

Save Thousands On Insurance

By Ashlea Ebeling

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You may be paying too much or paying for the wrong coverage



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When was the last time you took a hard look at your casualty insurance? You may be paying too much for policies covering your house, vehicles, property and liability or, at least, paying for the wrong things.

This is a big-ticket item. In 2008 the average household grossing more than \$100,000 spent \$2,400 for vehicle and home insurance--more than the \$2,300 it laid out for medical insurance, where employers help foot the bill, according to the Bureau of Labor Statistics.

Ace Private Risk Services recently surveyed 600 independent insurance agents, independent meaning that an agent is not the captive of one insurer. These pros said affluent folks typically carry too little insurance for personal liability, the total destruction of their home and damage to collectibles, while wasting dollars on too-low deductibles and too much coverage for ordinary personal property like furniture. Customers also have a habit of failing to ferret out special discounts, such as for having burglar alarms. Here are some pointers.

Don't feel locked in.

A 2008 *Consumer Reports* subscriber survey found that more than half of those who had switched homeowner carriers in recent years had saved money by doing so. To be sure, this is not proof that a majority of insurance purchasers could save by switching, but it's a strong hint that shopping around is worthwhile.

After Michael Fitzhugh, a financial planner with Aspiriant in San Francisco, got a notice from Fireman's Fund last March raising the combined premium for his home, auto and personal liability insurance by 14%, his independent agent found him a comparable Ace policy at the old price, saving him thousands a

year. "If my agent was captive to the company that had jacked up the rates he would have spun me a web," says Fitzhugh, who advises his money-management clients to use an independent agent.

But there's no harm in getting quotes from both an independent agent and from the other kind. State Farm (mutually owned) and **Allstate** (stockholder owned) use captive agents; these sales reps, while not employees of the insurer, sell only one insurer's policies. Geico takes this integration a step further; its sellers are Geico employees.

Choose the right type of carrier.

Most independent insurance agents represent both companies such as **MetLife** and Travelers selling primarily standard home policies and those such as Ace, Fireman's, Chubb and Chartis (formerly AIG) that specialize in high-end coverage. Standard policies start 20% cheaper but have lower coverage limits on some items--say \$1,000 for a piece of jewelry versus \$10,000 in a deluxe policy. With a standard policy, riders (meaning extra coverage for specific items or circumstances) may cost more or even be unavailable.

Marc Slafsky, a Stoneham, Mass. agent representing 12 carriers, recently put a young lawyer/money manager couple with Chartis because they needed riders covering a \$50,000 wedding ring and a live-in nanny and have a custom-built house that would cost \$1.3 million to replace. But he insures his own \$400,000 home with a standard policy from a unit of Safety Insurance, a stockholder-owned carrier operating primarily in Massachusetts. "If you don't need the extra coverage, why pay for it?" he asks.

Don't skimp on replacement value.

Marshall & Swift/Boeckh, a building-cost data provider, estimates that 58% of U.S. homes are underinsured by an average of 21%. The value of your house might have dropped by 30% or more, but that doesn't mean it will cost less to rebuild. Remember, reconstruction is more expensive per square foot than new construction.

Look into what "replacement" means in your policy. With a typical standard policy you fill in a questionnaire and the carrier uses software to estimate the replacement cost of your home, which is what you pay to insure. If your house burns down, the insurer will shell out at most 125% of the insured value; if that's too little to rebuild, tough. High-end carriers usually have appraisers determine replacement cost before you buy the insurance and then set higher caps--or no caps--on the percentage of insured replacement value they'll lay out.

Another difference: Standard policies specify replacement with "similar" materials. If you have fancy fixtures in your house, get a high-end policy or pay extra for replacement with "like kind and quality" materials. Pamela Cantieri, an agent with Fort Point Insurance Services in San Francisco, signed up a new client with Fireman's after he learned the hard way the meaning of "similar." A kitchen fire destroyed a marble countertop he had bought in Italy. His insurer told him to go to **Home Depot** or **Lowe's** to replace it.

