What does homeowners insurance cover?

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1. Insurance

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You spent a lot of time and money finding your home and making it your own. You picked the perfect light fixtures and found just the right paint colors.

Now it's time to protect your investment with the right homeowners insurance coverage.

In general, homeowners insurance protects you financially if your property or belongings are damaged. A homeowners policy can also help make you whole again if someone robs or vandalizes your home and can help you pay for expenses if your home is not livable.

But it goes further. If someone gets hurt on your property, your homeowners policy could help cover the costs of medical care for that person or to defend you in a lawsuit.

Here's what homeowners insurance covers, plus some exclusions.

Types of homeowners insurance policies

First, there are several types of homeowners policies, aka forms, which are usually available from any insurance company that sells homeowners coverage.

What the policy covers depends on whether you own your home, rent your home, or own a co-op or condo.

The most popular type of home insurance policy is an HO-3 policy. The policies are similar in most states, except for Texas, and begin with an HO. Not every form is available in every state.

- **HO-1:** An HO-1 policy is the most basic and bare bones of policies and is not available in most states.

- **HO-2:** An HO-2 policy is sometimes called a broad form policy and is for people who own their homes. It covers a bit more than an HO-1 but is considered basic. Coverage extends to 16 named perils or disasters, but only to those 16.
- **HO-3:** A HO-3 policy, aka a special form policy, is also for homeowners. It is the most popular type of policy and protects against any type of peril unless it is specifically listed as an exclusion.
- **HO-5:** The HO-5 policy is mostly for pricey homes and covers the property against all kinds of risks. It's also called a comprehensive form policy.
- **HO-8:** An HO-8 policy is for older homes where the cost to rebuild is more than the market value of the property. It is sometimes referred to as modified form coverage.
- **HO-4:** For renters, an HO-4 policy protects your possessions against 16 types of disasters. It's also often called renters insurance.
- **HO-6:** An HO-6 insurance policy is for people who own a condo or co-op. It covers your possessions and the parts of the building you actually own against 16 disasters.
- **HO-7**: An HO-7 insurance policy is for mobile or manufactured homes.

These designations are the industry standard. Some insurance companies do not use these HO names, instead having other designations within their companies.

6 standard coverage types

While homeowners insurance covers property damage to your home and its contents, it actually includes much more.

Homeowners insurance coverage usually includes:

- **Dwelling:** Dwelling coverage applies to the structure of your home, including the roof, walls, and foundation, and additional attached structures attached such as a deck or attached garage.
- **Detached structures:** Other structures like a detached garage, shed, gazebo, guest house, or pool house.
- **Personal property:** These are the contents of your house such as furniture, appliances and personal effects. Valuables like jewelry and collectibles may be covered only up to a specific dollar amount.

- **Loss of use:** If your home is damaged and you can't stay there, loss of use coverage will help pay for things like a hotel, rental home, eating out in restaurants, and additional living expenses.
- **Personal liability:** This coverage protects against legal liability if someone is injured in your home or their property is damaged accidentally.
- **Medical payments:** If someone is accidentally injured on your property and needs medical treatment, medical payments coverage will pay for their medical expenses.

For example, if something like a fire or lightning strike damages or destroys your roof, the dwelling coverage of your homeowners policy would pay to repair the damage.

As for the liability protection, homeowners insurance covers the policyholder and their family members against lawsuits if someone sues for bodily injury or damage to their property.

The coverage also extends to pets. So, if someone sues you because your dog bit them while you were out walking, your policy would cover your court costs and any awards up to the policy limit.

Actual cash value vs. replacement cost

Another decision to make when buying homeowners insurance concerns how much the policy will pay on a claim.

Most policies include a deductible, which is the amount the homeowner or renter must pay out-of-pocket before the insurance company pays for anything. This can be a set dollar amount or a percentage of the covered amount.

After that, what the policy pays depends on whether you have actual cash value or replacement cost coverage.

- **Actual cash value:** This type of coverage pays to replace the home and possessions minus depreciation, i.e. wear and tear. Because items can depreciate quickly and building costs can fluctuate, having this type of coverage might not cover the total cost of rebuilding or re-furnishing your home.
- **Replacement cost:** Replacement cost coverage eliminates the deduction for depreciation. It pays for restoring or rebuilding your home using materials of a similar quality to what they were originally. It also applies to the contents of your home.

To account for things like inflation and rising building costs, you can add a provision to guarantee or extend your replacement cost coverage. Adding this will mean your homeowners insurance policy will pay to rebuild your home as it was before it was damaged, even if it costs more than your policy covers.

