

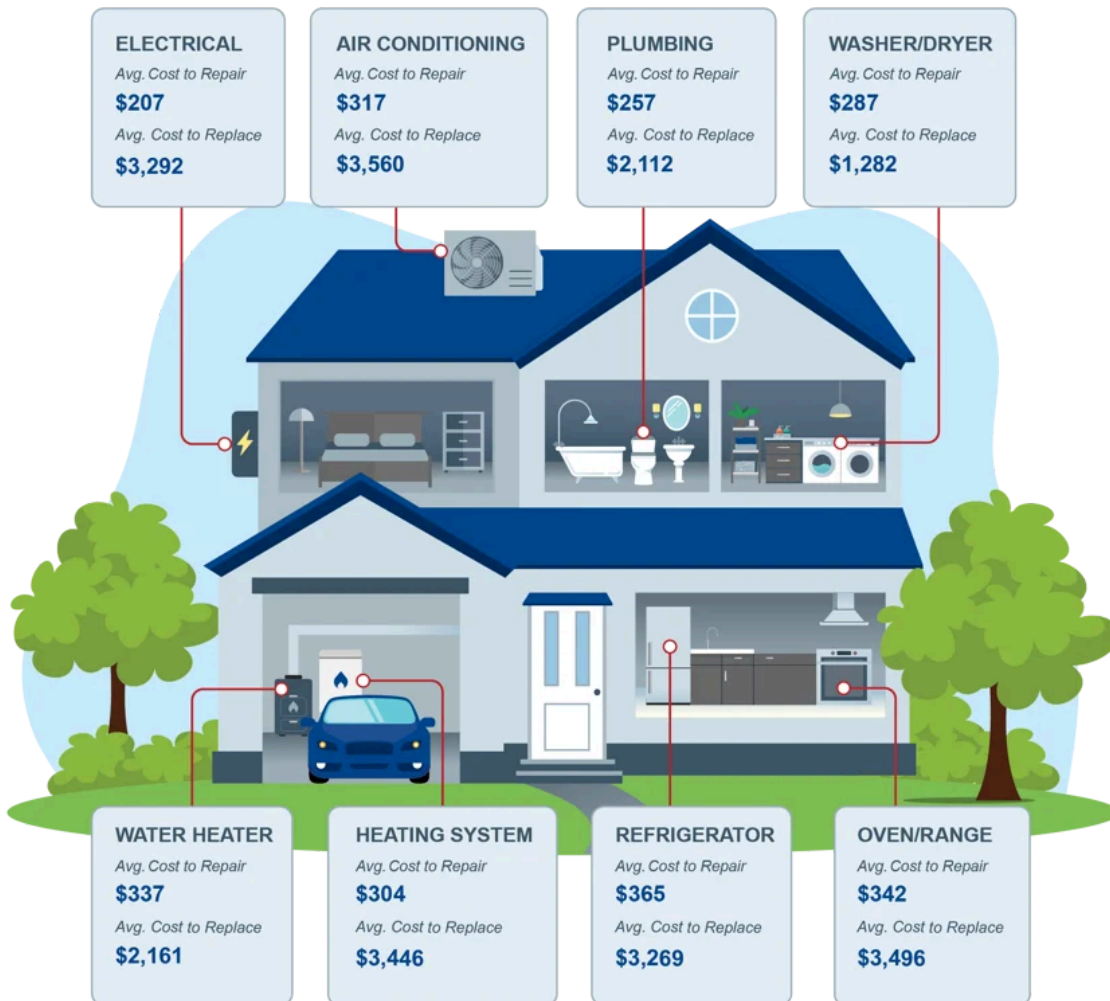
## Do I “Need” a Home Warranty?

Imagine that a week after moving into your new home, you turn on the air conditioning and it doesn’t work. Or your dishwasher suddenly quits. Or the furnace goes out in the dead of winter.

Purchasing a home warranty can help alleviate some of the financial burden new homeowners face when a major appliance or home system goes out. Yes, you’ll pay for the warranty upfront, but the savings could be worth the added expense. Here’s an overview of what a home warranty is, how much it costs and whether it’s worth it.

