

Commercial Insurance Update

Topics Affecting Buyers of Commercial Insurance

MSP C 06/2008 – “Personal Insurance—Is Yours Adequate?”

June, 2008

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Personal Insurance

Is Yours Adequate?

By Jeffrey W. Cavnac, CPCU, ARM, RPLU, CRIS

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When was the last time you reviewed your personal insurance program? If you are like most of us, your response might be:

- “I’ve never reviewed the coverage, I just pay the premiums,” OR,
- “I don’t worry about it, my agent checks it.”

Unfortunately, it is up to you to make certain your coverage is appropriate. Your broker can and should assist you, but ultimately you need to decide what coverages you want and what limits you need. It is estimated that over half the homes in our country are underinsured by 20% or more. Many people also carry inadequate personal liability limits.

The purpose of this article is to provide you with a format to review your personal insurance program. It is not exhaustive, but it does cover the basics. I will focus

on the homeowners policy (property and liability), the personal auto policy, and the personal umbrella policy. I will not touch on personal watercraft, aircraft, or motorcycles, nor will I discuss life insurance, health insurance, or disability.

When you go through the checklist, I suggest you pull out your current insurance policies. If you can’t find them, ask your broker for a copy. It’s a good idea

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Over Half of U.S. Homes Are Underinsured

Despite rising construction costs, Marshall and Swift/Boeckh reported that 58% of U.S. homes are underinsured by an average of 21%.

— Marshall Swift/Boeckh (September 2006)

Reconstruction Costs Include More than Just the Building Being Replaced

The replacement cost for rebuilding a home that suffers a major loss must include the builder's profit and overhead, which averages 10-20% of the building costs or more for larger, more ornate homes.

An architect's fee averages 10-15% for new construction or additions and renovations, which must also be considered. Decorating and designer fees might be as much as 20% of the total cost of construction, since custom interior designs have to be replicated.

Extra fees may be included for rebuilding in urban areas or in exotic locations. With reconstruction, there is also a need to work with and match existing materials. Details of construction may also require special skills, which lead to increased costs.

— Chubb Group of Insurance Companies
(Form 02-01-0338 [Rev. 1/07])

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to make an extra copy and store it elsewhere, preferably off-site.

Homeowners Insurance

Is it any wonder people don't read their insurance policies? I'm somewhat of an insurance geek, and I recently reviewed my homeowners policy. The policy itself was 28 pages long, and there were 23 pages of endorsements, not to mention 15 pages of explanatory documentation! You probably won't read your policy in its entirety, but here are the questions you need to answer.

1. Coverage A – Dwelling

Is my home adequately insured?

If your home is destroyed your insurance company will pay the cost to replace the dwelling up to the limit insured. What is your home insured for? Could you rebuild it for that amount?

Builders' costs have escalated dramatically in the last five years. Although real estate values have decreased, replacement costs have soared! Even the most basic home in Southern California could not be rebuilt for much less than \$175 per square foot, and the cost to rebuild nicer homes with higher quality building materials can run \$400 to \$500 per square foot or more.

If you are uncertain about the cost to rebuild your home, consider getting a replacement cost appraisal. Most custom home builders can provide this for you, and some better personal lines insurance companies offer this service as well.

You should also consider the "Guaranteed Replacement Cost" option that some insurance companies offer. There are various forms for these types of endorsements, but basically you and the insurance company agree on an "insured value." In the event of a loss, the insurance company will repair or replace your home **regardless of the policy limits**.

Do I need to add Earthquake and Flood insurance?

A standard homeowners policy excludes earthquake and flood coverage. Earthquake can usually be added to your homeowners policy for an additional premium. Flood coverage can be purchased from the National Flood Insurance Program (NFIP).

What are my deductibles?

Most property policies have a deductible. Usually this is \$500 to \$1,000. If the premium savings are significant, you may want to consider a higher deductible.

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Homeowners Policy

Section 1

- Coverage A – Dwelling
- Coverage B – Other Structures
- Coverage C – Personal Property
- Coverage D – Loss of Use

Section 2

- Coverage E – Personal Liability
- Coverage F – Medical Payments

2. Coverage B – Other Structures

Do I have structures other than my home on my premises? If so, are they adequately insured?

Most homeowners policies include 10% of the dwelling amount to cover “other structures on the residence premises set apart from the dwelling by clear space.” This set limit is in addition to your dwelling coverage. If you have a large garage, guest house, or pool house, this limit may not be enough, and it should be evaluated.