Keep in mind that if you submit a claim, you will probably need to list the items that were lost or damaged and provide receipts. If you have replacement value coverage, you will actually need to replace an item to receive payment for it.

Covered perils and perils that are not covered

We’ve used the term peril earlier, so what exactly does it mean?

According to the Insurance Information Institute, there are 16 perils or disasters that most homeowners policies cover.

1. Fire or lightning
2. Windstorm or hail
3. Explosion
4. Riot or civil commotion
5. Damage caused by aircraft
6. Damage caused by vehicles
7. Smoke
8. Vandalism
9. Theft
10. Volcanic eruption
11. Falling objects
12. Weight of ice, snow, or sleet
13. Burst pipe or water heater when the cause is sudden and accidental
14. Sudden cracking or breaking of a hot water heater, air conditioner, or fire sprinkler.
15. Freezing of a plumbing, heating, air conditioning, or fire-protective sprinkler system, or of a household appliance.
16. Power surges

The most popular type of policy, an HO-3 covers all 16 perils and some others unless the policy expressly excludes them. Your policy will specifically list which perils are covered and which are not.

The Insurance Information Institute says in 2022, almost 41% of homeowners claims were for wind and hail damage, 28% were for water damage and freezing, and 22% were for fire and lightning.

What homeowners insurance does not cover

You might notice there are some pretty big things that are not covered under most homeowners policies. Namely:

- **Floods:** Damage caused by floods and rising water is not covered. The Insurance Information Institute says 90% of natural disasters in the U.S. involve flooding.
- **Earthquakes:** Earthquake damage is also not covered under most homeowners policies.
- **Maintenance damage or neglect:** If you don't maintain your home properly, damage that lack of maintenance causes will not be covered. Also, damage from mold, termites, or other pests is not covered.
- **Sewer backup:** Backups from sewers and water are also not usually covered.

If you live in a flood zone or earthquake-prone area, you can buy separate coverage or add endorsements to your home insurance policy.

You can also add other endorsements or riders to beef up your coverage. Just remember, each addition means your insurance cost will increase.

- **Scheduled personal property:** If you have expensive items in your house like jewelry, watches, collectibles, or furs, you can buy extended coverage for personal items.
- **Ordinance/law coverage:** This additional coverage would help you if the laws or building codes have changed since your house was built and rebuilding would cost more to meet the new standards.
- **Equipment breakdown:** Equipment breakdown coverage may help pay for repairs if equipment like your HVAC or appliances break. The key here is *may cover* since it only kicks in if the loss is due to an uncontrollable circumstance like an electrical surge. It doesn't cover things if they are just old and break.

- **Identity theft:** Some insurance companies offer coverage to help you after identity theft.

Some of these needs might require a separate policy. For example, a personal articles policy to protect your pricey personal belongings is often a different policy with its own premium and deductible. A flood insurance policy is a separate policy from the National Flood Insurance Program.

FAQs

Does home insurance cover mold?

In general, homeowners insurance does not cover mold, but you can buy additional coverage to cover mold damage.

Does home insurance cover plumbing?

Sort of. Most homeowners insurance policies cover the freezing of plumbing or an accidental discharge or overflow of water or steam from plumbing. It does not cover damage from water that backs up from sewers or drains or seeping through walls below ground.

Does home insurance cover the roof?

If the roof damage is a result of a covered peril like fire, hail, a falling object, or the weight of ice, snow, or sleet, home insurance would cover roof damage, assuming the policy is not bare bones. If the damage is because of normal wear and tear, the policy would not pay to repair or replace the roof.

Does home insurance cover water damage?

It depends. If the water damage is from a flood or rising water, home insurance will not cover it, but a separate flood insurance policy from the National Flood Insurance Program would. If the water damage is from a frozen or burst pipe, homeowners insurance would cover the damage.

Does home insurance cover foundation repair?

Regular foundation settling because of age or climate conditions might not be covered by a homeowners insurance policy. If a covered event like a fire destroys your house or a pipe explodes in the foundation, the policy will likely kick in to pay for foundation repairs.

If an earthquake causes foundation damage, the home insurance will not likely cover the damage unless you have additional earthquake coverage.

Does home insurance cover termite damage?

No, home insurance does not cover termite damage. It also does not cover damage other pests might cause.

Does home insurance cover HVAC?

If a covered peril causes the damage to your HVAC, your homeowners insurance should cover it.

For example, if lightning strikes the unit, it would be covered. If the unit is just old or was not maintained, repairs would not be covered under a home insurance policy.