### TYPICAL HOME REPAIR/REPLACEMENT COSTS

You could pay hundreds—even thousands—of dollars without home warranty coverage.





## **What is a home warranty? What does it cover?**

A home warranty is a service contract that pays the cost of repair or replacement of covered items, such as major kitchen appliances, as well as electrical, plumbing, heating and air conditioning systems. A warranty doesn't cover windows, doors, floors or other structural features. Nor does it cover smaller or freestanding appliances, like countertop ovens or trash compactors.

"The warranty is designed to cover items that are in satisfactory, good-working condition upon occupancy, and then fail due to normal wear and tear," says Mike Sadler, vice president of operations at America's Preferred Home Warranty, based in Jackson, Michigan.

At her listing appointments, many real estate agents routinely suggest to home sellers that they purchase a home warranty as a way to attract prospective buyers. She also recommends them to buyers, whether the seller offers one as a part of the sale or not.

## **How is a Home Warranty different from Homeowners Insurance?**

Although they both deal with damage and cost coverage, home warranties and homeowners insurance policies are not the same thing.

Homeowners insurance covers losses incurred if your home and belongings are damaged in some way or lost due to fire, theft or other perils. In other words, it protects you financially from injuries or impairments to the home and its contents, while a home warranty is a service contract that covers repairs or replacement of specific items. And unlike a home warranty, homeowners insurance is typically required by mortgage lenders.

## **Are home warranties worth it?**

The cost of a home warranty typically ranges from \$400 up to \$600 per year. It can go higher if you want enhanced coverage for such things as washer/dryers, swimming pools and septic systems.

In addition to the annual premium, made in payments of between \$20 to \$75 per month, expect to pay a fee for service calls. These calls will range anywhere from \$75 to \$125, depending on your provider and the type of contract you purchase.



On the other hand, without a home warranty, you could spend hundreds or thousands of dollars repairing or replacing major appliances or systems.

Here are some average national costs to replace some major home systems:

- Central air conditioner: \$3,803 – \$7,604
- Furnace: \$2,801 – \$6,762
- Water heater: 831 – \$1651
- Appliance repair: \$106 – \$243

If you don't have money set aside for these expenses, a home warranty can more than pay for itself.

One caveat, however: If the home is older and its systems outdated, it might not be possible to repair something that breaks, since the parts might not be available. In this case, a home warranty likely won't give you the protection you're looking for. Ask the provider what your payment obligation would be if something can't be fixed.

Ultimately, you have to decide if the peace of mind matters more than the expense.

### **Do I need a home warranty?**

If you're buying a previously owned home, you might want to consider getting a home warranty, and one from a reputable company, especially if your home inspection reveals that several of the home's appliances and systems are nearing their lifespan. Make sure you understand the terms and conditions of the home warranty, how long the coverage lasts and what it will and will not cover.

As the buyer, always ask the seller what appliances or systems are currently under warranty, either manufacturers' or home. If they happen to have a home warranty, and get the documentation about the policy, so you'll know when the coverage ends; you could also see about getting it transferred over to you. It's also smart to ask for a maintenance history of the major components of the home.

### **When to skip a home warranty**

It's not worthwhile to purchase a home warranty for a newly built home because you'll wind up with duplicate coverage. Homebuyers who purchase new construction usually get some type of warranty from the builder for the home's materials and workmanship — including plumbing,



electrical, heating and cooling systems — for one, two or up to 10 years. In fact, some home warranties specifically exclude items covered under another warranty.

Appliances aren't usually covered by the builder, but they generally come with a manufacturer's warranty, too. Also, some credit cards offer extended warranties on top of the manufacturer's warranty with new purchases, so if you remodel your kitchen and pay for the new fridge or stove with plastic, it might not make sense to buy a home warranty for those appliances.

In addition, if you're diligent with a maintenance schedule and have your home's systems annually serviced, that could help you avoid problems a warranty might address.

