

## Are You Sure You're Covered if Your Home Is Destroyed?

*Thinking about worst-case scenarios is unpleasant, but is sometimes necessary to make sure you are prepared for them. The following discusses ensuring that you are fully covered in the event of a house fire.*

You've just suffered a devastating fire to your home and now have to spend the next several months (or even a few years) renting out another home until yours can be rebuilt. Good news! Your insurance policy provides loss of use coverage and pays for expenses incurred in excess of normal expenses. But does that mean you are fully covered? Perhaps not.

There may be limits never considered when you bought your policy. Consider the following example:

- ▲ Your home had a replacement cost coverage limit of \$1 million.
- ▲ Your substitute home will cost \$10,000 per month.
- ▲ It will take 14 months to rebuild your home.
- ▲ It will take an additional four months for the cause-and-origin expert and fire marshal to investigate the fire and for the remaining portion of your home to be demolished.

Thus, the total time to rebuild from the date of loss is 18 months. At \$10,000 per month, you'll have a total loss of use exposure of \$180,000. However, if your loss of use policy limit reads actual loss sustained (ALS), you have limitations on your coverage. A typical time limitation for ALS coverage is 12 months.

What's does this mean? Your insurance carrier providing ALS coverage will pay \$120,000 or 12 months' worth of coverage. You pay the remaining \$60,000.

### How to Avoid a Gap in Coverage

To avoid such a scenario, make sure your coverage limit is either unlimited or has a dollar limitation that exceeds your exposure. Only certain insurance carriers provide unlimited loss of use coverage in every policy they write, with neither time nor dollar limits.\* Those carriers include Ace — Private Risk Services, Chartis — Private Client Group, Chubb, Fireman's Fund and PURE.

If your only option is to have a dollar limitation, find out what a fully furnished substitute dwelling in your area would cost. From there it's simply a math problem. Similarly, ALS is adequate coverage if the time limitation within the coverage exceeds the amount of time required to rebuild your home.

\* Where allowed by the state

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