



# Straight to the Point...

A Quarterly Personal Insurance Publication for Families and Their Financial Advisors



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## Homeowners Come Up Short on Insurance Coverage

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Karla and Bruce Carroll remember the sheriff on his bullhorn ordering residents to evacuate and, minutes later, hearing the roar of monstrous flames arcing toward their modest home in the San Diego hills.

Mrs. Carroll grabbed a family photo album as they ran to safety; Mr. Carroll started to gather his fishing rods. But she hustled him along. "Don't worry about those things," she recalls saying at the time, "We've got insurance."

But, the Carrolls say, the insurance they bought from State Farm, the nation's largest property insurer, has left them at least \$150,000 short of the cost of rebuilding their home. Today, nearly a year later, they are still wrangling with their insurer and living in a 29-foot-long house trailer on the land where their three-bedroom home once stood, overlooking a spectacular sweep of ridges and canyons.

Their woeful shortfall in insurance coverage, experts say, is a plight shared unknowingly by millions of American homeowners. It has been fed largely by a shift in the way property insurance has been sold in recent years.

In a move to cut costs from claims, insurance companies began in the late 1990's to phase out coverage that guaranteed the replacement of a destroyed home, regardless of the expense to the insurer. In place of that unlimited coverage, which was nearly universal, insurers substituted a similar-sounding policy with a crucial difference: it pays only the amount stated on the policy plus, typically, an additional 10 percent.

Some insurers insist that it is the consumer's responsibility to acquire adequate coverage. The old policy was called a guaranteed replacement policy. The new one, which most Americans now have, is called an extended replacement policy.

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## Insuring Art and Other Collectibles

By Dan Glunt

We understand that collectors have insurance needs that cannot be satisfied by a homeowners policy. That's why we offer art and collections coverage that addresses the needs of affluent clients. Product highlights include:

**Broad Definition**—covers: art, paintings, rugs, antique furniture, etchings, pictures, tapestries, art glass, statues, china, other antiques, rare books, manuscripts, porcelains, rare glass, items of historical value and/or historical merit.

**"All-risk" Coverage** - applies to a broad range of losses, including fire, smoke, water, theft, earthquake and accidental breakage.

**Blanket or Itemized Coverage** - one or more items valued at less than \$10,000 each -

blanket coverage insures items under one lump sum. For more expensive items, itemized coverage specifically lists each piece and value.

**Worldwide Coverage** - your art and other collectibles covered anywhere in the world.

**Deductible** - there is no deductible

**Price** - typically \$150 for \$100,000 of coverage - including earthquake

**Replacement Cost** - pays up to 150% of the replacement value if the item is underinsured

**Earthquake** - 0% and 10% deductible options

**Coverage for Newly Acquired Items** - automatic coverage up for 90 days. This gives you peace of mind while adding to your collection.

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## ...Coming Up Short (continued from Page 1)

**"64 percent of American homes are underinsured by an average of 27 percent, with some homes underinsured by 60 percent or more."**

*- Marshall & Swift/Boeckh*

"People look at this and it says 'replacement' and they think, 'That's good, I get my house replaced,'" said John Garamendi, the insurance commissioner in California. "But they don't get their house replaced. They get money up to the set limits plus the extended 10 percent or 25 percent."

Only three companies are notable exceptions: Chubb, AIG Private Group and Fireman's Fund. These companies offer an additional 100% of coverage or two times the face value of the home limit listed on the policy.

With a few exceptions, the insurance industry in California stopped offering "guaranteed replacement cost" in the mid-1990s. Once considered the gold standard, that policy promised to replace a customer's home no matter the cost. Under today's stripped-down replacement cost policies, the payout amount is capped at a certain number. If the cost of rebuilding is higher, the customer is stuck with the extra bill.

Attorneys contend that the insurance companies were sloppy in -- or unconcerned about -- setting replacement cost numbers accurately, leaving now burned-out customers in the lurch. They want to change that.

Marshall & Swift/Boeckh, a company that most insurers rely on for help in calculating the value of houses, estimates that 64 percent of American homes are underinsured by an average of 27 percent, with some homes underinsured by 60 percent or more.

The issue of underinsurance has not attracted much attention because, of the millions of insurance claims every year, fewer than 2 percent are for the total loss of a house. But the wildfires here last fall came as a jolt. They quickly incinerated more than 3,900 homes and, Mr. Garamendi said, "a very large proportion" of them were underinsured (sources believe as many as 98% were underinsured).

Consumer advocates and industry executives expect similar problems for the victims of Hurricanes Charley, Frances, Ivan and Jeanne as they begin working through their claims. "The problem is everywhere," Mr. Garamendi said. "The disasters simply expose it."

**Chubb, AIG and Fireman's Fund — offer an additional 100% of coverage or two times the face value of the home limit listed on the policy.**

**Editor's Note:** Only a few carriers physically inspect each property insured, namely; Chubb, AIG Private Client Group and Fireman's Fund. Using an in-house specialist and/or an independent vendor, these companies develop an accurate replacement cost by verifying square footage, noting recent renovations, confirming the year built and documenting the unique features of each home (which add to the replacement cost value of the home). This process is expensive for these specialty insurance companies, but it ensures adequate coverage. Chubb, AIG Private Client Group and Fireman's Fund offer a policy, second-to-none, that provides an additional 100% or two times the face value of a policy. In addition, these carriers offer special features such as; a cash-out option with no requirement to replace damaged property, reparations of "like kind and quality," broad code upgrade, unlimited additional living expenses and several options of earthquake coverage (a far cry from the state-run California Earthquake Authority policies).

