6 ways to dramatically lower your home insurance costs

CNBC

The cost of homeowners insurance is one of those unavoidable expenses that comes along with owning a house.

How much you'll pay for insurance varies depending on your location and the age of your home, but the average annual homeowners insurance premium is $1,200. That can feel like a big expense, but knowing you'll be reimbursed if something happens to your most valuable investment can be priceless. Plus, your mortgage company may require that you keep a certain level of homeowners insurance.

The first step is knowing what type of coverage you need. Standard home insurance typically includes four parts:

Dwelling coverage: This covers damage to the house itself.

You should have enough insurance to cover the cost of rebuilding your home, from the foundation up, in case of a fire or other disaster that make it impossible to salvage. That may be more coverage than you think. About two-thirds of American homes are underinsured, by an average of more than 20%, according to Nationwide.

"Sometimes it's cheaper to just get a policy that covers you for a dollar number that covers your mortgage, but you want to be sure that you can replace what you have if something happens," says real estate attorney Peter Morra.

Other structures: This part of the policy covers external structures on your property, such as fences, detached garages and sheds.

Loss-of-use coverage: This is typically a smaller amount of coverage that you'd be able to access to pay for alternative accommodations if you were unable to live in your home while it's being rebuilt or repaired after an event like a natural disaster or a fire.

The standard homeowners policy has loss-of-use coverage worth 20% to 30% of the home value, says Angi Orbann, vice president of property for personal insurance at Travelers. You may need more if rentals are very expensive in your area, or less if you have access to other shelter in the case of an emergency,

such as a second home or nearby relatives who would take you in.
Personal property coverage: This would cover lost or damaged things inside your home. You can use an app such as the MyHome Scr.APP.book to document your things and estimate their cost.
Follow these additional steps to make sure you're getting the best policy for a reasonable price:

1. Do your homework.
While your mortgage lender can require that you get home insurance and may recommend a preferred insurers) they can't you to use a specific insurer, and you should shop around for a policy. Be sure to get quotes from at least three insurers.
Gathering quotes is easy via online portals, like InsuranceQuotes.com and Insure.com. You may also have access to discounted rates via your employer, credit union, or other association.
Look for a company with a strong rating from agencies like AM Best or Moody's. Your state's insurance commissioner may also have a "complaint index," which can give you a sense of whether the agency gets a lot of complaints relative to its size.
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2. Talk to your insurance agent every year.
Before you start looking at ways to cut your insurance costs, it's important to understand what your current policy covers. Even though insurers have tried to make their contracts easier to digest, those thick renewal documents can still be confusing. Start with the declarations page, which is essentially the summary of your coverage, says Lynne McChristian, a non-resident scholar with the Insurance Information Institute. Then take a look at the exclusions page to see what your policy specifically doesn't cover."You can't just blindly trust that your insurer has sold you the right policy,′ says Amy Bach, executive director of United Policyholders, a nonprofit group in San Francisco that help consumers with insurance issues.

3. Get every available discount.
Insurers offer a variety of discounts to homeowners for everything from paying your annual premium in full up front to keeping your policy for more than three years. The biggest discount—more than 35%–goes to new construction owners, but you may be able to shave off more than 19% by bundling

your home and auto policies with the same insurer, according to Insurance.com.
While you're on the phone with your agent, make sure you're getting all the discounts for which you qualify.
"There are a lot of different discounts out there offered by different insurance companies," Orbann says.
If you've upgraded your roof or windows in the past year, installed smoke detectors and fire extinguishers, or made energy-efficient upgrades, you may be entitled to additional money off.

4. Hike your deductible.
Typically, the higher your deductible, the lower your insurance premiums. Boosting your premium by $500 to $1,000 could save you as much as 25% on your premiums, according to the Insurance Information Institute.
When choosing your premium amount, consider the cost of repairs or other issues that would prompt you to file a claim. Avoiding small claims can also help keep your premiums from increasing.
"Many people have a $1,000 deductible, but they wouldn't file a claim for $1,000 worth of damage," McChristian says. "If you're not going to file a claim for that amount, then you can increase your deductible."
That said, you shouldn't have a deductible that's higher than what you can afford out of pocket. If you have an emergency fund that could withstand the hit, ask your agent to let you know how much your premiums could change if you increased your deductible.

5. Consider flood insurance.
Most home insurance doesn't cover damage from flooding, although floods often cause the most destruction to homes. Mortgage lenders often require homeowners in flood zones find out here) to carry flood insurance, but it's a good idea even if you're not in an official flood zone."The No. 1 thing for homeowners to know about flooding is that it's the number one natural disaster risk in the United States," McChristian says. "Flood risk is increasing."
Flood insurance policies in areas that aren't in high-risk zones cost much less than policies in flood-prone areas. One in five flood claims come from properties that aren't in a high-risk flood. If you need flood insurance, you'll need to purchase it either through the National Flood Insurance Program or a private insurer.

6. Shop around every few years.
Once you have a solid understanding of your current policy and know that you're getting any available

discounts, you should periodically check in with other insurers to make sure that you're still getting the best possible rate.

"Different companies have different underwriting guidelines, and different parameters when they set rates," McChristian says. "In some areas of the country insurance pricing is very competitive because they want to get your business."Remember that when it comes to insurance, you don't want to shop on price alone. Ask for a copy of the policy and go through it to make sure that you're comparing apples to apples when making your final decision. If you find a lower rate, see if your current insurer can match or beat it.

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