

The Underinsurance Cascade Effect

When your home is underinsured, a rainy day can turn into a flood of out-of-pocket expenses.

Being underinsured on your homeowners coverages means that your homeowners policy doesn't fully cover the cost to replace your home and personal property if it's destroyed.

- In the United States, an average of 2/3 homes are underinsured.¹
- These homes are underinsured by an average of 20%.²

This can happen if a homeowner doesn't update their insurance policy when:

- The cost of rebuilding your home has risen due to labor and material costs or code requirements.
- Renovations or other home improvement projects have been done.
- The value of your home has risen because of economic factors
- You've made significant investments in electronics, fine art, or other high-value items.

Underinsurance can cascade through your entire policy.

DWELLING (COVERAGE A)

This part of your homeowners insurance policy provides coverage against damage to your home's structure. If you're underinsured on Coverage A, you may be underinsured on other types of coverage that are based on a percentage of your Coverage A limit.

PERSONAL PROPERTY (COVERAGE C)

Personal property coverage limits are usually set as a percentage of Coverage A—for example, your Coverage C limit could be 70% of your Coverage A limit. If you're underinsured on Coverage A, this can greatly impact how much coverage you have available for your personal belongings.

ADDITIONAL LIVING EXPENSES (COVERAGE D)

Similarly, your coverage for additional living expenses is also a percentage of Coverage A. If you're underinsured on Coverage A, your Coverage D may not fully cover the cost of living elsewhere if your home is uninhabitable, especially at your current standard of living.

Even coverages that are not directly dependent on Coverage A, like personal liability (Coverage E) and protection for some types of personal property, should be reviewed regularly to ensure you are fully protected.

It all adds up.

When you're underinsured on your homeowners insurance policy, it has a cascading effect on what you may have to pay out-of-pocket in the event of a covered claim.

Your insurance agent is the best person to speak with regarding protecting your home and avoiding being underinsured. Talk to your agent today about your home coverage.

Sources:

1. Michelle Megan, "Is my house underinsured? How to make sure you're covered," Insurance.com. [Read Insurance.com article](#)
2. Frank Pennachio, "What to do about the crisis of underinsurance," PropertyCasualty360. [Read PropertyCasualty360 article](#)

This information is intended to serve as a general overview. Please refer to your policy or contact your agent for specific coverage details.

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