to adequately take care of you.

Here are some examples of Underinsured and Uninsured Motorists claims that our clients have experienced:

- Our client was rear-ended by another driver carrying state minimum limits of $15,000 in liability coverage resulting in $480,000 in injuries. The driver who caused the accident had very little economic value. Out client carried $500,000 of Underinsured Motorists coverage resulting in his own insurance company paying the difference of $465,000.
- Our client was rear-ended by an uninsured driver resulting in $55,000 in medical bills. Our client's own insurance company paid under their Uninsured Motorists coverage.

Other Important Auto Policy Coverage: In addition to making sure you're adequately protected with Auto Liability coverage and Uninsured and Underinsured Motorists coverage, here are several other coverages in the auto policy to discuss with your insurance professional:

- Comprehensive Deductible(s)
- Collision Deductible(s)
- Rental Car Reimbursement
- Medical Payments
- Towing and Labor

Personal Umbrella Policy

You don't have enough liability insurance. Period! No one does. In over 5,000 insurance reviews for prospective clients, at least 90% of them were grossly underinsured for injury lawsuits. The most common liability limits on home and auto policies we see are either $100,000 per person or $300,000 per accident. That is not much for a human life – not enough to pay for all the medical expenses of the person you severely injure plus a lifetime of lost wages and compensation for pain and suffering.

If you don't have nearly enough coverage, what can you do? Here is some really good news: you can buy a second layer of liability coverage called a Personal Umbrella Policy, which sits on top of your other personal liability coverages for your home, auto, rental property, boat, and so on. It defends you when a covered lawsuit exceeds your primary liability policy limits.

Best of all, an Umbrella Policy is amazingly inexpensive. It usually cost between $150 and $200 per year for $1 million of coverage and about $100 per year for each additional $1 million in coverage.

Buying an Umbrella Policy is flat out the best value in insurance. It includes some of the broadest coverage in the insurance business at an incredibly low price. Most likely you don't have to increase your insurance bill – just shift your dollars away from less important coverages. For example, you can save money by raising your auto and home insurance deductibles to pay for the personal umbrella. It could be one of the best decisions you'll ever make.

Here are some examples of Personal Umbrella claims that our clients have experienced:

- In the claim example under the Auto Insurance section involving the motorcyclist, the claim was $850,000. The client's auto policy paid the first $250,000 and his personal umbrella policy paid for the remaining $600,000. Had he not purchased the umbrella policy, he would have been liable for the $600,000 personally.

- In the claim example under the Home Insurance section involving the elderly woman that resulted in a $500,000 settlement, the homeowner's policy covered the first $300,000 and the personal umbrella covered the remaining $200,000. Had the client not had an umbrella, he would have personally been liable for $200,000.

Life Insurance

We buy life insurance because we love. We love spouses, children and others who depend on us financially. We love them enough to face the cold reality of death. We love them enough to acknowledge the possibility that we could die young, leaving them without our income. We love them enough to plunk down our hard earned cash for insurance, so that if we do die early, our deaths will not burden them financially – house payments will be made, groceries will be on the table, and college dreams can be realized; however, life insurance isn't for everyone. If no one would be hurt financially by your death, you most likely don't need it.

Who does need life insurance? Two groups of people:

1.) **Those with one or more people who depend on their income:** If your family depends on your income (whether or not your spouse works) and you don't have enough savings for them to live off of, your family will need the financial help that only life insurance offers. You don't have to be married or have kids to need life insurance. For example, you may be single but paying the bills for your elderly mother's assisted living apartment – if something were to happen to you, life insurance would make sure that she's taken care of. Even if you're very well off and your family would be able to survive on your savings, you may have a favorite church or charity that relies on your generous gifts, and life insurance can keep those gifts in force.
2.) **Those who provide services that would need to be hired out in the event of their death:** If you're a stay-at-home mom, and you die while your children are young, your husband will suffer a financial loss. He'll need, at the very least, money to pay for childcare. If he wants some sanity, he may want to hire household help as well. Over a ten-year span, childcare and help around the house can cost at least $250,000 or more. Life insurance can make that outlay possible.
   Plus, a surviving spouse may not want to work in the same way after a death of a stay-at-home spouse. Maybe your husband would want to work fewer hours while your children are growing up. If he has the money, he will have more options. Life insurance makes this possible.

How much life insurance do you need?

If you die early, how much money will your loved ones need? How much will it take to pay off all debt? How much to replace your income? Is providing funds to cover college cost for your children important? If so, how much money will that take? Will your parents depend on you in the future? How do you account for inflation?
Financial experts typically recommend 10 to 15 times your annual income; however, you need to speak with your insurance professional in depth to ensure that you have enough life insurance to meet your expectations. When buying life insurance, aim high for the people you love who will survive you. Too much is far better than not enough, and it's cheap.

