



## **Understanding Home Insurance Deductibles**

As with any form of insurance, deductibles for homeowners insurance are factored in along with the premium to the out-of-pocket expense of the policy. First and foremost, deductibles refer to the what the homeowner will have to pay themselves before the insurance kicks in. Many insurance providers offer either percentage- or dollar-based deductible options.

Regardless of which variant of deductible is chosen, deductibles share an inverse proportional relationship with premiums, which are charged monthly in order to sustain the policy. The greater the deductible, the lower the premium, and vice-versa.

By and large, this reality speaks to how ‘risky’ the insurance company sees the policyholder. Low deductibles, for instance, place a greater portion of the financial burden on the provider, than high deductibles. On the other end, even the slightest of increases may suggest to the insurance company that the insured is worthy of greater trust and, to that end, lower premiums.

## **How to Choose the Right Deductible**

Considering the ratio between high deductibles and low premiums, it is suggested that policy holders choose deductibles that are as high as they can possibly afford. Although stretching beyond one's means is not suggested, a suitably high deductible may lower monthly premium costs by up to 20%. In this regard, those insured are placing their long-term financial possibilities in equilibrium with their short-term.

Furthermore, speaking to the relationship between deductibles, premiums, and perceived risk, insurance companies will often raise premium rates if risk is seen to increase. For instance, if a vandalism claim is submitted, the provider will then begin to see that particular home as susceptible to further incidents.

As a precaution, therefore, the insurance company will raise premiums in order to offset expected future payouts. Again, however, high premiums can be reduced if the insured takes on a greater deductible, which in turn mitigates risk. The right deductible, in the end, is one that sets monthly premiums to a desired amount.

## **How Your Home Insurance Deductible Affects Your Rates**

Broadly speaking, understanding the correlation between deductibles and interest rates is key to making an informed decision when taking out a homeowners insurance policy. To that end, precise acknowledgments of the ratio may be helpful.

Within the confines of a home insured for \$400,000, a \$2,000 deductible would yield a monthly premium of \$1,173. Moreover, a \$972 premium would be resultant from an \$8,000 deductible. Continuing proportionally, the premium based off a \$20,000 deductible would be \$814. By the numbers, assuming that the policy's value remains intact, a tenfold increase in deductible would provide an approximately 30% decrease in premium rates.

With that in mind, it's important to again stress that while it may be attractive to set an unreasonably high deductible for the sake of lowest-possible premiums, it's neither a wise nor sustainable course of action. In the event that the worst does occur, and the policyholder is obliged to cover the pre-established deductible, the

financial repercussions could be dire. Should further education on the topic of deductibles be of interest, then our list of the [top providers of homeowners insurance](#) would be an excellent place to begin.