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Trusts & Homeowner's Insurance: What You Need to Know So You Don't Get a Claim Denied In the Future

When you create an estate plan that includes a living trust, you've taken an essential step toward protecting your home and family from the cost of court. However, many people don't realize that placing their home in a trust requires updating their homeowner's insurance policy. Without this crucial step, you could face a devastating scenario: paying out of pocket for significant damage because your insurance claim was denied. Let's explore how to ensure your trust and insurance work together to protect your most valuable asset.

The Hidden Risk of Trust Ownership

When you transfer your home into a trust, you change its legal ownership structure. While you might still live in the home and act as the trustee, depending on how your trust is structured, the trust becomes the legal owner of the property. If your trust is a revocable trust, this change of title won't impact your taxes because you are still the owner for all tax purposes, but this title change could give your homeowner's insurance company a reason to deny your claim. And, whether that denial turns out to be valid or not, or could be contested in a court proceeding against the insurance carrier, you don't want to have to deal with any of that.

Insurance companies base their coverage decisions on legal ownership. If there's a mismatch between the property's legal owner and the named insured on your policy, the insurer might deny your claim. Imagine discovering after a major fire that your insurance company denies your claim because your policy doesn't reflect your trust ownership. This nightmare scenario happens more often than you might think, but it's easily avoidable with proper planning.

Aligning Your Insurance with Your Trust

The solution starts with notifying your insurance company as soon as you transfer your home into a trust. Most insurance companies are familiar with trust ownership and can easily update your policy to reflect this change. They typically handle this by adding the trust as an additional insured party or including a trust endorsement on the policy.

When updating your policy, consider these key elements:

Property Coverage: Ensure the policy's replacement cost accurately reflects current building costs in your area. Construction prices have soared recently, and many policies haven't kept pace.

Liability Protection: Your policy should protect both you personally and the trust from liability claims if someone is injured on your property.

Additional Structures: Don't forget to include coverage for detached garages, workshops, or other structures on your property under the trust's ownership.

Most insurers make these updates with minimal or no additional premium costs, but the protection they provide is invaluable. This small administrative task could save you hundreds of thousands of dollars if disaster strikes.

Common Mistakes That Put Your Property at Risk

When disaster strikes, homeowners find out too late that they weren't fully protected. But you can protect yourself if you're aware of the most common pitfalls:

Delayed Notification: Many people wait months or even years to inform their insurance company about the trust transfer. During this gap, they're paying for insurance that might not protect them. Instead, notify your insurance company as soon as you create or update your trust.

Incorrect Trust Names: Insurance policies must list the trust's exact legal name. Even small discrepancies could cause problems during a claim. If your trust is "The Johnson Family Living Trust dated January 15, 2025," that's exactly how it should appear on your insurance policy.

Overlooking Policy Reviews: Your insurance needs will change over time. Regular reviews ensure your coverage keeps pace with your home's value and your family's needs.

Multiple Property Confusion: If you own multiple properties in trust, each property's insurance policy must correctly reflect the trust ownership. Don't assume that updating one policy covers all your properties.

Creating a Comprehensive Protection Plan

Avoiding all these pitfalls is an inherent part of my comprehensive estate planning process called Life & Legacy Planning. If you have a DIY estate plan, a plan you downloaded from a cheap legal site, or even a plan drafted by a traditional estate planning attorney, you'll get a set of documents, sure, but you won't get a comprehensive plan that addresses all the potential consequences that arise. That's why my Life & Legacy Planning® process includes:

- A current inventory of your assets so we can look at how your property is owned and what properties could be at risk;
- Regular, ongoing reviews of both your plan and insurance documents to ensure they remain synchronized. Major life events like marriages, divorces, or deaths in the family might require updates to both your trust and insurance policies;
- Guidance on how to accurately and fully transfer your assets to your trust; and
- Much, much more.

We Help You Protect What Matters Most

As your Personal Family Lawyer® Firm, I ensure your Life & Legacy Plan works as intended, including proper alignment with your insurance coverage. I'll help you avoid costly mistakes and maintain comprehensive protection for your home and family. Our process includes regular reviews to keep your plan current and effective.

Don't wait for a crisis to discover gaps in your protection. Contact me today to schedule a Life & Legacy Planning® Session, where together, we'll review your current trust and insurance arrangements and ensure they work together seamlessly.

Click here to schedule a complimentary 15-minute consultation:

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