Consumers and States Grappling With Coastal Insurance Issues

Scott Richardson, insurance commissioner for the state of South Carolina, faced a problem last summer to which many residents living in coastal communities can relate: His homeowners insurance was canceled.

The cancellation was the result of his carrier leaving the state. On the good side, it gave Richardson an opportunity to shop for the best rates and consider raising the deductible to save on premium costs. Those are two steps retirees also should take when relocating to coastal areas.

Richardson, who lives in a waterfront home at Hilton Head Island, says he was surprised at the range of rates for similar coverage, a difference of several thousand dollars. He ended up in a lower price range by increasing his deductible.

Indeed, as many retirees can attest, homeowners insurance is more expensive the closer you get to the coast. Richardson points out that a $250,000 home in upstate Greenville, SC, costs about $650 a year to insure. For the same property on or near the South Carolina coast, the premiums would be $2,200 to $2,300, says Richardson, formerly a partner in a successful insurance agency.

Moving from a mountaintop home near Binghamton, NY, to the community of New Smyrna Beach, FL, retiree Carolyn Morgan-Applet rented a condominium on the beach for three months before making a decision on where to buy.

"This gave me time to consider the hurricane risks, plus look at other options," she says. Morgan-Applet ended up purchasing a home in a new neighborhood farther inland.

"I miss the daily morning walks on the beach right at my front door," she says. But with only a 15-minute drive to the ocean, she still manages to get to the beach two or three times a week.

Rather than shop for the best rates, Morgan-Applet decided to stick with the same company that had insured her home in upstate New York for many years. "It just gives me a comfort level knowing they'll be there if I need them," she says. Her homeowners policy, without flood insurance, is about $900, a third more than she previously paid.

What Morgan-Applet did is known as risk management, a theme preached by Jack Hungelmann, author of "Insurance for Dummies." Hungelmann, an insurance agent in Edina, MN, often counsels clients who are interested in retiring to warmer, coastal environments.

His rule: Don't risk more than you can afford to lose. "And never risk your retirement. People should not have to spend their golden years dealing with a major home-rebuilding project. In many cases, they are never made whole," he says.

Risk management, he says, is taking actions that lower the probability of a loss happening at all, or if it does, lessening the potential severity.

For example, making certain improvements to homes can not only reduce the risk but also result in saving a bundle on insurance. "Mitigation discounts" is a new buzz phrase, and one that retirees moving to coastal states need to become familiar with. These discounts are available to policyholders who make certain disaster-prevention improvements.

In Florida, which has one of the most ambitious mitigation programs, homeowners can save as much as 45 percent on their policy premium if their residence is building-code compliant, according to Citizens Property Insurance Corp., a state-run insurance program.

Discounts are offered for hip roof
Rather than a dollar amount, hurricane deductibles often are a percentage of the home coverage bought.

One way to minimize loss is to purchase a newer home built to more stringent building codes. For example, a study done after Hurricane Charley struck in 2004 showed that newer homes suffered much less damage than older ones.

The Insurance Information Institute reports that according to claims data, homes built before 1996 suffered an average loss of $24 per square foot, or $48,000 on a 2,000-square-foot home. Compare this with $14 per square foot for homes built between 1996 and 2004. In addition, there was a 44 percent reduction in total roof replacements for newer homes and 38 percent less for windows.

To help take some of the frustration out of determining the cost of homeowners insurance, some states have created Web sites where you can compare rates.

Florida's site at www.shopandcomparerates.com is intended as a starting point, to show the value of shopping around, according to Kevin McCarty, insurance commissioner. For example, you'll find average approved rates from a sampling of insurance companies for a five-year-old concrete-block home, valued at $150,000, with a $500 non-hurricane deductible, a 2 percent hurricane deductible and with no wind mitigation discounts.

As an example, in St. Lucie County, which includes the coastal communities of Port St. Lucie, Fort Pierce and Hutchinson Island, approved rates range from $1,212 to $4,854 (among 26 companies). "The typical rates quoted on the site are not guaranteed but are intended to demonstrate that rates vary significantly from company to company," McCarty says.

Delaware, a small state with a large appeal for retirement living along the coast, compares insurance costs by company at its Web site, www.compare.delaureenueinsurance.gov. Rates are accessed using the ZIP code of the area in which you are interested.

California provides a 2008-2009 survey of homeowners insurance premiums by city and county at the Web site http://interactive.web.insurance.ca.gov/survey/index.jsp. It also includes rates for earthquake coverage.

States along the Atlantic Seaboard and the Gulf are grappling with ways to make homeowners insurance and windstorm coverage more affordable in coastal zones, after some insurance companies began pulling back on coverage following the destructive 2004 and 2005 hurricane seasons.

Many of these states have designated "wind-pool zones" — coastal areas at high risk for wind damage. Some have created shared-risk insurance pools available for property owners. They also offer credits and incentives for private insurers that voluntarily write coverage in these zones.

Florida's legislature created the Citizens Property Insurance Corp. to provide property coverage to homeowners without private insurance options. It's now the state's largest insurer for hurricane risks.

Likewise, Louisiana created a nonprofit organization called the Louisiana Citizens Property Insurance Corp. to provide coverage for homeowners who are unable to purchase insurance through the voluntary marketplace.
North Carolina's beach plan offers homeowners policies in the state's 18 coastal counties for those unable to buy it through the standard insurance markets. Mississippi's wind pool, also a state-sponsored insurance sold to homeowners who can't get private insurance, recently reduced rates by 11 percent. This is good news to residents along the coast south of Interstate 10, where private companies have been reluctant to write policies since Hurricane Katrina.

