



Issue 1
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Congress Turns on the Floodlights

Recently, Congress passed legislation designed to solidify the National Flood Insurance Program (NFIP) managed by the Federal Emergency Management Agency (FEMA). This legislation comes after the program, founded in 1968, was extended for a year in January of 2003. The new legislation will extend the program for five more years while making some important changes to staunch the flow of red ink caused by repeat claimants in flood-prone areas.

Some of the changes Congress hopes to encourage are remedial in nature. For example, \$40 million a year has been authorized to pay for elevation, relocation, demolition and flood proofing of homes in flood zones that have been the subject of repeat claims. Under the new legislation, the government would pay 90% of flood proofing costs, and the property owner would pay 10%. The remediation would be optional for the homeowner, but the alternative would be bleak. According to the Associated Press Online, one study reported that the subsidized NFIP plan costs insureds only about 38% of actuarial risk rates, costing the government about \$200 million a year. Under the new plan, refusal to accept the government's "mitigation" offer would end the subsidy for the property owner, resulting in a significant increase in flood insurance premiums.

Dissenters in Congress include Rep. Billy Tauzin, a Louisiana Congressman, who complained that the bill unfairly targets his constituency, noting that those who live in earthquake or tornado prone areas are not similarly penalized.

The bill targets the most prolific claimants in the NFIP program. There are 48,000 properties that, within a 10-year period, have experienced multiple flood claims exceeding the deductible by at least \$1,000, accounting for 25 - 30% of all claims. Of those, the program targets the 10,000 properties that top the list for frequency and severity of claims. Also targeted are homes whose multiple claims over time have totaled more than the value of the insured property.



With the spotlight (or floodlight?) on flood insurance, now may be a good time to review your strategy for managing your business or home's exposure to floods, the most common disaster scenario in the US according to FEMA. But do not make the assumption that disaster-relief will be available, obviating the need for flood insurance.

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Welcome to the Leap/Carpenter/Kemps Insurance Agency Newsletter!

We hope you find the information in this latest issue of the Leap/Carpenter/Kemps Insurance Agency newsletter informative. These topics address some important areas of personal insurance to consider. If you would like more information on any of the topics, please give us a call. We look forward to hearing from you.





Will Your Insurance Cover the Cost of Rebuilding Your Home?

After a disaster happens it is too late to determine if you have enough insurance to cover the cost of replacing your home and your lost valuables. And as we have seen from recent events, disaster has a way of striking without warning.

Savvy homeowners make it a practice to review their homeowner's insurance on an annual basis to see if their policy still provides adequate coverage to rebuild their homes at current construction costs. This is especially important if you have recently paid off your mortgage and you only purchased enough insurance protection to satisfy your mortgage lender's requirements.

When you evaluate your coverage, be sure not to confuse the real estate value of your home with what it would cost to rebuild it. Another point to consider is whether or not your policy covers improvements such as a new kitchen or bathroom and major purchases, as well as rebuilding costs.

Most basic homeowner's policies will provide replacement cost for damage to the physical structure of your home. Replacement cost covers the repair or replacement of damaged property with materials that are similar in kind and quality to what your home was built with.

For added protection beyond the estimated cost of rebuilding your home, you need a guaranteed or extended cost policy. This type of coverage is especially important if there is a widespread disaster that raises the cost of building materials and labor. A guaranteed replacement cost policy would pay to rebuild your home regardless of the actual cost. Insurance companies offer extended replacement cost policies, which provide an additional 20% or more of coverage above the limits found in the basic homeowner's policy.

You should also consider purchasing additional coverage that will increase the protection of the standard homeowner's policy:

- **Inflation Guard** - automatically adjusts the rebuilding costs of your home to reflect changes in construction costs because of inflation
- **Building Code Upgrades** - provides ordinance or law coverage that pays a specific amount toward increased building costs resulting from having to meet new or tougher building codes
- **Water Back-Up** - insures your property for damage caused by the back up of sewers or drains

Standard homeowner's policies do not include coverage for earthquakes or flooding, including flooding resulting from a hurricane. Flood insurance is available through the federal government's National Flood Insurance Program, www.floodsmart.gov. However, you may be able to purchase the coverage from the same insurer from whom you purchased your homeowner's insurance. Earthquake insurance is also available through private insurance companies. You should speak to your agent about purchasing flood and/or earthquake coverage if

you live in a geographic area that can be hard-hit by these types of natural disasters.

The second part of your coverage evaluation should include a determination of whether or not you have adequate protection for your possessions. You can do this by conducting a home inventory, which itemizes everything you own and the estimated cost to replace these items if they are stolen or destroyed. If you find that your possessions are not sufficiently covered, you can increase protection in either of two ways:

- **Cash Value Policy** - pays the cost to replace your belongings minus depreciation.
- **Replacement Cost Policy** - pays the actual cost of replacing the item.

If you have a replacement cost policy for the contents of your home, your carrier will pay to replace lost or damaged items with new ones that are comparable. If you have a cash value policy, your carrier will pay only a percentage of the cost of any new items because they have been used and have depreciated in value. Generally, the price of replacement cost coverage is about 10% higher than cash value coverage, but the difference in cost will more than pay for itself in the event of a major disaster.