Another feature of high-end (but not standard) coverage is a cash-out option; you can take the cash instead of being required to rebuild on the site of your destroyed home. This is useful if you're planning to move

soon anyway or if the replacement value of your home is above its market value. Such expansive coverage is not easy to come by because underwriters are instinctively worried about moral hazards (if a fire would leave you better off, you might not unplug the Christmas tree lights before you go out).

Cut household contents coverage.

Contents coverage is often automatically pegged at 50% to 70% of the replacement value of your house. "Unless the furniture is made out of gold, oftentimes you're overinsured on contents," says Fitzhugh. Come up with a good estimate of the value of your things--even clothing adds up. Some carriers will let you name an amount of coverage instead of a fixed percentage. This can save you \$100 per \$100,000 of coverage, says Cantieri. She's put coverage down to zero for vacation homes that are sparsely furnished.

Check how your carrier covers replacement. The standard practice is for the insurer to reimburse the full cost of replacement goods you go out and buy but pay only a minimal depreciated value of lost items you don't replace. The better policies will give you replacement cost, whether or not you buy all new stuff or pocket the cash.

Pay attention to other structures.

On standard policies, this coverage is typically set at 20% of the replacement value of the house--more than enough to cover a gazebo and garden shed but not a detached three-car garage with a guest apartment. "We think the percentage approach doesn't do justice given how different clients' homes are," says Robert Courtemanche, chief executive of Ace. If you've got something out of the ordinary, look into the high-end policies that let you customize other structures' coverage.

Increase your deductibles.

Courtemanche recommends that affluent folks consider \$5,000 to \$10,000 deductibles on homeowner policies and \$1,000 to \$2,500 deductibles on auto-collision policies. High deductibles shave hundreds of dollars a year off the premium.

Buy an umbrella.

If people often overinsure against small losses, they underinsure against big ones. "Most clients have outgrown their insurance," says Cantieri. "If someone steps off the curb and you hit them, \$100,000 isn't going to go far," she adds. Get an umbrella policy, which kicks in where your auto and home policies end. The right umbrella amount depends on where you live, your profession and your aversion to risk. Get at least \$1 million.

Your net worth is just a starting point for thinking about big losses. If you're worth \$1 million, a \$1 million umbrella is not going to protect you from a \$2 million legal judgment, since it would still be worth a lawyer's time to go after your personal assets. Millionaires who drive should have \$3 million of umbrella coverage. Most customers get their umbrella policy from the same company that has the home or auto policy. Sometimes you must go to a different insurer--say if you have a high-risk hobby like speedboat racing.

Seek out credits.

Some credits and discounts, such as for being accident- or claim-free for a certain number of years, are automatically applied. But you may have to ask for other credits, such as for a burglar alarm, a backup generator, a water-leak detector or a valve that shuts off the gas if there's an earthquake. Courtemanche says he's seen customers with enough credits to save 30%. Turn in your kid's B-or-better report card for an auto insurance break. (If he's flunking out, take away the keys.) Keep your diamond tiara in a safe deposit box and you'll get a price break on the rider for it.

Get those riders.

Starting a home-based business? If you meet with clients at your home, or even get business deliveries, buy a home-based business endorsement, an add-on that could cost as little as \$20 and will protect you if the FedEx man trips. If you collect things--this doesn't have to be art or furs but could be wine or baseball cards--consider a valuable-possessions or collections rider. Living in the Bay Area, Fitzhugh pays \$100 a year to cover a \$10,000 wine collection. "I live in fear we'll have a bitty shaker and the only damage will be in the tile-floored wine cellar," he says. Your policy deductible won't apply to these "scheduled" items covered by a rider.

Get a good agent or shop online.

If your needs are mundane you can gather several price quotes through sites like Netquote.com or Insweb.com. The main problem with these sites: You can search only for auto and home separately and can't come up with a combined price including an umbrella. But you should still be able to get a read on which carriers are most competitive. After you register you'll get e-mails and/or phone calls from several carriers' representatives or agents, at which point you should be sure to ask about discounts and tailoring the policy to your needs.

If you like the personal touch or you need high-end coverage, use an independent agent; you can search for one at Iiaba.net. The same coverage, through the same insurer, should cost the same whether you deal with an agent by Web and phone or in person. So the hand-holding is free.