3. Coverage C – Personal Property

Are the limits on my personal property adequate?

Most homeowners policies automatically extend 50-70% of the Coverage A (Dwelling) limit to cover “personal property owned or used by an ‘insured’ while it is anywhere in the world.” This limit is usually adequate, but it should be eyeballed nonetheless. Remember this is **replacement** cost. When you start adding up everything you own – furnishings, clothing, flatware, glassware, etc. – the value escalates quickly.

Do I have an inventory or videotape, stored off premises or in a fire-proof safe, of the personal property I have insured?

It would be almost impossible to remember everything that was in your home after it was destroyed. Have you created a personal property inventory or considered videotaping the contents of your home?

4. Property with Limited Coverage

Do I have property that is worth more than the sub-limits provided in my policy?

Certain types of property have sub-limits within the policy. (See the sidebar for a listing of what is typically restricted. Note that every policy is different, so you should check your policy specifically.)

If you have property that is worth more than the sub-limits provided in your policy, it should be specifically scheduled. This will probably require an appraisal to establish the insured value.

Property Special Types of Coverages

Coverage	Typical Sub-Limit
➤ Money, Bank Notes, etc.	\$ 200
➤ Securities, Deeds, Evidences of Debt, etc.	1,500
➤ Watercraft (including their trailers)	1,500
➤ Other Trailers	1,500
➤ Jewelry, Watches, Furs (Theft)	1,500
➤ Firearms	2,500
➤ Silverware, Gold ware, etc.	2,500
➤ Business Property	2,500
➤ Trees, Shrubs (limited perils)	5% of Coverage A

5. Coverage D – Loss of Use

Does my policy provide adequate time to rebuild my home?

In the event your home is damaged or destroyed and you must move out while it is being repaired or rebuilt, your homeowners policy will cover “any necessary increase in living expenses incurred by you so that your household can maintain its normal living standard.”

Typically this coverage is provided on an “Actual Loss Sustained” basis. In other words, it covers whatever the additional costs might be. Unfortunately, this is typically limited to 12 months in the event your home is destroyed, and if you have to rebuild from scratch, 12 months will not be enough. It could take 6-9 months just to design your home and get permits. The actual construction can take an additional 9-18 months.

Make sure your policy provides at least 24 months of coverage.

6. Coverage E – Personal Liability

Could I be held responsible for any of the following situations?

- A neighborhood kid chasing a ball slips on your grass and breaks his arm
- A guest leaving your home after one too many gets involved in an accident
- Your Doberman takes a bite out of a passerby
- Your teenager hosts a part when you are gone, and a party crasher beats up a guest

Personal Insurance Checklist

Yes No

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Is my home adequately insured? |
| <input type="checkbox"/> | <input type="checkbox"/> | Have I considered the “Guaranteed Replacement Cost” options offered by my insurance company? |
| <input type="checkbox"/> | <input type="checkbox"/> | Should I consider Earthquake or Flood coverage? |
| <input type="checkbox"/> | <input type="checkbox"/> | Are my property deductibles appropriate? |
| <input type="checkbox"/> | <input type="checkbox"/> | Do I have “Other Structures” on my premises? Is the limit adequate? |
| <input type="checkbox"/> | <input type="checkbox"/> | Is the limit for Personal Property adequate? |
| <input type="checkbox"/> | <input type="checkbox"/> | Do I have any Property (fine arts, jewelry, etc) that requires separate coverage? |
| <input type="checkbox"/> | <input type="checkbox"/> | Is my “Additional Living Expense” coverage written on an actual loss sustained basis? |
| <input type="checkbox"/> | <input type="checkbox"/> | If not, is the “Additional Living Expense” limit adequate? |
| <input type="checkbox"/> | <input type="checkbox"/> | If the “Additional Living Expense” is written on an “Actual Loss Sustained basis, is the time frame over which the coverage applies long enough? |
| <input type="checkbox"/> | <input type="checkbox"/> | Are my Personal Liability limits adequate? (see Personal Umbrella) |
| <input type="checkbox"/> | <input type="checkbox"/> | Do I own property such as watercraft or motorcycles that require separate liability coverage? |
| <input type="checkbox"/> | <input type="checkbox"/> | Do I need Workers Compensation coverage? |
| <input type="checkbox"/> | <input type="checkbox"/> | Are my Automobile Liability limits adequate? (see Personal Umbrella) |
| <input type="checkbox"/> | <input type="checkbox"/> | Are my Uninsured Motorists limits equal to my Auto Liability limits? |
| <input type="checkbox"/> | <input type="checkbox"/> | Are my Physical Damage deductibles appropriate? |
| <input type="checkbox"/> | <input type="checkbox"/> | Have I considered deleting Physical Damage coverage on my older vehicles? |
| <input type="checkbox"/> | <input type="checkbox"/> | Do I have a Personal Umbrella? Are the limits adequate? |
| <input type="checkbox"/> | <input type="checkbox"/> | Do I have a proactive, service-oriented insurance broker who helps me make sure I have appropriate coverage with the right insurance company at a fair price? |

