

Insurance Briefs

Volume 2 Issue 1



Homeowners - Are You Underinsured?

About two out of three U.S. homes are underinsured, according to a 2008 survey by Marshall & Swift/Boeckh LLC (MSB), a leading provider of building replacement cost data. Based on this new data, the average homeowner's policy only insures the home to about 82% of the projected replacement cost of the home. Over the past decade, this point has been driven home as the U.S. has endured hurricanes, wildfires, and tornadoes. Throughout the course of natural disasters, thousands of homeowners were left without enough coverage.

Although the study did not show results regionally, nationwide the average policy falls 18% short of the projected cost to rebuild the house. Put in other terms, the owner of a house insured for \$200,000 would be short by \$36,000 of the funds needed to rebuild, if the averages held true.

Why do thousands of Americans find themselves in this predicament? The most common reason for all of this is quite innocuous: homeowners often forget to update their policies. For instance, suppose a homeowner decides to put an addition onto their home, which would drive up the value of the property beyond the stated policy limits. If the home improvement is never reported to the insurance company, no additional coverage is added to the policy. Additionally, rising construction costs and ever-changing building codes are raising the price tag to rebuild.

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To avoid this problem, homeowners should re-assess policies as they renew each year. If a homeowner suspects a change in the value of their home, this suspicion should be communicated to his or her insurance agent. Although not every homeowner wants to insure to the full replacement cost of the home, this possibility should at least be examined and considered.

Is Your Home Properly Insured?

Here are some tips to help you evaluate your homeowners' insurance:

- Understand what your policy does and does not cover. Remember that just because your bank requires your policy to cover the mortgage at a minimum, this does not mean your insurance should be based on this amount. You need to insure your home, not the mortgage on your home.
- If available, consider adding an inflation guard to your policy. Although this will cost extra money, it will help offset the rising cost of rebuilding, should disaster strike.
- If building codes change, which they inevitably do over time, you will most likely be required to rebuild according to the new laws. The older the home, the more expensive it will be to bring it up to code. In most cases, policies will not pay for these extra costs. An "Ordinance or Law Endorsement" can help pay these hidden costs.
- Talk to builders in your area to get an approximation of replacement costs. The going rate per square foot for new construction should be considered in estimating replacement costs. Current appraisals are also an excellent source to utilize.

Welcome Spring!

Hopefully you are finding our **Insurance Briefs** newsletter informative and thought provoking. Our purpose is to inform our clients, prospects, and friends about personal risks faced in everyday life and how insurance might apply to those risks. If you have friends or family members that could benefit from our newsletter please send us their information so that we can contact them. We are always looking for more great clients like yourself.

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Six Reasons Your Home-Based Business Needs a Small Business Policy

Like most new home-based business owners, you believe your homeowner or renter's insurance coverage offers sufficient protection. That is unfortunate, because in most instances these policies offer little to no coverage for business-related losses.

Homeowner's policies are not designed to cover business losses. Most offer a small amount of business property coverage, meant to cover incidental items, such as a computer used for office work.

Depending on your business, you may be able to purchase a homeowner's endorsement to cover your business property. Your insurer is naturally going to want to know more about your business. Questions such as what type of business, how long you have been in business and how many employees are common.

If your business is small with a low risk profile, and with limited client visits to your home, your homeowner's insurer may offer limited liability protection. This protection would cover slips and falls when a client visits your office, which otherwise would not be covered.

If this option is not available, you may want to consider a small business policy. Your homeowner's insurer might offer a home-based business package for a reasonable premium, or another insurer can offer a package policy to cover the liability and property of your business.

Take a look at the following list. If one or more of the items below apply, you may want to consider a business policy for your business:

- Business Property, Stock or Equipment over \$10,000 in value

A business policy will allow you to insure your office contents, equipment, and stock. A homeowner's policy will likely have little, if any, coverage for business-related items.

- Clients visit your office/use your product/depend on your service

Liability insurance can help cover your exposure to lawsuits resulting from slip and falls, product liability claims, personal injury claims, etc. Perhaps even more importantly, it will provide defense costs for such actions. Homeowner's policies do not have coverage for business liability. In a few instances, you may be able to purchase an endorsement to allow coverage for slip and falls due to customer visits, depending on your type of business.

- Damage to your office/workspace would require you to relocate/find a temporary substitute

Extra Expense coverage in a business policy will provide funds for a temporary office/workspace or cost of a mobile trailer near your damaged office site.

- An Error or Omission could result in a lawsuit that would need to be defended/could seriously damage your business

Errors and Omissions coverage will protect you from judgments and defense costs resulting from past mistakes.

- Damage to your workplace could cause you to lose business, perhaps even lose some customers permanently

Business Interruption Coverage will help pay for expenses until your property is repaired or sales return to normal (depending on the policy form)

- Your employees use their vehicles to make deliveries or run errands for your business

Non-owned automobile liability will protect your business in the event that your employee has a serious accident during the course of running an errand for your business.

Protect Yourself from Identity Theft This Tax Season

With tax season upon us your personal information is floating around everywhere and identity thieves are working overtime to steal it. From social security numbers to employer and income information, it's an identity theft nightmare waiting to happen. Unless, of course, you're a thief. Then it's identity theft paradise.

Don't think it can happen to you? According to Javelin Strategy and Research, 8.4 million U.S. adults were victims of identity fraud in 2007.

