

Homeowners: Know the Difference between Market Price and Replacement Cost



Dear Policyholder,

This fall issue of SafetyWise features educational articles about insurance in addition to the usual

action-oriented safety tips. By understanding such terms as “guaranteed replacement cost,” you can better recognize coverage quality and ensure that your assets are properly protected. On behalf of Atlantic Mutual and R.A. Fraser Agency, I would like to wish you a safe and secure fall.

From my home to yours,

Dan Olmsted, President

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Home prices have slowed their relentless climb or even declined. It might seem that your home would therefore require less insurance. But that’s a dangerous misperception.

Insurance coverage is based not on market price but replacement cost—the cost to rebuild it. Market price can fluctuate greatly with the value of the land, not just the home. While replacement cost excludes the land value, it can sometimes exceed market price due to a variety of factors:

- It is costly to remove debris from a damaged home.
- Most people want their home rebuilt faster than it was originally built, and speed adds to cost.
- If the damaged home was old, rebuilding it according to new building codes can add to cost.
- Fewer contractors rebuild damaged homes than build new homes.
- Purchasing materials for one home eliminates the volume discounts developers get when they build many homes at once to put on the market.

The confusion between replacement cost and market price is a key reason why 58 percent of homes in the United States are underinsured, and by an average of 21 percent, according to Marshall & Swift/Boeckh, a firm that analyzes replacement cost data.

Replacement Cost Still Rising

Replacement costs for homes have not stopped climbing. Construction costs in



the second quarter of 2006 were about 12 percent higher than a year earlier, according to an industry source.

Indicators show that prices of construction materials and labor will continue to drive up replacement cost.

How The Atlantic Master Plan Protects Homeowners

The Atlantic Master Plan protects homes from being underinsured for several reasons:

- Every year, we analyze replacement-cost trends and adjust the insurance value of your home (listed as the dwelling limit in the policy) to keep the coverage current.
- We send an expert to appraise any new additions to your home or new properties you insure.
- The Atlantic Master Plan home policy offers guaranteed replacement cost.

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Home and Dry in Your Basement



With elaborately finished basements becoming increasingly prevalent, basement flooding is not just a common nuisance for homeowners, it can be an expensive misfortune. Fall can be a good time to do a preventive check.

Start outside! Water from the roof that ends up next to the foundation is a leading cause of basement flooding.

- Are gutters and downspouts adequately sized and cleared? Check during a heavy rain or use a hose to check for clogs. Carefully clear any clogs or hire help. Consider installing a product that keeps leaves and debris out of your gutters and downspouts. Consider trimming trees near the roof.
- Do downspouts empty onto the ground or a paved area next to the house? If so, consider a drainpipe (above ground or below) to carry water a minimum of 10 feet from the foundation to the lowest point possible. Ideally, the drainpipe should empty into a municipal storm drain or other collection system.
- Is the soil around the structure sloping toward the house or flat? If so, water can pool against the foundation and penetrate the foundation wall. Don't forget to check the grading under stoops and decks.
- Is the outside foundation sealed? Water penetrates stone. Water pressure and wind pressure push rainwater into the outside surface of your home. Masonry surfaces such as stone, brick, concrete block, and poured concrete are vulnerable, particularly at joints.
- Look for peeling or discolored paint or caulking around basement windows and doors, which can be a sign of water penetrating the wood. Pay special attention to corners.
- If you have a sump pump, make sure that it's clean and in good working order. Remove any debris from the pit. Test the pump by pouring buckets of water into the sump pit until the pump is made active. Consider a battery back-up since the power often goes out during the worst storms—just the time you'll need the pump.

Market Price and Replacement Cost (cont'd)

The last point is important because many home policies do not offer guaranteed replacement cost coverage. They cap the amount they will pay. In contrast, the Atlantic Master Plan will cover the full cost to repair or rebuild your home – even if it exceeds the value specified in your policy.

We can't cover what we don't know about, however. As a homeowner, be sure to inform your independent insurance agent about additions or improvements to your home. This helps make sure your home is properly and thoroughly insured. You can also request an appraisal if you think your home is improperly valued.

Two Ways to Save on Premium

Since replacement cost affects premium, it's always good to find ways to save.

- Choose a higher deductible. The premium savings can be considerable, and you may become eligible for our “deductible reserve program”—a unique benefit that effectively reduces your deductible by 10 percent for each consecutive claim-free year.
- Earn discounts for safety enhancements. For instance, new devices that automatically detect plumbing leaks could earn a 2-5 percent credit in some states.

How Appraisals Help You

Our appraisers use industry data and a wealth of experience to properly estimate the replacement cost of your home. These experts visit newly insured homes to measure and examine construction details. This information feeds a data base that tracks labor and material costs by zip code to determine a replacement cost estimate.

We send you a home appraisal report that describes the distinctive features of your home, includes pictures, and suggests how to improve safety. Your agent will contact you about any necessary changes in coverage.

Auto Insurance: How “Saving” Could Really Cost You

In recent years more and more auto insurance companies have been advertising low prices and touting the ease of getting quotes over the Internet. It’s a tempting proposition, but choosing the lowest price might not be such good news. Saving on premium now could cost you a lot more if you have an accident, especially if you own a luxury auto. The reason: Coverage terms and limits as well as service quality can vary greatly among policies.

Know Your Policy Limits

The easiest and most important differences to catch involve coverage limits. A limit defines the most the insurance company will pay for a type of loss. A low-price policy may have lower coverage limits than your current policy, exposing you to greater risk.