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The answer is yes – you could be held responsible in any of these situations. Personal liability will pay for the cost of defense (*in addition* to the policy limit) and pay any judgments or settlements. Note that personal liability only covers your negligence that results in bodily injury or property damage. It also *specifically excludes* such things as:

- Motor Vehicle Liability
- Watercraft
- Aircraft
- Expected or Intended Injury
- Business Liability
- Professional Liability

Most homeowners policies typically provide \$100,000 to \$500,000 of personal liability coverage.

This is not enough! See the Personal Umbrella section.

Do I have residence employees that either live with me or work for me on a regular basis?

If you do, you should add workers compensation coverage to your homeowners policy.

7. Coverage F – Medical Payments

Are my medical payments limits adequate?

A modest amount of coverage (\$2,000 is common) is included on most homeowners policies for what is called “Medical Payments” coverage. Note that this is a “no-fault” type of coverage. If someone is injured on your premises, you can spend up to the policy limit for their medical costs. If someone makes a

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2008 FOCUS Seminars

Cavignac & Associates' FOCUS Room
Bank of America Plaza
450 B Street, 18th Floor, San Diego, CA

- Risk Management for Design Professionals
Wednesday, June 18, 2008 — 9:00 AM - 11:00 AM
- Sexual Harassment Prevention Training
Satisfies requirements for AB1825 Training
Friday, June 20, 2008 — 9:00 AM - 11:00 AM

All training sessions available to our clients
Reserve early — seating is limited!

For more information about upcoming seminars:

- Visit our Web site at <http://www.cavignac.com/home.html>
- Contact Darcee Nichols at dnichols@cavignac.com
or 619-744-0596

NOTE: Due to the high demand for our seminars and the limited space available, we regret that we are unable to provide refunds or credits with less than 72 hours advance notice of cancellation.

Personal (continued from page 4)

claim against you or brings a lawsuit, coverage would fall under Coverage E – Personal Liability, and be subject to those limits.

Personal Automobile Insurance

Your personal automobile policy covers you for your legal liability arising out of the use of a covered automobile as well as damage to a covered auto (assuming you purchased comprehensive and collision coverage). If you own a car, legally you must carry auto liability coverage.

1. Part A – Liability Coverage

Are my auto liability limits adequate?

The State of California requires that every registered vehicle in California carry liability limits of at least \$15,000 for injury to any one person, \$30,000 if more than one person is injured, and \$5,000 for property damage (this is known as 15/30/5). **These limits are grossly inadequate.**

Have you checked your auto liability limits? Make sure they are at least \$500,000 and preferably higher (see the Personal Umbrella section).

Most personal auto policies (PAP) will also cover you for your liability arising out of the use of rental

cars. In other words, you don't have to buy the additional liability coverage offered by the rental car company. The PAP will also cover insured drivers if they operate someone else's car, although the insurance on the other car will be primary.

2. Part B – Medical Payments

Do I have medical payments coverage? What is the limit?

A modest amount of coverage (typically \$5,000) is provided for those situations in which you may or may not be at fault, but you choose to pay another's medical bills if they are injured in your automobile. Note that, unlike the homeowners policy, this also applies to you and other family members.

3. Part C – Uninsured Motorists Coverage

Do I have uninsured and underinsured motorists coverage? What is the limit?

Uninsured (and underinsured) motorist coverage protects you if you or someone in your car is injured by an uninsured (or underinsured) motorist. Let's say for example that you have \$500,000 of uninsured motorists coverage. You are injured by a car insured to the minimum limits in California (\$15,000 any one person as mentioned above). Your medical bills are \$100,000. The insurance policy for underinsured motorist who hit you would pay its policy limit of \$15,000. Your uninsured motorists coverage would pay the balance of \$85,000.