Here are some tips to help you stay safe this tax season:

- Choose your tax preparer carefully. Ask for referrals from friends and coworkers.
- Beware of unsolicited emails claiming to be from the IRS. Such emails often contain links that automatically download software designed to steal your passwords and account information.

- Protect your Social Security number. Don't give out your Social Security number if it's not necessary.
- Guard your mailbox. Your mailbox is a treasure chest for crooks this time of year. If someone gets a hold of your tax forms they'll know your social security number, your employer and how much money you made last year. If you don't yet have a locking mailbox, now would be the perfect time to get one.
- Watch the websites you visit. If you use online tax services, just be sure you are dealing with a legitimate site. Clone websites can be easily set up by scammers with the sole purpose of harvesting your personal information.

Tax season is ripe for identity theft, but you don't have to be a victim. By keeping the above tips in mind, you can get through tax season without putting yourself at an increased risk of identity theft.

Yet Another Reason to Improve Your Credit - Lower Insurance Rates



Your credit rating can affect a lot more than you may think. Almost all insurance companies factor in credit ratings to set rates for new and existing auto insurance customers. Yet, blemished credit doesn't necessarily translate into higher insurance premium rates. Instead, it is the overall insurance risk score that can cause a rise in your rates.

Insurance risk scores are similar to those used by lenders to determine whether or not to approve a loan or line of credit because both look at your credit information. But credit risk models are formulated to predict the likelihood of loan default. Insurance risk models, by contrast, are built to predict the likely loss ratio of any particular individual. In other words, whether you will result in more or fewer losses than average to the insurer. The higher your insurance risk score, the less likely you are to file a claim.

Following is the information many insurance companies use to formulate a risk score and how each is weighted:

- **Past payment history (approximately 35%)**

A past payment history is determined by: how you've paid your credit bills in the past; if your bills have been paid on time; items in collection status; the number of adverse public records (bankruptcy, wage attachments, liens); and the number and length of delinquencies or items in collection.

- **Credit owed (approximately 30%)**

Credit owed is how many accounts, what kind of accounts, and how close you are to your credit limits.

- **Length of time credit has been established (approximately 15%)**

Length of time credit established is how long you have had your credit accounts and how long you have had other specific accounts.

- **New credit (approximately 10%)**

New credit is the number and proportion of recently opened accounts versus already established accounts; the number of credit inquiries; and the reestablishment of credit history after payment problems.

- **Types of credit established (approximately 10%)**

Types of credit established are the various types of credit accounts including credit cards, retail store accounts, installment loans and mortgages.

In summary, insurers rely on factors that show long-term stability. So, by demonstrating responsible use of credit and keeping your balances low, you should be able to improve your insurance risk score. A lower insurance risk score could translate into lower insurance premiums if you've been impacted by a negative credit history in the past.



Disability and Retirement Funding: They're Closer Than You Think

Although retirement is a time we can count on happening someday, and disability is something we hope never happens, these two areas of financial preparation are closely related.

Both concern the maintaining of a standard of living, due to loss of income. Rent or mortgage payments, bills, taxes, insurance, and other living expenses, such as food and clothing, will need to be paid for. By planning carefully and being prepared well in advance to cover these costs whether retired or disabled, you will be able to replace your lost income, protect your family, and preserve your estate effectively.

Many people become suddenly disabled and quickly realize that their monthly needs will not be met by their current assets. This is why Disability Income Insurance is so important. This type of insurance protects your income by guaranteeing monthly payments after a defined waiting period, whereas social security can take months after you have applied to start receiving benefits assuming you qualify in the first place. Without disability coverage, you

would be forced to tap your retirement savings, which could jeopardize your future financial security. Those who are better prepared for events, such as retirement or disability, will be in far better control of their finances in each situation.



Car Insurance 101 - The Importance of the Annual Insurance Checkup

Few people look forward to shopping for insurance, and once that coverage is in place there is a strong temptation to simply leave it as is. But that set it and forget it approach can be a big mistake. Insurance needs change over time, and it is important for everyone to take a look at their own insurance needs to make sure those life, health, home and car insurance policies are still providing adequate coverage and protection.

Reviewing your insurance coverage, including your car insurance policies, on a regular basis is a great way to save money and gain peace of mind. If the results of your assessment show that you do not need to make any changes you will have the satisfaction that comes with knowing that you are well protected. If on the other hand you find gaps in your coverage you will be able to address those shortcomings and avoid problems down the road.

Check the Cost of Coverage

When you first purchased automobile insurance you no doubt shopped around – comparing premium rates and coverage levels for every insurer you could find. But since then you may have assumed that the company you are insured with will always have the lowest price in town. That may or may not be true – but the only way to know for sure is to check the rates offered by competitors.

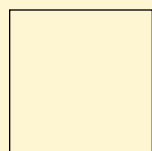
Is it Time to Drop Collision Coverage?

The annual insurance review also gives you a chance to determine whether or not it still makes sense to carry comprehensive and collision coverage on your vehicle. If the value of the car you drive has dipped below \$3,500 it may not be prudent to carry full coverage. You may be better off dropping that coverage and stashing the premium savings into an emergency fund. Your current policy should break out the cost of collision coverage, so it will be easy to see how much you could save. If you have the fiscal discipline it takes to funnel the money you save into a special account you can self-insure and cover the cost of repairing or replacing your car in the event of a total loss.



Reviewing your insurance coverage may not be fun, but it is certainly important. Taking the time to do an annual review of all your insurance coverage can yield significant cost savings and give you the peace of mind that comes with knowing you are well protected.

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