The Bodily Injury Limit is particularly important to consider. It covers the expenses you may be liable for if you (or someone with permission to drive your vehicle) injure another person. With the high cost of medical treatment and the popularity of lawsuits, drivers with substantial assets could be putting a significant amount of their net worth up for grabs if they choose an inadequate limit.

Other important limits to consider are as follows:

- **Personal Injury Protection (PIP)** covers treatment of injuries to the driver and passengers of your vehicle. It can sometimes cover lost wages and funeral costs.
- **Property Damage Liability** covers damage to someone else's property.



Lawsuit awards can significantly deplete your net worth if you choose inadequate limits.

- **Collision** covers damage to the auto resulting from a collision with another vehicle or object or flipping over.
- **Comprehensive** covers loss to an auto due to theft or damage from other risks such as a falling branch.
- **Uninsured and Underinsured Motorist Coverage** reimburses you, a family member, or a designated driver if one of you is hit by an uninsured, underinsured, or hit-and-run driver.

Coverage Quality and Service

While limits are numbers that are easy to compare, the quality of coverage and service should also be considered. Some of the significant differences that distinguish quality coverage and service provided by the Atlantic Master Plan are as follows:

- **Agreed Value Option.** Your seven-year old Lexus may look and run like new, but if it’s “totaled,” standard policies sold at the lowest rates can take thousands out of your reimbursement by applying the most aggressive form of depreciation.

With the Atlantic Master Plan, you can choose the “agreed value” option to establish the value of your auto before it becomes a total loss.

- **Original Equipment Manufacturer Parts.** Some low-price auto policies will only pay for “generic” auto parts from third-party manufacturers. The quality of these parts may differ from the originals. The Atlantic Master Plan pays for parts produced by the original manufacturer, also called “OEM” parts.

- **Comparable Rental Car.** Repairing or replacing your auto could take weeks, but low-price policies may come with per-day and total spending limits that barely pay for briefly renting an economy car. The Atlantic Master Plan allows you to rent a comparable car because it has no per-day cap and comes standard with a \$1,200 total limit.

- **Quality Claims Service.** For many years, Atlantic Master Plan customers who have had a claim have reported satisfaction ratings of 97 percent—or higher. In NY, Atlantic Mutual, the administrator of the Atlantic Master Plan, has had fewer consumer complaints upheld by the state insurance department than any other company over the past four years.

It seems so easy to compare by price, but it’s dangerous without working with an independent agent to help you understand the more complex issues. Insurance is an important financial service, and like any service or product, you get what you pay for.

Fall Into Good Safety Habits Before Winter



Snow and cold air are on the way. Take steps now, and you can spend the chilly days with your feet up in front of the fireplace. Don't leave yourself scrambling to prevent or remedy cold-weather calamities like burst pipes, chimney fires, and ice dams on your roof.

Plumbing

Plumbing pipes in outside walls or in cold areas of a home are vulnerable to freezing and bursting, so do some common-sense improvements:

- Have rooms with exposed pipes insulated (garage, attic, or crawl spaces). Insulate the pipes in these areas also. Consider using heat tape or heat cables for especially cold locations. Use only products approved by Underwriters Laboratories Inc.
- Check for air leaks in walls near pipes. Seal any with caulk or insulation to keep the cold out and the heat in.

Fireplaces and Chimneys

The National Fire Protection Association advises:

- Have fireplaces, chimneys, chimney connectors, wood and coal stoves and all other solid-fueled heating equipment inspected annually by a professional. Clean as often as inspectors recommend. For chimneys, clean annually. Have any damage professionally repaired.
- Use seasoned wood. Green wood has more moisture and is likely to smolder, leading to more creosote build-up. Creosote can cause chimney fires.
- Use a screen or grate to keep fire and sparks inside the fireplace.
- Clean out ashes from previous fires, and store ashes in a proper container that won't ignite or melt, preferably outdoors.
- Install or check smoke detectors in the house.

Roof and Gutters

It's much easier to uncover and fix roof problems in the fall than winter.

- If you can walk safely on your roof, check for split or raised shingles and any sign of sponginess. As an alternative to walking the roof, use a pair of binoculars.
- Pay special attention to the seams or flashing around chimneys, plumbing vents, attic vents, and skylights.
- Consider installing gutter screens, which help keep out debris such as leaves that can cause buildup and damage to your gutters.

Attic

Properly insulating your attic helps prevent ice dams. Ice dams form when a warm attic causes snow on your roof to melt, run down to your gutter and refreeze.

Soon, your gutter becomes a dam that blocks the snowmelt, creating a pool of water that seeps beneath shingles and down walls causing extensive damage.

Large icicles along your roof in previous winters are a tell-tale sign of ice damming.

- To prevent ice dams, your attic should be professionally insulated and vented to keep it only 5 to 10 degrees warmer than the outside temperature.
 - The professional should seal all openings rising into the attic, including access panels and doors and ceiling-mounted light fixtures and fans.
 - Make sure exhaust ducts from the kitchen, bathroom, and clothes dryer do not blow hot, moist air into the attic. Seal and insulate ductwork in the attic.
 - Proper ventilation allows warm air to escape through vents near the top of the attic and cold air to flow in through vents near the eaves.
 - Cathedral ceilings usually require an air space of at least two inches between the insulation and roof deck.
- It is always best to consult a building professional for the solution specific to your home.

Note: The safety recommendations in this newsletter should not be viewed as covering every conceivable situation. It only highlights a few of the more common preventive steps. Other or additional steps may be necessary. Any descriptions of coverage in this newsletter are meant to be general in nature and do not include nor are intended to include all of the actual terms, benefits and limitations found in an insurance policy. Coverage may vary by state. The insurance policy and not this newsletter will form the contract between the insured and the insurance company, and governs in all cases.