

A typical situation would be as follows: a person has four guns, 3 of which only have a total value of \$650, and the fourth has a value of \$900. If they are stolen, the insurance company will only pay \$1,000, even though your total values are \$1,550. To avoid this, one suggestion might be to insure only the gun with the higher value. The other three guns with value of \$650 would be covered under the basic policy.

There are a few things that must be noted in doing this. Once you have purchased the additional coverage it then becomes subject to that dollar limit. At first glance that would not seem to be a problem and it would not be if you review your values each year. But what has happened in the past is the limit stays the same, but the value of the item has gone up considerably. The company will only pay you up to the dollar limit you purchased, never more. Also you might have items scheduled that depreciate, and if that is the case and you do not lower your limit, you will be paying a premium for a limit that the company might not pay. Most items that you schedule will not depreciate, but historically items such as furs have depreciated. Example: a fur is insured for \$2,000 and several years later at the time of a loss if the value drops to \$1,200, the company will only pay that amount even though you purchased the higher amount.

You can see items No. 5, 6 & 7's only limitation is the peril of theft. So if you opt not to schedule separately and had a fire or smoke damage, the company will pay for those items as they would pay for any other contents, subject then only to the total content limit that you have on your policy.

The best time to consider these different options would be now, before the loss. There is no right way or wrong way — it really depends on your situation and attitude toward the items that might be subject to an uncovered loss. We do invite you to call and discuss this further.

## "WILL I ONLY GET 80% OF MY LOSS?"

"Will I only get 80% of my loss" is one of the most frequently asked questions from people who have a homeowners policy. There is a simple answer to this complex question and that is NO! No, if you satisfy just one thing. The policy requires that you carry at least 80% of the replacement cost of your home. Once you have satisfied that you carry at least 80%, the company will pay you 100% of your loss up to the limit of the policy, not just 80%. Example: the replacement cost of your home is \$55,000. The home is insured for \$50,000. A fire causes \$3,000 worth of damage. The company will pay the entire \$3,000 repair cost minus the deductible. This is because the amount of your insurance (\$50,000) is more than 80% of your home replacement cost.

If the policy requires you to carry only 80% of the replacement cost of your home immediately prior to the loss, why should you carry more than that? The one big reason is that if you have a loss the company will only pay up to the amount of insurance that you have purchased on the policy. It is conceivable that you can have a total loss, and if so, you could find yourself drastically under insured. Example: Home is insured for \$100,000. The replacement cost is \$110,000. The company will only pay you the \$100,000, because that is the limit of your policy. You will have to make up the difference or settle for a lesser quality home.

Now what happens if you are under insured? If the amount of the insurance under your policy covering your home is less than 80% of its actual replacement cost immediately before the loss, the company will pay the larger amount determined by the following two formulas:

Formula 1: The replacement cost, at the time of loss, of that part of the building that is damaged minus depreciation. Among the things the company will consider in determining depreciation are the portion of the building damaged, the age of the building and its physical condition. Depreciation will be determined at the time of loss, or

Formula 2: An amount figured in the following manner: the company will take 80% of the full replacement cost of the building. The company will then divide that into the total amount of insurance you have on the building under this policy and multiply the result by the replacement cost of the damaged part of the building.

To keep this simple, you will never receive less than the depreciated amount of the damaged portion. The big problem during a claim adjustment is determining what the depreciation is. There have been hundreds of books written on the subject and we could not give it any justice in this short article, but you are familiar with how your television set and car loses its value. Well the house or portions of it can do the same depending on the age, condition and so forth.

There is one thing that should be noted and that is if the cost of repairing or replacing the damaged property is more than \$1,000 or more than 5% of the insurance under the policy which applies to that house, the company will not pay more than the replacement cost of the damage, less depreciation, until the damage is actually repaired or replaced.

The above examples are the reasons we have always recommended that you try to carry 100% of the value of your property. It appears that inflation might be under control, but until it is we would also recommend that you accept the annual increase in your values.

If you have any questions concerning the above discussion, please feel free to call. In summary, you can be assured that if you are carrying over 80% of the replacement cost of your home the company will pay for the entire damage up to the amount of insurance.

## YES, BUT I ONLY RENT

We are often asked about the types of insurance coverage available to renters. The usual renter's policy covers damage to personal effects by fire, theft and a long list of other causes. Personal effects are even protected away from the apartment, when you travel. Like the homeowner policy discussed earlier the same limitations would apply. The liability protection is included and provides valuable coverage against lawsuits for injury to your guests. The benefits even include cost of your legal defense. So if you rent, or plan to rent soon, you should purchase your own fire insurance for I have never heard of a landlord covering his tenant's contents. The cost is surprisingly low.

## FLOOD & MUDSLIDE

Recently, we witnessed the severe rains in California which caused considerable flooding and mudslide damage. Most of you realize that flood insurance is available, but might not realize it includes damages caused by mudslides.

## MORTGAGE LIFE INSURANCE

Families purchasing a home in this economy with the high interest rates and higher values of homes are finding it necessary to have both the husband and the wife working in order to make ends meet. Along with the obligation comes further responsibilities of trying to preserve the home in the event of an untimely death. We have available a mortgage protection policy that covers both the husband and the wife, giving the face amount for each and twice that amount if both die in a common accident. Policies are also available on an individual basis.

## THOUGHTS ON BUSINESS INSURANCE

Business Interruption for the Retailer and Wholesale — Business Interruption Insurance covers your direct loss of operating income of the business due to a loss from an insured peril. It is from your operating income that your business meets expenses such as payroll, mortgage, telephone, taxes, etc., as well as your profits. If an accidental loss forces you to close your store for several days or weeks, the likelihood is that a number of these expenses will continue even though the business is not producing any income to pay them. To estimate how much it would cost you to keep your business going even if it were temporarily closed, calculate your continuing monthly expenses including profit. That will give you some idea whether you should buy business interruption coverage or pay those expenses out-of-pocket.

Workers Compensation—It is often asked if there is something that can be done to help keep workers compensation rates down, even though they are mandated by law. The best thing to do is to keep very accurate payroll records, since your workers compensation premiums are computed, to a great extent, on those records. Accurate records will help assure that your firm's premium is not more than the law actually requires.