


# Protect Your Home by Understanding Homeowners Insurance Costs

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by Tiffani Sherman

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Your home is your most expensive asset and protecting it can be pricey. There is no easy answer to the question of how much does homeowners insurance cost.

The short answer is, it depends.

“There are a lot more rating factors than there have ever been in our industry because of computer systems getting more sophisticated,” says Craig Peterson, an agency owner for American Family Insurance in Overland Park, Kansas.

He said the price depends on the location, condition and value of the home, the type and amount of coverage, the deductible, the homeowner’s credit, claim history, and more.

## Types of Coverage and How Much to Buy

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Before we get too far, there are some basics to understand about homeowners coverage which impact the cost of the policy.

There are three basic types of coverage that determine how much you will receive after a covered disaster.

- **Actual cash value:** Covers the structure and contents based on what they are currently worth, not what you paid.
- **Replacement cost:** Covers the structure and contents based on what they cost now up to the value of the policy.
- **Guaranteed or extended replacement cost/value:** Covers the structure and contents based on the current cost to rebuild or replace up to a certain percentage above the policy limit.

This post has more information about [What Home Insurance Actually Covers \(and Where You're on Your Own\)](#).

The cost of the policy also depends on how much you have insured the dwelling for, the liability coverage you have, and other factors.

Many people are under insured and that can lead to problems, especially for people who just have the minimum coverage necessary to satisfy a mortgage company.

“A lot of people think, I’m covered. My mortgage company says I’m covered, they don’t require me to do anything further. I don’t want to pay more for insurance, but you may not be fully protected,” says Mark Friedlander, director of corporate communications at Insurance Information Institute in New York. “If you have to completely replace the property, you may fall short in terms of what the value of rebuilding that home is today.”

## What Determines Homeowners Insurance Cost?

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Location is a key to figuring out how much homeowners insurance costs. According to data from the National Association of Insurance Commissioners, countrywide premiums increased 3.3% between 2017 and 2018, which is the most recent data available.

The report released in January 2021 also said premiums tend to be higher in areas with greater population density because construction costs and real estate values are often more expensive there. The same goes for areas which are popular with retirees and vacationers.

If your area is prone to disasters like hurricanes, wildfires, tornadoes or earthquakes, prepare to pay more.

Peterson said state regulations also makes a huge difference in how much insurance costs.

When you first reach out about buying a policy, the agent will probably need:

- Address of the dwelling.
- Prior inspection reports.
- Prior insurance information.
- Lender requirements.
- Information about who is living in the home including pets.

While amount and type of coverage are the biggest determinants of price, there are many other factors.

The condition of the home is important. Has it been maintained? How old is it? What kind of building materials were used? What is the condition of the roof?

Insurance companies are looking at the likelihood the homeowner will file a claim which is the amount of risk the insurer is willing to take to cover you.

The companies often consider:

- Past claims by the homeowner.
- Past claims related to the property. If there have been multiple claims in the past few years, rates will probably go up or the property will be ineligible for insurance.
- In some states, the credit history of the homeowner impacts rates.

Location of the home within the city is also important. How close is the nearest fire hydrant? How about proximity to a fire or police station?

The neighborhood and claims history within it as well as the crime rate in the area can also make a difference in rates.

Adding endorsements to cover particular conditions to the policies can also impact rates.

Even if you're trying to reduce premium costs, make sure you have enough liability coverage in the event something happens and someone sues you or you have to pay to replace something expensive. If you don't have enough coverage, courts can go after your assets so adding a liability umbrella policy might be a good idea, Peterson said.

"One of the biggest liability claims is dog bites," he said. "Homeowners insurance and liability coverage would extend to kids and pets."

Bottom line, the more coverage you have and the more comprehensive it is, the more you will pay in premiums.

Shopping around can save you some money.

"We always recommend when you shop for any type of insurance, get multiple quotes," Friedlander recommended. "You want to compare apples to apples and make sure you're looking at the same type of coverage."

## How to Lower Homeowners Insurance Rates

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If the premium for your homeowners insurance is too much for your budget, there are some things you can do to lower the rates.