In many cases uninsured motorists coverage is written with minimal limits (\$60,000 is common). Your uninsured motorists limit should be the same as your Liability (Part A) limit.

4. Part D – Coverage Damage to Your Auto

Do I have coverage for damage to my vehicle? What is the limit?

You have the option of insuring your automobile for physical damage, although if your vehicle is leased or financed this will probably be required. There are two types of coverage offered.

- Collision coverage applies when you run into someone or something, or if someone runs into you.
- Comprehensive, also known as "other than collision" damage, covers just about everything else.

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Note: If you have Comprehensive and Collision Coverage, it will generally extend to any passenger vehicle or light truck that you rent (make sure you verify this with your broker). Regardless, there are reasons you may still elect to purchase the rental car company's "over-priced damage waiver." (See our June 2007 [Commercial Insurance Update](#) newsletter.)

- Have you considered deleting comprehensive and collision coverage on your older vehicles?
- Have you evaluated your deductibles?
- Do you know how your physical damage coverage applies if you rent a car?

5. Other Personal Auto Coverages

In addition to the core coverages listed above, most personal auto policies also cover:

- **Towing and Labor** - This is typically a modest amount of coverage (\$50 is common) for the cost to tow your vehicle if it is disabled. Note that if the comprehensive or collision coverage is triggered, the total cost to tow the vehicle would be covered. This is not a substitute for AAA-type towing coverage.
- **Rental Reimbursement** - This provides coverage for the cost to rent a substitute vehicle while yours is being repaired because it was damaged by a covered loss. The limit is typically \$15 a day for up to 30 days (\$450 total). You can purchase higher limits if you like.

Personal Umbrella

A personal umbrella policy is also known as an excess liability policy. It provides additional limits of liability coverage over and above your primary liability policies. Typically these primary policies include your Personal Liability (included in your homeowners policy), Auto Liability, and any other underlying liability policies (such a Watercraft policy, for example).

Just about everyone should have a personal umbrella policy. Simply put, the limits offered by primary policies (typically no higher than \$500,000) are not enough in today's litigious society.

If someone is seriously injured at your home, or if you cause an auto accident with major injuries or fatalities, your liability exposure can run well into seven figures.

The positive news is that excess coverage is relatively inexpensive. For a typical household with a home and two cars, the first million dollars of umbrella coverage costs as little as \$200 to \$300 per year.

There is no formula to tell you what limit of coverage you should have, but the factors you should consider would be your income, net worth, whether or not you have young drivers, and your comfort level.

Realize as well that each additional million dollars of coverage is less expensive than the prior million dollars of coverage

Other Coverages

You may own property that is not covered under your Homeowners or Auto policies. This may require separate insurance and might include:

- Watercraft
- Aircraft
- Motorcycles

Coverage for these exposures may be available thru your standard homeowners program or a specialty program. Regardless, you should attempt to schedule these policies under your umbrella policy.

Summary

Your personal insurance program is critical to your family's protection and well-being.

You don't need to become a personal lines insurance expert, but you should understand your coverage so you can make certain you are appropriately insured. I encourage you to complete the "Personal Insurance Checklist" included within this article.

Don't underestimate the value of a specialist personal insurance broker (Cavignac & Associates doesn't offer personal lines coverages). The right broker can work with you to make certain you have appropriate insurance with the right company at the lowest realistic cost. ✨

Disclaimer: This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.



DON'T FORGET!

EFFECTIVE JULY 1, 2008:
California's new "Hands Free
while driving"
wireless phone laws!

FOR MORE INFORMATION, VISIT:

www.dmv.ca.gov/cellularphonelaws/index.htm



Community Bulletin Board

"Neighbors helping neighbors in San Diego"



Summer Events

Meow Madness Adoption Event

Date: Entire Month of June

With kitten season officially in full swing, the San Diego Humane Society and SPCA is launching a month-long initiative to help combat the rising number of cats in the shelter's care.

The San Diego Humane Society hopes to find homes for 200 cats during the month of June! The "Meow Madness" Adoption Event features special adoption incentives including gift baskets, new lower adoption fees, and waived fees for "buddy" adoptions.

