Homeowners offered new earthquake policy options

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The California Earthquake Authority, hoping to increase the small percentage of people who have quake insurance, has introduced a line of policies called Choice that gives homeowners more coverage and premium options.
For example, homeowners can pay a lower premium if they want to cover structural damage to their dwelling alone and waive coverage for personal property such as furniture and appliances) and additional living expenses if they have to move out of the house.
The authority's standard policies – which it continues to sell – cover all three types of post-quake expenses, although homeowners can choose whether they want a 10 or 15 percent deductible. They can also choose how much coverage they want for personal property in amounts ranging from $5,000 to $100,000) and additional living expenses $1,500 to $25,000).
With the new Choice policies, which debuted July 1, homeowners can cover:
— Dwelling only
— Dwelling plus personal property/contents
— Dwelling plus living expenses/loss of use
— Dwelling, personal property and living expenses
Homeowners cannot cover personal property or living expenses alone without covering the dwelling although renters and condo owners can).
On average, a homeowner who covered structural damage would pay a 10 percent lower premium than if he chose a standard policy that covered the minimum $5,000 in personal property and $1,500 in living expenses. Actual savings would vary depending on the home's location and type of construction, says Shawna Ackerman, the authority's chief actuary.
This option might appeal to cost-conscious customers willing to forgo contents and loss-of-use coverage and to people who rent out their homes, says Glenn Pomeroy, the authority's chief executive.
Deductible choice

Choice also lets homeowners choose how they want their deductible applied.
With a quake policy, the dwelling coverage must be equal to the limit on the homeowner's policy that covers all other perils. If your homeowner's insurance will pay up to $400,000 if your home is destroyed by fire, your quake policy also must cover up to $400,000 in structural damage.
With a quake policy, the deductible is a percentage of your policy limit. If your deductible is 15 percent and your policy limit is $400,000, your deductible is $60,000. The steep deductible keeps most people from buying the insurance. But it gets worse.
With a standard California Earthquake Authority policy, structural damage must exceed the deductible before any personal property coverage can be paid – a fact some policyholders might not realize until it's too late.
Suppose your home is insured for $400,000 and you choose a 15 percent deductible and $25,000 in personal property coverage.
If you sustain $50,000 in structural damage and $30,000 in personal property losses, the standard policy pays nothing because you did not meet the deductible – $60,000 in structural damage.
However, if you suffer $70,000 in structural and $30,000 in personal property damage, it would pay $35,000 because your deductible has been met.
Choice gives you the option of having deductibles apply separately to dwelling and contents.
Using the example above, suppose you choose a 15 percent deductible for your structure and 15 percent for your contents. The structure deductible is still $60,000 while the contents deductible is $3,750 15 percent of your $25,000 contents limit).
In this case, if you sustained $50,000 in structural and $30,000 in contents damage, the policy would pay nothing toward structural repairs but it would pay $25,000 your policy limit) worth of contents because your deductible has been met.
Policyholder payoff
Having the deductible apply separately costs a bit more than a standard policy – about 12 percent on average for a policy with a minimum $5,000 in contents and $1,500 in living expenses. But it increases the likelihood that policyholders will get some payoff in the event of a quake.
Coverage of additional living expenses is not subject to a deductible.)
"No more than 1 out of 10 homes in California has earthquake insurance," Pomeroy says. Giving customers more options "is one of a number of initiatives we are working on to increase the value proposition."
The authority is also working on a plan to pay some homeowners to do simple earthquake retrofitting projects. State law requires the authority to put some of its investment returns into a mitigation fund,

which would finance the retrofit projects.
Amy Bach of the consumer group United Policyholders says the new policies “add options for that small number of consumers who are willing to buy earthquake insurance. But it doesn’t solve the underlying reason people don’t buy insurance, which is the deductible and the cost of the product overall.”