

Don't Be Lured Into The Trap! The Dangers Of Reducing Your Homeowners Insurance Coverage

By Steve Brooks

My house is worth so much less than it was when I bought it. I need to reduce my homeowners insurance policy.” If I had a nickel for every time I’ve heard that claim over the last year, I’d be comfortably retired by now, with a nice sized nest egg to call my own. And I know that REALTORS® from coast to coast are fielding similar calls from clients wanting to have their home re-appraised. It’s easy to understand why clients are thinking about reducing their homeowners insurance policy. After all, we’re all looking to cut costs these days, and at face value, a reduction in coverage on a home seems to make sense.

Consider that your client purchased their home two years ago, and purchased homeowners coverage for their home which at the time, was worth \$1.5 Million. Now however, the house has lost a substantial amount of value. Why wouldn’t they reduce their homeowners insurance policy proportionally? Seems pretty cut and dried, right? Unfortunately, it’s not quite

that simple, and is actually a dangerous assumption to make. Here are the three main reasons that it’s risky to reduce your homeowners coverage even if your home has lost retail value.

Building Costs Are Still Elevated

Although the increase in costs of labor and materials has slowed for the last year, when compared with 2007, that’s not saying much. According to one study, the cost of materials rose 1.99% in 2008, which is certainly better than the increase of 2.93% in 2007. However this still means that materials needed to rebuild your home (or in worst case scenarios, build an entirely new home) are trending upward, even as our economy flounders.

Similarly, labor costs to rebuild your existing home after damage from a flood, fire, earthquake or other disaster are still elevated. Indeed the price of labor in 2008 rose 5.43%. Reducing your homeowners policy is therefore risky, as the retail

market value is not necessarily reflective of the cost of replacing or rebuilding parts of your home. You’re much better off with a larger policy than with too little coverage.

Reconstruction May Even Be More Expensive

Total destruction of a home is pretty rare. These cases generally involve catastrophic events, such as wildfires, strong earthquakes, or severe flooding. More often than not, you’ll need your homeowners insurance for less extensive damage. The irony here lies in that it is often more expensive to reconstruct damage to your home than it is to build a new home.

This is due to many reasons. The first reason this may be the case is due to the fact that higher-skilled labor may be required to rebuild portions of your home. Naturally, with higher skilled labor, come higher labor rates. Another reason that reconstructing your home may be more expensive than rebuilding is due to the fact that if you own an older home, finding re-



placement materials to match the undamaged portion of the home can be difficult and expensive.

Insufficient Coverage Will Almost Guarantee Delays In Reconstruction

Whether your home needs to be completely rebuilt, or just partly reconstructed, insufficient homeowners insurance coverage will almost certainly result in slowed progress. Regardless of how much money you have in reserves, there will be unforeseen costs that crop up, ranging from demolition to debris removal, to even temporary housing, should your home

be uninhabitable during the reconstruction. Who wants to spend their savings on rebuilding a home that your insurance company could have easily paid for, if only you'd had the proper amount of coverage?

Any which way you slice it, betting against your home by reducing your homeowners insurance, is a gamble. Your home is likely the biggest investment you'll ever make. So although the idea of saving a bit of money in the short term by reducing your coverage may be appealing; the long lasting effects of taking a risk like this, just isn't worth the risk.



Steve Brooks is President of Steve Brooks Insurance Services, a full service insurance agency named one of the largest independent agencies by the Pacific Coast Business Times. He has received numerous industry and legislative awards including a Certificate of Recognition from the California State Senate in honor of outstanding service and dedication to the insurance industry, and a California State Assembly Award for exemplary dedication and service to the insurance industry. He welcomes questions at Steveb@brookskins.com or via phone at (800) 915-3090 Ext. 870.