But keep in mind, there is no such thing as a freebie. While doing these things may lower your premiums, they will also probably cost you money in other ways.

Raising your deductible or the amount you pay out-of-pocket before your coverage kicks in is one of the easiest ways to lower premiums. Friedlander said raising a deductible from \$500 to \$1,000 can save you up to 25% on your premium.

“The thing we always tell consumers is if you’re going to raise your deductibles, make sure you have the finances to support that. You have to understand that you’re going to have to pay that money out of pocket if you have claims that don’t reach that level,” he said.

Raising the deductible also means you will need to absorb the costs of some repairs like fixing a broken window or a leaky pipe since it will likely cost less than your deductible.

Also, some policies have different deductibles for different perils. For example, hurricane deductibles on a policy in Florida are often a percentage of the total coverage amount while the deductible for something like a fire is often a fixed amount.

You can also change the amount of your coverage or type of coverage but remember what these changes will cost you if you make a claim.

Peterson said making some additions or repairs to your home might also lower premiums. Those additions and repairs can include:

- Putting in a security system that is monitored by a central station or police station.
- Adding smart home features like video doorbells and Wi-Fi thermostats.
- Installing smoke alarms.
- Adding a home fire sprinkler system.
- Replacing the roof.
- Upgrading the plumbing.

If renovating, plan ahead and use safer materials. For example, cement and steel framing can cost more to build with than wood frame, but cement and steel can be cheaper to insure because of their lack of flammability.

Friedlander said loyalty can also matter. If you have been with the same insurance company for many years, they might offer you a discount. They might also discount your premiums if you bundle your coverage and have your auto insurance and home insurance with the same company.

Another way to save is to be savvy about filing claims. While we have insurance to protect us financially from disasters, filing a claim worth just a few dollars more than your deductible might lead to a rate increase which could end up costing you more in premiums over time or could result in a non-renewal.

“Your homeowners insurance is not a maintenance plan. It’s for large incidents that are unexpected and you can’t afford or don’t want to pay for out of pocket,” Peterson warned.

Also, don't file too many claims in a short period of time.

"Being claims free. If you've got a clean record and you haven't filed a claim in X amount of years, they consider you a low-maintenance customer, that's also a way you might be able to save," Friedlander said.

Check for any discounts through your credit or trade union, employer, association memberships, etc. Your age or marital status may also entitle you to a discount.

Paying off your mortgage can also lower rates since sometimes insurance companies think you'll take better care of your property if you own it outright.

Peterson also recommended reviewing your existing policy every few years.

"That's a good idea to at least have a review just to make sure that you have enough coverage still for the home or maybe you have too much," he said, adding insurance companies automatically adjust coverage based on an index and not real life.

"What we find sometimes is if someone hasn't looked at their policy for say 10 years, we find sometimes that their coverage is too high and they're paying for something they don't really need," he said.

## Consider More than Price

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While getting the lowest premium possible sounds like a great idea, experts say it's important to consider more than just the price.

"When you're shopping for insurance, make sure you are looking at financially strong carriers that have an A rating," Friedlander said. "You want to ensure they are financially sound and you know you will be protected for a loss and they have the assets to pay claims. You want to make sure you are being protected by an insurer that has the financial capacity to handle thousands of claims and they are in a position to cover all their policyholders for major loss."

He also suggested looking for a company that has a record of prompt claims response. You don't want to have to pay a lot out of your pocket for repairs and living expenses while you wait for the processing of your insurance claim. Find out who handles claims and whether they are licensed adjusters or something like a third party call center.

Other things to consider:

- **Licensing in your state:** Some states have more rigorous regulations than others. You want a provider that is legitimate and creditworthy.

- **Complaints:** Visit your state's department of insurance and check for complaints against the companies you are researching.
- **Policyholder satisfaction:** Ask the company how many of their policyholders renew each year.

After a disaster is the wrong time to find out you picked the wrong insurance company.

“Financial security is more important than price. You obviously want to be competitive and you don't want to overpay, but you certainly want to make sure whatever insurer you choose is financially strong and will protect you when you need them to be there,” Friedlander said.

*Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.*

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