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Tips to Reduce Your Homeowners' Insurance Cost



Financial Thoughts

by John Schooler

Homeowners' insurance, once a negligible expense, is quickly becoming a major headache.

Rate increases are far outpacing inflation. In some parts of the country, premiums are doubling or worse. Some insurers are restricting coverage, canceling the coverage of homeowners who file claims, and refusing to write new policies.

According to the Insurance Information Institute, the average premium for homeowners insurance in the United States jumped 8 percent to \$553 in 2002. Another 9 percent average hike is expected in 2003.

The situation is particularly bad in several large states. Some Florida homeowners report 300 percent rate increases, while for us in California – insurers say they paid \$1.18 in claims for every premium dollar collected in 2001 – State Farm and other major carriers have stopped writing new coverage. (State Farm, the nation's largest homeowner's insurer, has also stopped issuing new policies in Arizona, Louisiana, Nevada and Texas.) In the Lone Star State, where homeowners already pay the country's highest premiums, rates rose an average 38 percent in 2002.

Why the exorbitant rate increases? An epidemic of mold-related damage claims and ailing investment markets have left the companies with no way to recoup underwriting losses.

While you should expect to pay more to insure your home in coming years, there are ways to help minimize the pain:

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- Choose a policy with a high deductible. High deductibles translate into lower premiums.

- Keep minor claims to a minimum. In the current climate, any claim may result in a premium increase that far exceeds what you would collect on the loss. In addition, a large claim could lead to cancellation.

- Keep your credit clean.

Credit scoring reduces your credit history to a single numerical value. Fair, Isaac and Co., a leading provider of the scores, services approximately 350 U.S. and Canadian property-casualty insurers. Insurers have decided that bad credit risks may be more likely to file homeowners claims. A low credit score may mean higher premiums or rejection of your application for coverage.

- Don't buy too little coverage for your home. Don't let rising premiums and tighter rules pressure you into buying too little coverage. Home prices have increased rapidly across the country, and it's essential to make sure your homeowners' policy has kept pace. You may need to have your home reappraised to figure out its true market value.

If you don't have replacement-cost coverage, which may be difficult to find, you'll need to increase your policy's ceiling periodically. And if you suspect that an insurer is being unreasonable – hitting you with draconian rate increases or canceling your policy – let the state insurance commissioner know.

- Keep a record of the valuable items in your home. Whether you keep an elaborate handwritten inventory, use a computer program or take photos or videos of the items, keep track. These records can help jog your memory in case of loss and ensure that you most fully recoup it.

In the process, you can re-evaluate what items need to be covered and which can remain uninsured, and decide if any should be placed in a safe deposit box.

In addition, you may need to consider these questions:

1. If your home is located in an area where it might be exposed to flood damage, does your policy cover the risk?

2. Does it reflect a new ownership form that may have resulted from your estate planning? If you move your business into your home or build an expensive shop, are these still covered under the homeowner's policy?

3. Your home has become more valuable over the years, and it may comprise an important part of your retirement capital. It is of paramount importance to make sure it

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is properly insured. Make certain that your property and casualty agent is fully informed about additions, changes and improvements.

Taking these steps may save you big headaches.

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