Worth noting, neither Chubb, AIG Private Client Group or Fireman's Fund had a client that was left with a home-value deficiency in the 2003 Southern California firestorms.



## Long Term Care Coverage - check your plan

*Josie McGann, R.N. Genworth Financial*

Whether you're "springing forward" or "falling back" the clock is always ticking. So when you fall back this year, take some of those extra minutes to consider long term care insurance to help protect the things you've worked a lifetime to build.

Many people are unaware that uninsured long term care expenses can pose a significant risk to the assets they've labored a lifetime to accumulate. As former Senator David Durenberger told the United States Senate Special Committee on Aging, "Although the need for health insurance to cover a patient's medical expenses in case of catastrophic illness is widely recognized, few people are insured against the costs of providing long term support services for that same person. This lack of insurance coverage jeopardizes the financial security of families and diminishes the economic security of the country." (6/28/01)

The likelihood that you may need long term care is significant. Some 42% of Americans who reach the age of 70 can expect to utilize some type of long-term care during the remainder of their lives, according to a study by the Agency for Health Care Policy and Research (PR Newswire, 6/19/01). And while long term care includes a broad range of services, from in-home care to nursing home care, each comes at a cost. Those costs could be substantial, and could quickly undermine the labors of a lifetime.

Why? Most forms of health insurance focus on medical expenses, not the custodial care and non-medical expenses associated with long term care. Medicare only covers skilled nursing home care after a related three-day inpatient hospital stay and even then for only 20 days before a \$105 daily co-payment is assessed. Medicaid doesn't kick in until one has spent down a significant portion of their assets. So if either you or your spouse needs long term care, you may have to pay for that care out of your accumulated assets ... unless you have long term care insurance.

Earlier this year, GE Financial commissioned a study performed by an independent research firm that showed the average annual cost of a private room in a nursing home met or exceeded \$85,000 in the five most expensive areas of the U.S. Nationwide, the average annual cost was \$57,700.

While long term care services are often provided in settings other than nursing homes, services in those other settings can also be expensive. Assisted-care facilities average \$1,873 a month, or \$22,476 a year. (Source: *Money Magazine*, December 2002, *Care for the Ages*)

Even receiving care in your own home can be costly. According to the *Long Term Care Planning Guide* (published by the United Seniors Health Council, Jan. 2001), home care can cost \$15 to \$50 per hour. With figures like these, it's easy to see how even substantial assets could quickly be depleted.

Long term care insurance can help provide the funds to help pay for the care you may need, while simultaneously protecting the assets you've labored a lifetime to accumulate. Long term care insurance may also help preserve financial independence, choice, and dignity, and those can be priceless.

Long-Term Care: Understanding Needs and Options, The Health Insurance Association of America, ©2001

Medicare & You 2003, Centers for Medicare & Medicaid Services

GE Financial 2003 Nursing Home Cost Survey, conducted by the independent research firm of Evans Research Associates and issued August 3, 2003

For more information about how long term care insurance can help you, contact Josie McGann, Genworth Financial. Toll-free (866) 582-2436 ext. 4759 [www.josiemcgannltc.com](http://www.josiemcgannltc.com)

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**Josie McGann, Genworth Financial**

**"42% of Americans who reach the age of 70 can expect to utilize some type of long-term care"**

**- Josie McGann, RN**



## Lessons Learned from the 2003 Southern California Firestorms

These simple facts and recommendations may save your home from catastrophic brushfire:

- Create a defensible space between your home and vegetation to offer the best protection. Nine in ten homes burned that had vegetation within 10 feet.
- Masonry walls or chain link fencing prevent brushfires from spreading. Wood fencing transfers flame across open spaces like a fuse.
- Use fire-resistant decking or covering existing wood decking with approved fire-resistant skirting.
- Consider non-combustible roofing material. Wood shake roofs performed poorly when confronted by fire. Carriers remain reluctant to cover these homes.
- Expand fire protection systems in older homes. Homes built after 1990 burned at half the rate of homes built between 1945-1990. Homes built before 1945 burned three times as fast.
- Trim trees and maximize a defensible space. Proximity to Eucalyptus and unmanaged Oak trees increased the likelihood of total destruction.



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### About Fort Point Insurance:

Fort Point Insurance Services, Inc. is an independent agency serving business and personal insurance. We specialize in the design, placement and servicing of innovative personal insurance programs for affluent individuals and families. Based in San Francisco, we work with clients across the United States.

### The Fort Point Insurance process:

- Consultative review of current coverage
- Recommendations, solutions and services
- Pricing options and alternative quotations
- Continued expert advice and periodic reviews

### Our Principal Carrier Relationships:



### Fort Point Insurance Personal Insurance Solutions and Products:

**Personal liability** – primary, excess and umbrella limits up to \$100 million

**Dwelling** - high-value, standard, historic, multi-state, foreign, rental property and seasonal/secondary

**Automobiles** – high-value, standard, collector, RV and motorcycle

**Collections** - jewelry, fine art, wine and other collectibles

**Vineyards, Ranches and Horse Exposures** – horse mortality, liability, transportation and ranches

**Earthquake, hurricane and flood**

**Kidnap, ransom & extortion**

**Identity theft**

**Aviation** – jets, helicopters and other (private-owned, corporate and/or fractional ownership) aircraft.

**Watercraft** – yacht, small boat, sailboat and personal watercraft

**Family office coverage**

**Employment practices liability** for domestic employees

**Workers compensation** for domestic employees

**Personal Directors & Officers Liability**