Understanding Your Insurance Deductible

Understanding the role deductibles play when insuring a car or a home is an important part of getting the most out of your insurance policy.

A deductible is basically the amount ?deducted? from an insured loss. Deductibles have been an essential part of the insurance contract for many years and represent a sharing of the risk between the insurance company and the policyholder. When repairing your home or replacing personal possessions, the amount of the deductible would come out of your own pocket.

A deductible can be either a specific dollar amount or a percentage of the total amount of insurance on a policy. Generally speaking, the larger the deductible, the less a consumer pays in premiums for an insurance policy. Deductible amounts can be found on the declarations (or front) page of standard homeowners and auto insurance policies.

Here is how it works: if you have a $500 ?dollar deductible,? that $500 would be deducted from your claim. So, if your insurance company has determined that you have an insured loss worth $10,000 you would receive a claims check for $9,500.

Percentage deductibles are calculated differently. They are based on a percentage of the home?s insured value. So if your house is insured for $100,000 and your insurance policy has a 2 percent deductible, $2,000 would be deducted from the amount you are reimbursed on a claim. In the event of the $10,000 insurance loss, you would be paid $8,000.

Deductibles in many parts of the country have been going up. In hurricane prone states, where there is a greater risk of a major catastrophe, special deductibles may apply for homeowners insurance claims when the cause of damage is attributable to a hurricane. These deductibles are generally higher and may take the form of a percentage of the policy limits.

Deductibles for property damage work differently than, for example, a typical health insurance policy where there a single annual deductible for the policy. With an auto or homeowners insurance policy, the deductible applies each time you file a claim. The one major exception to this is in Florida, where hurricane deductibles specifically are applied per season rather than for each storm.

Hurricane deductibles have helped to make more private insurance coverage available in coastal communities at a lower price. This means more choice for consumers. So, consumers who reside in states where competitive markets exist can often shop around for coverage and usually find that they have a selection of insurance policies to pick from that offer a variety of different premiums, coverages and deductibles.

Here are some other important things to know about deductibles:

Raising Your Deductible Can Save Money

One of the best ways to save money on a homeowners or auto insurance policy is to raise the deductible. For example, for auto insurance, increasing the dollar deductible from $200 to $500 can reduce collision and comprehensive coverage premium costs by 15 to 30 percent. Going to a $1,000 deductible can save you 40 percent or more. But, remember that if you have a loss, this amount will be deducted from your insurance claim and that you will be responsible for the difference.

Deductibles Differ by Company and by State

Insurance is state regulated. And insurance companies must follow strict state laws. This also applies to the way deductibles are incorporated into the language of a policy, and how they are implemented. In many states a range of deductibles can be found. So if you are shopping for insurance, you should always ask about deductibles when comparing policies. For homeowners or renters insurance policies, most insurers offer a minimum $500 dollar deductible. However, raising the deductible to $1,000 or more can save upwards of 20 percent on the cost of an insurance policy.

Deductibles Do Not Apply to Liability Claims

There are generally no deductibles for the liability portion of a homeowners or auto insurance policy. Instead, the deductibles apply to property damage. So, on in an auto policy, there is a deductible for the optional comprehensive or collision coverage, but not for the liability portion. And, in a homeowners policy, deductibles apply to damage to the structure of the house or personal possessions but not if a homeowner is sued or a medical claim is made by someone injured in the home.

Flood Insurance Offers a Range of Deductibles

Flooding is not covered by standard homeowners insurance policies but is available from the National Flood Insurance Program [1] (NFIP) and from some private insurance companies. The NFIP offers separate policies for the structure of your home and for your personal possessions, along with a variety of deductibles. You can choose one deductible for the structure and another for the contents of your home. Mortgage companies, however, may require that your deductible be under a certain amount. Flood damage to a car is covered by the optional comprehensive portion of an auto insurance policy.

Percentage Deductibles Apply to Earthquakes, Hurricanes and Hail

- **Earthquakes:** Deductibles for earthquake coverage can range anywhere from 2 percent to 20 percent of the replacement value of the structure. Insurers in states like Washington, Nevada and Utah, with higher than average risk of earthquakes, often set minimum deductibles at around 10 percent. In most cases, consumers can get higher deductibles to save money on earthquake premiums.California residents also can purchase earthquake insurance through the California Earthquake Authority (CEA). The standard CEA policy includes a deductible that is 15 percent of the replacement cost of the home. The basic policy covers only the house (other structures such as garages, pools, etc. are not covered). Personal possessions are covered up to $5,000 and ?loss of use? expenses, the additional cost of living elsewhere while repairs are made to the home, are covered up to $1,500. Recognizing that some people want more comprehensive coverage, the CEA also offers a 10 percent deductible for other structures, personal items coverage up to $100,000 and $15,000 in ?loss of use? coverage.
- **Hurricanes and Hail:** There are two kinds of wind damage deductibles: hurricane deductibles, which apply to damage solely from hurricanes; and windstorm or wind/hail deductibles, which apply to any kind of wind damage. Whether a hurricane deductible applies to a claim depends on the specific ?trigger? selected by the insurance company. These triggers vary by state and insurer and usually apply when the National Weather Service (NWS) officially names a tropical storm, declares a hurricane watch or warning, or defines a hurricane?s intensity in terms of wind speed. Due to these differences, homeowners should check their policies and speak to their agent or insurance company to learn exactly how their particular hurricane deductible works. In some states, policyholders have the option of paying a higher premium in return for a traditional dollar deductible. However, in high-risk coastal areas insurers may not offer this option, instead making the percentage deductible mandatory.
- **Hurricane Deductibles Are Not New:** The first hurricane deductibles were introduced into policies over 20 years ago. After Hurricane Hugo hit South Carolina in 1989 and Hurricane Andrew hit Florida in 1992, insurers realized they were far more vulnerable to huge weather-related losses than they had previously thought. In order to be able to continue getting reinsurance (basically insurance for insurers), and thus continue to offer homeowners insurance in high-risk areas it became necessary to require policyholders to share some of the cost by including hurricane deductibles in policies.

Consider Percentage Deductibles When Purchasing a Home

When looking for a new home, it is important to consider the cost of insurance. Coastal properties and other locations at higher risk for a natural disastermay cost more to insure than other locations, and you must add to that a separate deductible for earthquake or hurricane damage. Remember, you will be paying for insurance the entire time you live in your home?if you are a prospective buyer and feel you cannot afford the insurance, then it may be time to consider a different home.

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Links:
[1] http://www.floodsmart.gov