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SHORTCUTS

Another Way for Wind to Put Holes in Homeowners' Pockets

By ALINA TUGEND

CALL me an innocent, but I had never heard the term “windstorm deductible,” until my neighbor, Lisa, told me she and her husband were shopping for new homeowners insurance. She said they had been planning on just renewing their policy until they were informed of a change in coverage: if a hurricane hit their home, they could be liable for the first \$17,000 or so in damage.

The likelihood of a hurricane sweeping through lower Westchester County is slim, but it is still a sobering number.

I asked to see her policy. Sure enough, it stated that if a hurricane classified as a Category 1 or greater damaged her house, she would be responsible for \$16,629, or 3 percent of the amount her house is insured for.

She could lower her premium and her deductible would then be \$27,715, or 5 percent of the home's insured amount.

No matter how minute the chances of a hurricane, that's a pretty scary chance to take.

I called my broker, Steven J. Spiro of Spiro Risk Management in Valley Stream, N.Y., who also happens to be state national director of the Independent Insurance Agents and Brokers of New York.

It turns out that we don't have a windstorm deductible. Yet.

The next time our homeowners insurance comes up for renewal, though, we may be facing the same situation as Lisa.

Homeowners in Florida, Texas and other hurricane-prone states have long been familiar with these deductibles, which started after the devastation by Hurricane Andrew in 1992.

“Within two years, you began to see them in a number of states,” said Robert Hartwig, president of the Insurance Information Institute, a trade organization for the insurance industry. “They began in Florida and spread through other areas prone to [hurricanes](#) and tropical storms.”

The hurricane deductibles are now reaching New England and the New York metropolitan region — areas that can be affected by Atlantic hurricanes.

“I just got it in my renewal, and I live in Rhode Island,” said David Hammarstrom, a spokesman for [MetLife Auto & Home](#). “I hadn't had it before.”

According to the Insurance Information Institute (www.iii.org), 18 states and the District of Columbia have hurricane deductibles, including Connecticut, New Jersey and New York.

There are two kinds of wind damage deductibles: those that apply specifically to named hurricanes and those that apply to windstorms or wind and hail damage. Percentages range from 1 to 5 percent of a home's insured value, but in some coastal areas the deductible can be as high as 25 percent.

"The rationale behind the coastal deductibles is that we're seeing an explosion of growth along hurricane-exposed coastlines," Mr. Hartwig said, noting that 53 percent of the population now lives within 50 miles of a coastline.

"At the same time, living along the coast is becoming demonstrably more risky," he said. "We're in the midst of a cycle of hurricane activity that will be more frequent and more intense."

Global [climate change](#) and damage to wetlands also put homes in greater peril.

"Each additional home is built, by definition, where there wasn't a home before," Mr. Hartwig said. "It is more susceptible to wind damage. People are willing to accept the benefits, but not accept the cost of the risk."

The trouble is, some people simply cannot afford the high price of the insurance, or the risk of assuming a deductible they will not be able to pay if disaster strikes.

In Florida, where homeowners are most in jeopardy and, therefore, hardest hit by insurance costs, a growing number of homeowners are opting out of the windstorm deductible — or insurance altogether — if their mortgage is paid off and a lender is no longer requiring coverage.

"Many senior citizens live for the day they can pay off their mortgage," said William F. Merlin Jr., a lawyer with the Merlin Law Group of Tampa, Fla., which represents insurance policyholders. "But as insurance has gone up, many take the enormous risk of losing their entire life savings. If you can't afford insurance, you definitely can't afford what's going to happen if you have a real catastrophe."

In Florida, as in many states, there is an insurer of last resort. In New York, it is the New York Property Insurance Underwriting Association.

Some people who do not have mortgages are choosing to self-insure — that is, rather than buying a policy, they are setting aside a certain amount regularly to cover a possible disaster.

Jerry and Mary Jane Gibson of Eastham, Mass., decided to do just that after a 2005 windstorm and small tornado knocked down 53 trees on their four-acre lot.

Their insurance company paid \$81,000 in damages and then canceled their policy.

"I don't think they were the bad guys," Mr. Gibson said. "They were very fair." But the Gibsons, whose mortgage is paid off, decided to go the route of self-insuring by setting aside \$10,000 a year.

"We need four or five years to build it up," he said. "If another storm comes along in another three or four years, we'll be in trouble."

Some see windstorm deductibles, which are generally percentages rather than flat rates, as a symptom of an overall problem in the insurance system.

"People are going to get more and more familiar with percentage deductibles," said Amy Bach, executive director of United Policyholders, an insurance watchdog group (www.unitedpolicyholders.org). "Here in California, we see them with earthquake deductibles. As a consumer advocate, I can tell you that percentage deductibles are confusing. I'd rather see fixed amounts."

The trouble, Mr. Merlin said, is that people see a small percentage, like 2 percent, or even 5 percent, and think it is a small amount. But 2 percent of \$500,000 is \$10,000, and that is going to be a big surprise if your house is seriously damaged and you need to pay the first \$10,000 to cover it.

The trend, he said, is for insurance companies to avoid raising premiums too high by putting in high percentage deductibles. Customers are happier if they do not see their rates skyrocket.

"But they're really getting less of a product back," Mr. Merlin said. "It's really a facade."

The argument insurance companies set forth, however, is that it is better to have a high deductible than no insurance at all. And in some places, where insurance companies are refusing to renew or write new policies, that is exactly the choice homeowners have.

"In areas where insurance companies haven't been able to do creative things like windstorm deductibles, we've seen major disruption in the marketplace," Mr. Hammarstrom of MetLife said.

But what actually sets off the windstorm deductibles — or triggers the deductible, in insurance parlance — varies with every policy.

The best protection is to read your insurance policy carefully and calculate what that percentage deductible really means in dollars and cents. Shop around for a new policy if you do not like what you see. A slightly costlier premium may still be a better deal than a ridiculously high deductible.

When we moved here, we thought living near Long Island Sound would be a nice perk. Who knew it would end up costing more in insurance? Maybe we should move back to Los Angeles.

Oh, yeah. Earthquakes.

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