

Home Insurance – Teacher’s Guide

The purpose of this section of the “Lessons on Insurance and Credit” teaching kit is to:

- Define home insurance;
- Develop a basic understanding of what a home insurance policy does; and
- Provide students with general knowledge of the importance of having home insurance.

Watch the video segment, assign the students to review the student guide, and then discuss the material by asking them the following questions.

What is home insurance?

Whether you’re a homeowner, condo owner or renter, home insurance (or tenant insurance) protects furnishings, clothes, appliances and most personal possessions from theft, fire, damage or destruction.

Most home insurance policies provide a certain amount of liability coverage, which pays for injury or death of others caused by you on or off your property, up to the policy’s limits. Liability coverage will also pay for your legal defense if you are sued for something that is covered under the policy.

Home insurance can also protect you from having to pay medical costs for anyone injured at your residence, regardless of fault. The medical payment protection usually offered with liability coverage pays for injury to another person who is accidentally injured on your property or injured by you or a family member or pet covered under the policy.

What else does home insurance cover?

If you own the property you’re insuring, most home insurance policies will cover:

- the building/residence;
- home furnishings;
- most personal belongings;
- lawn, trees and shrubs in limited cases;
- garage;
- some external structures, like sheds;
- fence; and
- swimming pool.

What are perils?

Perils are things or events that can damage or destroy a home or its contents. A home insurance policy lists the perils it covers, which may include:

- fire;
- lightning;
- wind;
- hail;
- theft;
- explosion;
- smoke;
- glass breakage;
- vandalism;
- riots; and
- falling aircraft.

One peril that most home insurance policies do not cover is floods. In most cases, homeowners can purchase a separate flood insurance policy through an insurance company that participates in the federal government's National Flood Insurance Program.

What are the two options of coverage available a home insurance policy?

The costs of the home and belongings can be paid one of two ways, depending on the type of coverage chosen:

- **Actual cash value** pays the depreciated value of the damaged property. So, the older the item is, the less money you may receive for it.
- **Replacement cost** pays the amount it costs to replace the damaged property with something of a similar type and quality at its current market value.

What types of additional coverage may be purchased with a home insurance policy?

Sometimes, additional coverage may be purchased through riders, or endorsements to the base home insurance policy. The most common endorsement covers scheduled personal property, which insures valuable possessions (e.g., expensive jewelry, rare collectibles) beyond the policy limit. Scheduling personal property also allows you to:

- insure it for its value;
- cover it for all risks rather than just the named perils in the policy; and
- avoid paying the policy deductible, as it doesn't apply for scheduled property.

Other endorsements, such as earthquake coverage, protect your property from a specific peril named in the endorsement.

Many insurance companies also offer the opportunity to purchase additional liability coverage to increase the amount of protection above and beyond what a home insurance policy provides.

Renters need insurance, too. What does renter's insurance cover?

A renter's or tenant policy covers your liability and your personal possessions (e.g., furniture, computer, appliances, clothes) if they are damaged or stolen. It may also pay for temporary living expenses if the rental property is damaged and is unlivable.

For additional discussion:

Placing a value on personal belongings

Home insurance also protects a policy owner's personal property. It's wise to keep a household inventory of everything of value in the home or on the property. This list should include model and serial numbers, original costs and receipts, whenever possible. Policy owners are also encouraged to take photos or videos of the home and valuable possessions. Keep these records somewhere secure, like a safe deposit box.

In addition, certain valuable possessions that go beyond the policy's coverage limit can be listed on a scheduled personal property endorsement (see above).

Affording home insurance

Insurance is an important factor in the overall expenses of a home, condominium or even an apartment. Discuss the following ways new homeowners can control their home insurance costs:

Explore discounts – Some companies offer discounts on both home and auto if both policies are with the same provider. Discounts may also be offered for having an alarm system in place.

Shop around – Not all insurance companies are alike. Rates may vary from one provider to another ... sometimes significantly.

Use escrow – Pay into the escrow account established by your mortgage company for insurance as well as property tax. When property insurance is due, the mortgage company pays the premium out of the escrow account.

Raise your deductible – You'll pay more out of pocket, but your premium will go down.

Lesson plan:

Ask students to make an inventory of everything in their bedroom or everything they own in their home. They should include furniture, clothing, computer, game systems, etc. After they have listed the items, ask them to assign a value to each item. Discuss how they would pay for the items if they were damaged by a fire or some other peril. You may also want to use the list to compare actual cash value versus replacement cost coverage.

WBER-0506 (4/12)