## Pros and cons of home warranties

While home warranties can be beneficial, they also have limitations and do not cover everything. It's vital to read the fine print and do your research so that you understand the pros and cons of these types of contracts. Here are some of the benefits and drawbacks to keep in mind.

### Pros:

A home warranty can provide peace of mind if you're purchasing a home with used appliances and older systems that are long out of warranty, or whose warranties are missing.

If you're new to an area, it's unlikely you'll have established relationships with local contractors or mechanics to help with repairs. Your home warranty company generally takes care of finding and hiring a trusted professional. (Be sure to check on this, though — some companies have you hire a local pro, then either reimburse you or pay that contractor directly. If it's reimbursement, ask how the funds will be disbursed.)

Not all homeowners have the DIY skills to handle repairs on their own, so having a home warranty to fall back on alleviates that worry. Older homeowners especially might appreciate the convenience of making a single phone call if something breaks or falls into disrepair.

Home warranties offer more broad coverage than a manufacturer warranty, and often are good for a longer period. And of course, they can be renewed.

### Cons:

Home warranty companies impose dollar limits per repair, per item or per year. This can vary greatly, and generally, the sky is not the limit.

Claims can be denied by the home warranty company if an item has not been properly maintained, and this can be a sore point since a record of proper maintenance may be difficult to



provide, especially for homeowners who just assumed occupancy of a home. Be forewarned that some home warranty firms use “improper maintenance” as an excuse to dispute justifiable claims. Home warranty companies determine whether to fix or replace a system or an item, and you may or may not agree with the decision. Under certain circumstances, such as a power surge-induced blowout, an appliance likely will not be covered. If replacing an item, they might go with the cheapest model, or one not to your liking.

Home warranty companies typically choose the contractor or repair technician, or limit you to a choice of approved contractors they have a relationship with. If an appliance needs to be replaced, you might not have a say about the make or model of the replacement. Often, warranty companies only allow the cheapest option. Not all costs are always covered by the home warranty, and you’ll have to pay for a service call fee each time you have an issue. It’s imperative to know what’s covered and what’s not. Check the protection plan to see the list of exclusions and to determine if you want to upgrade your contract.

#### **A note about online home warranty reviews**

Be wary of online search results for home warranty reviews. Some appear to be sham rankings, likely paid for by the touted companies.

For instance, some sites with generic domain names pop up in a search, ostensibly listing the best home warranty companies. One company appears as “best overall” on one site and is the top-listed home warranty company on another site with a slightly different domain name.

If you look up the company through the Better Business Bureau, though, you can see it has received more than 10,000 complaints in the last three years, and more than 4,000 in the last 12 months alone. Despite these complaints, it gets a B rating from the BBB.

Don’t trust the customer testimonials that appear on a home warranty company’s website, either. You’ll likely find mostly five-star ratings and rave reviews. One company offered glowing reviews on its website, but on the BBB’s website, the firm received a one-star rating on average based on 593 customer reviews. It, too, got a B rating from the BBB.

The BBB’s ratings are based on:

- ★ The number of complaints
- ★ The size of the business
- ★ How well the business responded to complaints, how quickly the complaints were resolved and whether the business made a good faith effort to resolve complaints



A better approach might be to look at BBB's website for companies rated A or A-plus and contacting them directly.

## **Bottom line on home warranties**

If a home seller offers to buy a home warranty for you, there is little reason not to accept it. Even if it is not ideal in its coverage, it does offer some additional protection for you and your new home, especially if you plan to live with the existing appliances and systems for a while.

If you decide to buy a home warranty on your own (or renew one the seller bought for you), be sure to check its rating with the Better Business Bureau, and don't assume a B rating means "above average."

Also, take the time to closely review the contract describing standard coverage, optional coverage and upgraded items. Understand the limitations. It may not be necessary to pay a higher premium for upgraded coverage — but then, it might be (especially if you're inheriting one from the seller). Premiums, exclusions and caps on benefits vary widely, so shop around.

You have a choice of paying annual premiums for peace of mind or building an emergency fund for unexpected expenses later on. It may be better to rely on an emergency fund than to pay premiums for a home warranty contract that may not be needed.