Home Insurance Coverage Comparison

Why does Policy B protect you from bad outcomes so much better than Policy A, at hardly any extra cost?

The secret is choosing the right combination of coverages. Often, extra protection is relatively inexpensive to add while some other coverages are overpriced and worth cutting back.

So, how did we do it? Below you see a summary of the coverages included in each policy. Those shaded red mean you have less coverage and are more at risk of having to pay out of pocket. Green means you have better coverage and are less likely to owe more than your deductible while yellow would be in the middle.

Insured Value of Home: **$500,000**	Policy A: **Premium $1,373**	Policy B: **Premium $1,435**
Deductible	$1,000	$2,500
Personal Property	$200,000 @ Actual Cash Value	$200,000 @ Replacement Value
Roof Repair	Actual Cash Value	Replacement Value
Other Structures	$50,000	$25,000
Loss of Use	$150,000 for 12 months	$500,000 for 24 months
Liability	$100,000	$500,000
Medical Benefits	$1,000	$5,000

The first policy is a common approach an insurance company will offer you. **It skimps on coverage to bring the price down.**

You can see there is a lot more green on the second policy. It costs slightly extra but reduces your downside if and when you need your insurance.

You do need to choose a higher deductible to pay for the added coverage. In fact, the cost to flip your roof and contents from red to green is about equal to the premium you save by raising your deductible by $1,500. (continues)

Why is this a good choice?

Because the worst case outcome from raising your deductible is an extra $1,500. By comparison, when you are underinsured for your roof or contents, you could potentially find yourself out tens of thousands of dollars.

The three claim events we showed you each had an element of an underinsured roof or contents claim.

So what should you look for when buying your insurance coverage?

Make sure to check if your policy has **replacement cost** wherever possible rather than **actual cash value (ACV).** Replacement value means you will be made whole for your losses whereas ACV will only pay you in part. The first policy had the less effective ACV coverage and that's why the claims payouts were worse.

While there are scenarios where the higher deductible can leave you worse off (if you had structural damage only with no contents lost), you are only worse off by the $1,500 difference in deductible.

Continue reading to see the math behind the three loss calculations →

Curious how we figured out what you would owe if you had one of those insurance claims?
We reveal the math below:

Loss #1: Washing Machine Water Damage

a) Damage to floors, walls, and other structural features would be fully covered by both policies with the homeowner just owing the deductible.

b) There is $10,000 of contents, such as electronics, ruined by water. This would be covered under Policy B but Policy A would likely only pay half due to ACV.

Homeowner's out-of-pocket costs

	Policy A	Policy B
Deductible	$1,000	$2,500
Contents	$5,000	$0
Total	**$6,000**	**$2,500**

Loss #2: Thunderstorm Roof Damage

a) The house in our example is 15 years old which means the roof's replacement value is depreciated 75% if you have ACV. The tree could easily cause $20,000 of damage, so the homeowner would be responsible for $15,000 under Policy A.

b) There is $5,000 of content damage from debris or rain inside the house. Both policies would also be responsible for the associated deductible

Homeowner's out-of-pocket costs

	Policy A	Policy B
Deductible	$1,000	$2,500
Contents	$2,500	$0
Roof	$15,000	$0
Total	**$18,500**	**$2,500**

Loss #3: Total Loss House Fire

a) This is obviously a tragic and worst case scenario. Fortunately, we assumed the house itself was insured for its full replacement value so the homeowner will be able to rebuild.

b) The contents loss would be the policy maximum of $200,000. However, Policy A would only pay half due to depreciation.

c) Assume it takes over a year to rebuild the home. Because Policy A only provides loss of use payments (e.g. temporary housing) for a year, the homeowner would run out of coverage relative to the second policy which extended coverage for up to two years.

Homeowner's out-of-pocket costs

	Policy A	Policy B
Deductible	$1,000	$2,500
Contents	$100,000	$0
Loss of Use	$15,000	$0
Total	**$116,000**	**$2,500**

Disclosure:

The example we used is a real quote from an actual home. Your home will undoubtedly be priced differently so the price difference in the two policies may be less or more than our example. Also, the choices we showed you aren't better in every single scenario one could imagine, but they are significantly better most of the time.