Building a Great Insurance Program

Most people buy insurance policies from all over the place. The first time we meet with a client, it is typical to see policies scattered all over the place with several different agents, and **no one** overseeing the effects on the big picture. They're wasting money on overpriced coverages full of gaps and exclusions and completely missing major coverages could have serious financial consequences.

Shopping for your insurance:

The best way to buy insurance is not by calling around for quotes, making sure coverage is "apples to apples" and then buying the lowest bid. This approach is very dangerous! The best way to buy insurance is to select a highly skilled insurance professional who can help you build the best possible insurance program.

Almost all agents get paid the same commission – usually 10 to 15 % - regardless of the agent's experience, skill level, or quality of the insurance products they have available. The good news is that you can buy the very best talent for not a penny more than you can pay for the worst possible agent. Most people see an insurance premium as buying them one thing – an insurance policy. In reality, 85% of the premium goes to paying for claims and covering the insurance companies' operating costs. Professional advice, policy service and help from a professional agent when there is a problem make up the remaining 15%. Spend that 15% wisely! Get the best insurance professional possible. Most of the time a real insurance professional will help you save money, but it will be with an insurance plan that truly fits your needs.

Captive Agents vs. Independent Agents:

When shopping for insurance, most people are unaware of the different types of agents with whom they can work. Choosing the right one can make a big difference in securing the best combination of coverage and price. With a captive agent, you only get the guidance of one company that sells one brand of insurance. With an independent agency, you get several choices of preferred financially superior rated insurance companies.

Independent agents represent multiple brands; therefore, they are allowed them to compare coverage and prices to find the best possible value for your individual circumstances. The choice of many insurance companies enables independent agents to provide the best company that meets your specific needs. In most cases, a single insurance company is not the best company for you throughout life. Different companies are more competitive depending on your needs. As your life changes, another insurance company may be a better fit for you.

Selecting a Great Insurance Professional:

A great insurance professional is the main ingredient in a watertight insurance program. In fact, if you hire an expert who is skilled enough in every area of personal and business insurance, you'll barely have to worry about the other parts of a great insurance program.

An expert insurance professional is a great bargain in many ways:

1.) They have the expertise and tools to help you choose adequate coverage in all major policy types.
2.) They help you keep your coverage in major loss areas balanced and help you avoid inconsistent coverage.
3.) They take time to probe into your life deeply enough to identify those risks that your current policies exclude.
4.) They follow up with you periodically to make sure your insurance program is keeping up with your life changes.

If your current agent isn't as good as the insurance professional described above, you can and must do better. The consequences of having the wrong agent can be severe! Getting more talent doesn't cost you a dime more.

A Great Insurance Program:

While working with an insurance professional is crucial to developing a watertight insurance program, it will also require you to care enough about yourself and your family to participate in development. Ask yourself:

1.) **What is it specifically that holds me back from working with an insurance professional?** Most of the time people let their lack of interest control them, resulting in a severely inadequate insurance plan.
2.) **Am I too concerned about price to focus on what really matters to me?** Suspend price and discover what an insurance professional recommends. Then, focus on price. If you're blinded by the price light, it becomes impossible for you to discover what you really need. Sadly, for most people who focus on price, it prevents an insurance professional from even giving you the best advice and saving you money on the right insurance plan for you. They can tell when there is not interest or it's just about the price, so they tend to abort their professional mission.
3.) **Am I confused about what is important to me and how insurance plays a role in my life?** Insurance can seem complex and frustrating to deal with. You need to be open enough to trust that your insurance professional puts your needs above anything else. If you participate and give them an opportunity to help, you'll be amazed at what they can teach you and discover how to handle things correctly.
4.) **Do I really care about needing a watertight insurance plan?** If you don't care enough about your insurance program, no one insurance professional can help you. You have to be willing to work with someone who wants the best for you.
5.) **What would it take for me to drop my guard and discover what insurance plan is best for my situation?** Most people view insurance professionals as someone just trying to sell a policy because that is what they typically experienced in the past. If you carry this belief over to your new insurance professional, you'll start off your new relationship on a bad foot, preventing you from getting what you truly need. Suspend that belief, and work with your insurance professional unconditionally to discover the best plan design for you. It's free! The worst that can happen is you'll know more about insurance and how it can work for you than ever before. No one can force you to buy anything. It's about you becoming well informed to make the right decisions for yourself, and you need the right insurance professional with expertise to provide that information to you.

Summary

Use this guide to help you discover the type of insurance policies and coverages that are truly right for you. Work with an insurance professional who puts your needs above everything else. The success of your relationship requires both of you to be involved.

When choosing your insurance, of course price is important, but don’t let price alone determine your decision. First, determine what coverage best suit your needs, then decide which company has the best price. Any agent or company who just throws price at you without discovering your needs is really providing you a disservice, and it certainly can impact you financially.