

With an *extended replacement cost* policy your insurer will pay a certain percentage over the limit to rebuild your home—20 percent or more, depending on the insurer—so that if building costs go up unexpectedly, you will have extra funds to cover the bill. A few insurance companies offer a *guaranteed replacement* cost policy that pays whatever it costs to rebuild your home as it was before the disaster. But neither type of policy will pay for more expensive materials than those that were used in the structure that was destroyed.

Mobile Home, Stated Amount: If you own a mobile home, you may have a *stated amount* policy. With this policy, the maximum amount you receive if your home is destroyed is the sum you agreed to when the policy was issued. If you opt for the *stated amount*, update your policy annually to make sure that the amount will cover the cost of replacing your mobile home. Check with local mobile home dealers to find out what similar homes now sell for.

Policy limits

Most insurance policies provide adequate coverage because they include an *inflation-guard* clause to keep up with increases in local building costs. If you have *replacement cost* coverage, your insurance company will pay the full cost of repairing or replacing the damaged structure with a building of “like kind and quality.” In other words, if you were adequately insured and lived in a three-bedroom ranch before the disaster, your insurance company would pay to build a similar three-bedroom ranch.

Most insurance companies recommend that a dwelling be insured for 100 percent of replacement cost so that you have enough money to rebuild if your home is totally destroyed.

You may not be fully covered, however, if you have made significant improvements on your house, such as enclosing a porch to create another room or expanding your kitchen, without informing your insurance company of the changes at the time.

Temporary living expenses

If you can’t live in your home because of the damage, your insurance company will advance you money to pay for reasonable additional living expenses. The amount available to pay for such expenses is generally equal to 20 percent of the insurance on your home. This amount is in addition to the money for repairs or to rebuild your home. Some insurance companies pay more than 20 percent. Others limit additional living expenses to the amount spent during a certain period of time.

Among the items typically covered are eating out, rent, telephone or utility installation costs in a temporary residence and extra transportation costs. Insurance policies often discuss additional living expenses under the heading *loss of use*.