

Five Insurance Mistakes to Avoid..... (and Still Save Money)

Avoid these Common Mistakes and You're on Your Way to Getting the Best Insurance for Your Needs and Budget



Saving money feels good. And shopping around when you're looking for insurance coverage is a great way to do it. However, simply reducing your coverage or dropping important coverages altogether is like diet without exercise—focused only on numbers, not on results. Don't risk ending up dangerously underinsured and on the hook for much bigger bills in the event of a disaster.

Following are the five most common auto, home, flood and renters insurance mistakes people make, along with suggestions to avert those pitfalls while still saving money (we call them, "better ways to save"):

1. Insuring a home for its real estate value rather than for the cost of rebuilding. When real estate

prices go down, some homeowners may think they can reduce the amount of insurance on their home. But insurance is designed to cover the cost of *rebuilding*, not the sales price of the home. You should make sure that you have enough coverage to completely rebuild your home and replace your belongings?no matter what the real estate market is doing.

A better way to save: Raise your deductible. An increase from \$500 to \$1,000 could save up to 25 percent on your premium payments.

2. Selecting an insurance company by price alone. It is important to choose a company with competitive prices. But be sure the insurer you choose is financially sound and provides good customer service.

A better way to save: Check the financial health of a company with independent rating agencies (some well-known ones: [A.M. Best](#) [1], Moody's), and ask friends and family members about their experiences with insurers. Select an insurance company that will respond to your needs and handle claims fairly and efficiently.

3. Dropping flood insurance. Damage from flooding is *not* covered under standard homeowners and renters insurance policies. Coverage is available from the [National Flood Insurance Program](#) [2] (NFIP), as well as from some private insurance companies. You may not be aware you're at risk for flooding, but keep in mind that 25 percent of all flood losses occur in low risk areas. Furthermore, yearly weather patterns?spring runoff from melting winter snows, for example?can cause flooding.

A better way to save: Before purchasing a home, check with the NFIP to determine whether a property is situated in a flood zone; if so, you may want to consider a less risky area. If you are already living in a designated flood zone, look at mitigation efforts that can reduce your risk of flood damage and consider purchasing flood insurance. Additional information on flood insurance can be found at www.FloodSmart.gov [2].

4. Only purchasing the legally required amount of liability for your car. The minimum is just that?the least you can get away with by law. So buying only the minimum amount of liability means you are likely to pay more out-of-pocket later. And if you are sued, those costs can jeopardize your financial well-being.

A better way to save: Consider dropping collision and/or comprehensive coverage on older cars worth less than \$1,000. The insurance industry and consumer groups generally recommend a minimum of \$100,000 of bodily injury protection per person and \$300,000 per accident.

5. Neglecting to buy renters insurance. A renters insurance policy covers your possessions and additional living expenses if you have to move out due to an insured disaster, such as a fire or hurricane. Equally important, it provides liability protection in the event someone is injured in your home and decides to sue.

A better way to save: Look into multi-policy discounts. Buying several policies with the same insurer, such as renters, auto, and life will generally provide savings.

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[1] <http://www.ambest.com/>

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