We would like to introduce our friendly Personal Lines staff that you work with regarding your homeowners, auto and other personal insurance policies. They are ready to help if you have questions about any of the information in this newsletter. From left to right they are: Jane, Becky, Zoila, Stacey, Judy and Nancy.

Why You Need an Umbrella Policy?

Do you have enough liability insurance? If there were a vehicle accident for which you were at fault, and a child were permanently disabled, would your auto liability policy have enough coverage to pay for the skilled care the child would need for years to come? If a young parent were killed in a freak fall on your property, would your insurance cover the support he would have provided his children as they grow up? We'd all like to believe that such catastrophic losses would happen only to other people. But there is nothing we can do to totally eliminate the risk of this type of event in our own lives.

Consider what would happen if there were a settlement (or judgment, if it goes to court) of \$800,000 as a result of an auto accident for which you were liable. Let's say you have insurance with a limit of \$300,000 per accident. What would happen? The auto insurer would pay its \$300,000. Then virtually everything you own would be fair game for seizure to pay off the additional \$500,000, except for assets that may be protected in some states, such as your home. Furthermore, your earnings could be garnished for years to come. With stakes this high, and considering the relatively modest cost of additional liability coverage, it just makes sense for many people to purchase the added protection of an umbrella policy.

An umbrella policy is insurance that provides additional coverage once the liability limits on your homeowners or auto insurance policy are exhausted. Umbrella policies are typically sold with limits of \$1 million to \$10 million. In the example above, if you had a \$1 million umbrella policy, once you satisfied the deductible, the auto insurer would pay the auto policy limit of \$300,000, and your umbrella insurance would pay the other \$500,000 of the \$800,000 settlement or verdict. Your assets would not be at risk.

One myth about an umbrella policy is that it's only needed by the wealthy. These days the cumulative value of homes, vacation homes, rental property, cars, boats, savings, investments, and so on, owned by many people, who don't consider themselves wealthy, make them vulnerable to liability beyond their auto or homeowners insurance limits. A good question to ask yourself is whether you have assets that you don't want to put at risk in the event of a catastrophic liability.

Lifestyle also plays a role in determining liability risk. Do you have a swimming pool, trampoline, swing set, or other recreational equipment that can lead to accidents? Are there frequent guests on your property? Do you engage in sports that could injure others? Do you live in a wealthy town where you might be more of a target for a liability lawsuit?

How Much Do You Need?

People often reason that the amount of umbrella coverage they need should be the value of their assets, but this might not be adequate. If, for example, you have assets of \$1 million and buy \$1 million of

coverage, what happens if you're found liable for a \$2 million judgment? Insurance would pay the first \$1 million, plus the limit of the underlying homeowners or auto policy, but you could lose a significant amount of your assets for the second million. If you were found liable for \$3 million, you could lose not only a significant portion of your assets; you'd still owe \$1 million. Both your future income and any inheritance you might receive would be jeopardized. Just how much coverage you need depends on all your risk factors, your own financial planning, and your tolerance for risk.

There is usually a substantial premium discount if you buy your auto, homeowners, and umbrella policy all from the same company. Additionally, if you have a claim, you eliminate the potential problems of dealing with different insurance companies where each might be trying to shift payment responsibility to the other, leaving you caught in the middle.

The cost of an umbrella policy depends on such criteria as the amount of coverage, the insurance company issuing the policy, and your own "personal risk factors" (such as the number of traffic tickets you've gotten in the past few years, and possibly your credit report). A million dollar policy often costs less than a dollar a day.

For some people another attractive feature of an umbrella policy is that it provides coverages not found in their homeowners or auto policies. You are covered if you cause bodily injury, property damage, or personal injury. Generally, the types of personal injury covered include false arrest, false imprisonment, malicious prosecution, defamation, invasion of privacy, wrongful entry, or eviction. Some umbrella policies also provide coverage if you face liability arising from your service on the board of a civic, charitable, or religious organization.

Your insurance agent can help you decide whether an umbrella policy makes sense for your life style and financial needs.



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Less than half of flooding events are declared disasters, says FEMA, often leaving insurance the sole source of compensation for victims.

Flood insurance is available to protect homes, condominiums and nonresidential buildings including farm and commercial structures in participating communities. It's important to find out whether or not your community participates in the NFIP program, thereby making you eligible for flood insurance under the plan.

Another important consideration is to buy insurance before an imminent flood. Although you can buy coverage just prior to a flood, there is a 30-day waiting period before the policy becomes effective unless the flood map for your community was revised in the last year or the insurance is required to close a loan.

It is a commonly held belief that homeowner's insurance covers floods. While certain water damage may be covered under a homeowner's policy, by and large most flood expo-

sure are uncovered by any other policy (with the possible exception of an excess or umbrella policy specifically stated as excess above an NFIP backed policy).

The NFIP defines flooding as a general and temporary condition during which the surface of normally dry land is partially or completely inundated. The cause of flooding can be:

- Overflow of tidal waters or inland waters;
- Runoff, such as from rainfall;
- Mudslides or mudflows caused by flooding; or
- Collapse of land along a body of water from erosion exceeding normal levels.

To find out more about flood hazards, steps to take to mitigate flood damage or to deal with the after-effects of a flood in your community, check out the FEMA website at www.fema.gov/nfip. Naturally, if you have any questions about flood insurance available for your home or business, call us for details.