

What's UP With Home Insurance Deductibles?

1. What is a deductible and why are they in home insurance policies?

A deductible is the amount of the costs of repairing or replacing damaged and destroyed property that you (the insured property owner) are responsible for. The insurance company owes the rest of those costs up to the maximum policy limits. The amount of your deductible gets subtracted or “deducted” from what your insurer pays on your claim. A common misunderstanding is that you need to pay your deductible *before* your insurer pays what they owe. You don't. But your insurer will only pay what they owe above the deductible.

According to insurance companies, deductibles are how risk is shared between them and you, the policyholder.

In the past, most policies only had one deductible and it was a flat amount. That made it easy to calculate how much you could expect to collect from your insurer on a claim. In today's marketplace, insurers are adding new types of deductibles, percentage formulas and even deductibles specific to one component of a home (the roof, for example).

2. What different kinds of deductibles might you find in your home insurance policy?

The following are the different types of deductibles that may be in your policy. Amounts and details vary depending on the state you live in and the choices you made when you bought your insurance. Some states limit the types and amounts of deductibles insurers are allowed to impose.

- **Flat Deductible:** As the name suggests, this type of deductible is a fixed dollar amount. Flat deductibles typically range from \$250 to \$10,000. The amount of your deductible is a personal choice to be made by considering your financial resources, risk tolerance and insurance options.
- **Percentage Deductible:** This type of deductible usually runs between 0.5% to 15% of your home's insured value. It used to be rare to have an insurer impose a percentage deductible in a home policy, but it is becoming more common.
- **Hurricane or Wind Deductible:** These are increasingly common in hurricane-prone states and

usually run 2% to 10% of your home's insured value. The deductible may apply per season, per year, per storm, or even by wind speed.

- **Named Storm Deductible:** If a policy contains a named storm deductible, that deductible typically applies to any claim arising out of an event given an official name by the National Weather Service (NWS), National Hurricane Center (NHC) or the National Oceanic and Atmospheric Administration (NOAA), but in some states, insurers have discretion to declare it applicable. See: <https://www.iii.org/article/background-on-hurricane-and-windstorm-deductibles>.
- **Multiple and Peril-specific Deductibles:** Some policies include more than one deductible depending on the cause of the loss. For example, a policy may have a flat deductible for theft and fire losses and a percentage deductible for earthquake, sinkhole or hail damage. Flood insurance policies issued through the National Flood Insurance Program have a flat deductible between \$1k-\$10k that apply separately to building and contents claims. CA Earthquake policies currently offer deductibles ranging from 5-25%.
- **Roof deductibles:** In hurricane and tornado-prone states, it is becoming common to find a separate "roof deductible" in home insurance policies. Like deductibles that are tied to a specific cause of loss, a separate roof deductible is likely to be two percent of the Coverage A (dwelling) limit of the policy or a percent of the cost to replace the roof, whichever is lower. Florida allows a roof deductible of up to 50% of the cost of the roof. Avoid a policy with that high a deductible if you can.

3. So when do deductibles kick in?

If the amount of your claim is below the applicable deductible, your insurer won't pay for the damage. We strongly recommend that before filing any small to moderate property damage claim, you review your deductible and do the math to make sure the amount of your claim will exceed your deductible. If the amount of your claim is less than the deductible it's unwise to submit a claim because that claim will go on your record (even if they do not pay you anything) and can put you in a higher cost, higher risk category.

4. What is UP's general advice on deductibles?

United Policyholders recommends that if you have options/choices while shopping for home insurance, aim for a policy with only one deductible and ask questions to get a clear understanding of how it will work in the event of a claim. Take good notes and store them where you'll be able to find them in the

future.

Carrying a high deductible has long been a strategy for saving money, because it lowers your premiums and reminds you to avoid filing small claims that can cause you to pay more for insurance down the road.

However with insurers adding so many specific, percentage and multiple deductibles, it's no longer a money-saving guarantee. And, a higher deductible cuts into the insurance funds that will be available to you. Shopping for home insurance and choosing between deductible options is more challenging than it used to be.

When shopping for insurance, compare what the premium will be with different deductibles and if you choose a high one, make sure the premium reduction is worth the increased risk you're taking on. You want your insurance to pay for repairs after a loss, so select the deductible that's right for your household, your pocketbook, and conditions in the region you live in.