South Carolina has expanded the geographic area in which residents are eligible for wind-pool coverage, and insurance companies will get tax credits for writing full-coverage insurance in the wind-pool zones.

In Texas, where about 25 percent of the state's population lives along the coast, the Texas Windstorm Insurance Association is the state-backed insurer of last resort, providing coverage in 14 counties along the Gulf Coast.

The insurance quandary came into focus at April's National Hurricane Conference in Orlando. Simply put, insurers see a need to charge higher rates for residents who live along the coast. State officials believe they need to regulate rates to make it affordable to continue to draw retirees to these regions. Although the issue was debated, no clear solution emerged. Some officials have suggested a national catastrophe pool, in which disasters of all types would have a shared burden, but this idea has gained little traction in Washington.

Despite the threat of hurricanes, the lure of retirement living along coastal regions continues unabated. Florida is adding 1,000 new residents a day, most of them settling along the Atlantic and Gulf coasts. North Carolina's southeast coastal counties have grown by 100,000 people since 1999, when Hurricane Floyd struck the Cape Fear area.

A 2005 study by the National Oceanic and Atmospheric Administration showed that 53 percent of the nation's population lived in the 673 coastal counties, even though they make up only 17 percent of the U.S. land area. The number of people living in Florida coastal regions increased by 75 percent since 1980.

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Five Tips to Cut Insurance Costs

- Shop for the best deal. Get at least three quotes. See if your state insurance department has any price comparisons available.
- Raise your deductible. The higher your deductible, the less premium you have to pay. If you raise a $500 deductible to $1,000, you may save as much as 25 percent.
- Reduce the chances of being affected by a disaster. In Florida and other states, for example, hurricane-mitigation premium discounts are offered to customers who make certain disaster-prevention improvements to their homes, including compliance with the building code, hip roof (sloped on all four sides) and impact-resistant shutters, among others.
- Insure your home, not the land. After a disaster, the land is still there. If you don't subtract the value of the land when deciding how much homeowners insurance to buy, you will pay more than you should.
- Group your home and auto policies with the same insurer. Some companies will reduce your premium by as much as 15 percent if you have at least two policies with them.

Sources: Federal Citizen Information Center and Insurance Information Institute

Property values in coastal areas of the United States have doubled over the last decade, according to Applied Insurance Research Worldwide.

All this is creating anxiety among government officials and insurance industry executives. South Carolina's Richardson believes that a combination of good home values, low taxes and an excellent quality of life may draw as many as 1.1 million new residents to his state in the next 15 years.

"A majority of this growth, including retirees, will be in the coastal counties, adding to our hurricane exposure," he says. He is pushing for more stringent building codes and orderly, planned growth.

Richardson favors a market-driven solution to the insurance quandary — allowing companies to build up reserves by offering tax deferments.
Homeowners Insurance Basics

Homeowners insurance provides financial protection against disasters. A standard policy insures the home itself and the things you keep in it. Homeowners insurance is a package policy. This means that it covers both damage to your property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people.

Damage caused by most disasters is covered, but there are exceptions. The most significant, and damage caused by floods associated with hurricanes, tropical storms and earthquakes. You must buy separate policies for flood and earthquake coverage.

Deductibles. Many policies that provide hurricane coverage have a 2 percent deductible, instead of the traditional dollar amount. For example, if your house policy is for $200,000 with a 2 percent deductible, you will be responsible for the first $4,000 of a hurricane loss. In many states, policyholders still have the option of paying a higher premium for a dollar deductible instead of a percentage. Per centage deductibles are sometimes mandatory.

- Condominium coverage. Buying insurance is different for owners of condominium units rather than owners of conventional homes. Your condominium insurance policy provides coverage for your personal possessions, structural improvements to your apartment and liability protection. Your condominium association insurance, called a master policy, covers the condominium building, commonly owned property and liability insurance for the association. This includes the common areas you share with others in your building, such as the roof, basement, elevator, boiler and walkways, for both liability and physical damage.

Source: Insurance Information Institute.

Because the 2006 and 2007 hurricane seasons were much less active than predicted, the insurance industry has been able to bolster its policyholder surplus, which is the capital it relies on to pay disaster claims.

Martin French, who lives with his wife, Jeanne, in the upscale Estuary neighborhood, just north of the central beach area in Vero Beach, FL, came up with a homeowners insurance solution that won't appeal to everyone: self-insurance.

French, who retired from the U.S. Department of the Treasury's Bureau of the Public Debt as assistant commissioner, knows something about finance, and he believes self-insurance works for him. "After Hurricane Jeanne struck the central east coast of Florida in September 2004, my insurance tripled, to about $18,000 annually, with a $25,000 deductible," he says. "We have a solid, concrete-block house, and it's in a fairly sheltered location, so we decided to drop the insurance and take our chances."

While much of Vero Beach suffered damage in the 2004 storm, French says he paid only about $1,000 to repair damage to the screen around the pool area and some broken roof tiles.

"By banking the premium amount every year, we should be in pretty good shape should another storm hit," French says. His home is valued at about $750,000. While his solution is not for the faint of heart, French says, "I'm a good saver, so I think I'm a good candidate for self-insurance."

No matter which decision you make regarding homeowners insurance, listen to what "Insurance for Dummies" author Hungelmann says. "Good coverage can't happen when insurance is bought on price alone. You must be willing to buy insurance carefully, and not just buy the cheapest available product."

"Where to Retire"

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