The standard cat adoption fees of \$100 for adult cats and \$150 for kittens have been **lowered to \$75 for adult cats and \$125 for kittens. Special "Buddy Adoption" incentives will be effective through June 30th.** First-time adopters who adopt one cat can adopt a second cat with the "Buddy Adoption" fee waived.

Adopters who took home a cat from the San Diego Humane Society at any time during the past year also qualify for the waived fee.

Visit the Meow Madness Celebration page at www.sdhumane.org for updated information.



Animal Adventure Camp

Ages: 5 to 13

Time: 9 a.m. to 3 p.m., M-F

Optional extended care available



The Animal Adventure Camp offers games, crafts and hands-on animal activities that help children develop respect and a positive attitude toward all living beings. Five week-long sessions begin June 30th-July 3rd and end August 4th-8th, 2008.

Visit www.sdhumane.org for Animal Adventure Camp applications and additional information. ✨

Monarch School



Student Story: Meet Makayla

Makayla was 11 years old when her family moved into a homeless shelter in downtown San Diego. Not long after, Makayla enrolled at Monarch School, where she began to turn her life around thanks largely to the after-school and academic-readiness programs.

Always energetic, Makayla quickly got involved in the dance program and Monarch's steel drum band. She also signed up for piano lessons and an art program through a local museum.

Brimming with new-found confidence, Makayla was soon singing the national anthem at Qualcomm Stadium, winning prizes at local dance competitions, and singing at school graduations. She even got a job as a teen art docent at the San Diego Museum of Art. In addition to her after-school activities, Makayla excelled academically and assumed a strong leadership role at Monarch.

Since graduating from Monarch last spring, Makayla has continued to follow her passion for the arts. She has served as a teacher's assistant for Monarch's steel band program, coaching young children who started just where she did. She is also attending San Diego City College and, with scholarships already in hand, plans to continue her education and ultimately pursue a career in the performing arts.

Makayla's story is a wonderful example of a life transformed by Monarch School. Monarch's programs, funded with generous community support, enhance resiliency and teach vital life skills to Monarch's teenage students. Like Makayla, many other students have experienced significant life changes thanks to Monarch. ✨

*To learn more about Monarch School and how you can help, visit www.monarchschoools.org, or contact **Stacy Marshall, Development Associate**, at smarshall@monarchschoools.org or **619-685-8242, Extension 226.***



Community Bulletin Board

'Neighbors helping neighbors in San Diego'



Why Senior Community Centers?

Low-income senior citizens with limited resources often have no voice when it comes to legislation that will improve their standard of living. Many suffer from malnutrition because they can't afford nutritious food. Others are disabled and confined to their homes, making shopping difficult. Still others face mounting medical bills that eat up their entire monthly income. And some, because of poverty and other issues including mental illness, are homeless and unable to find a way out of the cycle of despair and hopelessness on their own.



Senior Community Centers concentrates its advocacy efforts in each of these areas with a goal to increase the availability of affordable and supportive housing options, maintain federal and state funding for senior nutrition programs, and improve medical and mental health service delivery systems at a reasonable cost for this rapidly growing population.

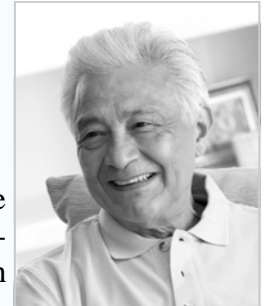
As catalysts for change, Senior Community Centers is confident that these increased advocacy efforts will raise the awareness of critical issues among legislators, service providers and the general public thereby leading to increased funding for programs which ensure that a greater number of seniors receive quality, uniformly-defined supportive services.

Mission

To provide quality and compassionate services for the survival, health and independence of seniors living in poverty.

Vision

To create an environment where seniors, living in poverty, are respected and live free of fear with pride and dignity.



Values

Senior Community Centers believe in:

- Helping at-risk seniors remain healthy and independent
- Serving as an advocate and “voice” for seniors living in poverty
- Treating our seniors with respect and dignity at all times
- Offering high-quality services that exceed our seniors' expectations
- Expanding our efforts through aggressive outreach to seniors in need
- Being proactive, growth-oriented and a catalyst for leveraging community resources
- Exceeding our donor's expectations by thanking and recognizing them for their gifts
- Being a leader among non-profit organizations
- Being fiscally sound

To find out more about Senior Community Centers' programs, advocacy, and how you can help, visit www.servingseniors.org. ✨