



Consumer Advisory: Is Your Home Properly Insured?

As of July 11, 2022

Your home usually represents the single largest financial investment you have ever made, and as such, it should be adequately protected. One of the best ways to protect it is to purchase homeowners insurance. When shopping for an insurance policy, one of the biggest decisions you will have to make is how much to insure your dwelling for (that is, the coverage limits). Will the coverage limits be enough to provide you with sufficient coverage to replace your home if it is severely damaged or destroyed as a result of a covered loss such as a fire? In other words, will you be “insured to value”? "Insured to Value" is an insurance term that means you have sufficient coverage on your home to cover the full cost of rebuilding following a covered loss.

Recently, we have heard on the news that the costs of goods and services have increased. Inflation affects not only the cost of materials such as lumber, shingles and drywall, but labor costs as well. These factors have made it costlier to rebuild a home following a loss. A challenge most homeowners face is finding an accurate way to calculate the current reconstruction cost of their home. The purchase price of your home (market value), or other homes in your neighborhood, is not an accurate way to determine the cost to rebuild your home since that cost includes your land and reflects other considerations, like location and school district, that do not affect the reconstruction cost of your home. The market value of your home may be higher or lower than the cost to rebuild after a covered loss. Further, the cost to rebuild your home is not the same as new construction costs since debris removal will be involved and there are other issues associated with reconstruction that are not associated with new construction costs.

A more accurate and complete approach for consumers to use when attempting to determine the reconstruction cost of their home is to perform a replacement cost calculation. There are companies that will perform this for you, for a fee, and these may be found online. Another option is to contact your insurance producer (agent or broker) or insurer, and ask them to run an updated replacement cost calculation.

Before you utilize one of the online services or ask your insurance producer or insurer to perform the calculation, you will likely need certain information about your dwelling. You may need to know the dimensions of your home, the finishes, whether your home is masonry or

frame, the number of bathrooms, and whether you have wall-to-wall carpeting or hardwood floors. These are some examples of the information needed to accurately determine the replacement cost to rebuild your home if it is significantly damaged by a covered peril.

If you determine that you need to increase the amount of coverage to make sure your home is adequately insured before you suffer a loss, this will be the Coverage A Dwelling Coverage amount shown on your current declarations page.

As always, consult with a licensed and trusted insurance producer or your insurer to make sure your coverage matches your needs.

For additional information regarding homeowners insurance, please check our website at www.insurance.maryland.gov.