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Home Insurance Resources

What makes home insurance rates increase the most?

11 min read

By Insurance.com | Posted : July 15, 2019

Adding a pool, adopting a dog, owning a log home or filing a claim can all lead to higher home insurance premiums. However, there's nothing that will increase your rates more than if you have poor credit.

Insurance companies base their rates on risk. The bigger the risk, the higher the premiums. Sometimes it's entirely out of your control. Owning a home in an area with more claims will lead to higher insurance costs -- even if you never filed a claim. It might not seem fair, but it's how insurance works. It's all based on risk.

The same goes for adding something to your property, such as a pool or a wood-burning stove. Insurers see those as potential risks. They could lead to a future claim.

On the flip side, you could pay less if an insurance company considers your property a lower risk. For instance, a newly-constructed home will cost less than if you purchased an older home. The same goes if you buy a house made of fire-resistive materials.

We've discussed how insurance companies can raise or lower your rates based on the situation. Now, let's look at ways your premiums can increase or even decrease.

How much home insurance goes up after a claim

Filing claims, especially multiple claims, leads to higher rates. When you submit a claim, your insurer pays to resolve the issue. Insurers prefer customers who don't file claims.

The insurance research and analytic firm ISO reported that 6% of insured homes had a claim in 2017. Property damage was the most common reason. Ninety-eight percent of claims were connected to property damage, including theft. Less than 2% were associated with liability.

The most common claims were for wind and hail damage. The most expensive claims were for fire and lightning. Florida, Georgia and California had the most lightning-related claims in 2018. California had the highest average lightning-related claim at nearly $28,000. The average U.S. lightning claim was $11,668.

Here are the top 10 average home insurance percentage increases based on claims:

- Filing a second fire claim -- 44%
- Filing a second liability claim -- 39%
- Filing a second theft claim -- 38%
- Filing a second water claim -- 33%
- Filing a fire claim -- 20%
- Filing a liability claim -- 19%
- Filing a theft claim -- 19%
- Filing a water claim -- 16%
- Filing a weather claim -- 16%
- Filing a second medical claim -- 13%

Claim	Average annual rate	Average rate after claim	$ increase	% increase
2 Fire Claims	$1,482	$2,059	$577	44%
2 Liability Claims	$1,482	$2,003	$521	39%
2 Theft Claims	$1,482	$1,984	$502	38%
2 Water Claims	$1,482	$1,915	$433	33%
1 Fire Claim	$1,482	$1,754	$273	20%
1 Liability Claim	$1,482	$1,741	$260	19%
1 Theft Claim	$1,482	$1,734	$253	19%
1 Water Claim	$1,482	$1,710	$228	16%
1 Weather Claims	$1,482	$1,676	$194	16%
2 Medical Claims	$1,482	$1,627	$146	13%
1 Weather Claim	$1,482	$1,589	$107	8%
1 Medical Claim	$1,482	$1,558	$76	6%

How surcharges increase your home insurance rates

Claims increase your home insurance premiums more than almost anything else. The one surcharge higher than filing claims is if you have bad credit.

Nearly every state allows insurers to use a person's credit history when devising rates. Not every insurer considers credit, but those that do raise rates substantially for people with poor credit.

The national average percentage increase for homeowners with bad credit is 127% more than those with excellent credit. That's an average $1,703 home insurance rate increase.

The increase for bad credit varies by state. Ohio and Indiana homeowners with poor credit pay 270% more than those with excellent credit. Other states, including California, Hawaii and Massachusetts, don't allow the practice. A state like Florida allows insurers to partially base rates on credit history, but homeowners with poor credit only pay on average 3.6% more than people with excellent credit.

It's not only people with poor credit who pay more. Homeowners with fair credit pay on average 34% or $425 more than those with excellent credit. Tennessee and South Dakota homeowners with fair credit pay 70% percent more on average than those with excellent credit. Those states have the highest average rate increases for people with fair credit.

"Credit is a much-debated rating factor, but it is allowed in most states as insurers have shown statistically that those with lower credit ratings tend to make more claims," says Penny Gusner, consumer analyst for Insurance.com. "Shopping around for the home insurance company with the best rates for your specific situation is a must. Other ways to help your rates is to pay on time and remain claim-free to show yourself to be less of a risk – and get discounts that can help balance out the credit-based increase. Also, work on increasing your credit score so that you can move up the credit tiers and get offered better rates."

Pool? Dog? Trampoline? How much more you pay for home insurance

There isn't any other surcharge even remotely that high. Here are common surcharges that can increase your home insurance and how much the rates increase on average:

- Owning a 30-year-old home -- 1%
- Owning a 35-year-old home -- 2%
- Owning a 40-year-old home -- 2%
- Owning a 45-year-old home -- 3%
- Owning a 50-year-old home -- 3%
- Owning an "aggressive breed" dog -- .3%
- Owning a pool -- .5%
- Pool with a diving board -- .6%
- Pool with slide -- .6%
- Smoker -- .8%
- Trampoline -- .5%
- Wood burning stove -- 2%

Insurance companies expect you to notify them when there are changes that affect your risk. So, for instance, you should tell an insurer when you add a pool. A pool could lead to a liability claim later. However, we found not all homeowners tell their insurer about their new pools. Insurance.com conducted a recent survey of 1,000 homeowners and found that 13% acknowledged not notifying their insurance company after adding a pool.

Owning a trampoline also presents a risk. We found that 33% of people who bought a trampoline didn't tell their insurance company.

Technically, the same goes when you adopt a dog. You should tell your insurer. We found 43% of people in our survey didn't tell their insurance company after adopting a dog.

Whether you pay more for owning a dog depends on the breed and company. For instance, New Jersey Manufacturers Insurance charges a 40% surcharge for people with an "aggressive breed" or Akita, Alaskan malamute, chow, Doberman, German shepherd, husky, pit bull, Rottweiler or a handful of other breeds. That insurer also levies a 10% surcharge on any other dog breed.

Meanwhile, Security First Insurance Company charges a $25 surcharge for breeds like huskies and dalmatians. American Family Insurance tacks on a 78.6% surcharge if you have a dog.

"If you own a dog, it's a good idea to find out about any surcharges when you're shopping for home insurance. There are huge variations. Multiple discounts might not outweigh a hefty dog-related surcharge," says Gusner.

Being a smoker means much higher life insurance rates. It also leads to higher home insurance rates.

While life insurance premiums double or triple for smokers, the home insurance rate increase is modest. On average, insurers charge .8% more for home insurance than nonsmokers. It goes back to risk. A smoker may fall asleep smoking, which could cause a fire. Hence, higher rates.

How your home's materials affect rates

How builders constructed your house plays a role in rates. For instance, insurers charge 4% more on average for a log home and 1% more for an aluminum home.

You can also pay less based on construction. Here are the average rate discounts:

- New construction -- 36%
- Fire resistive -- 12%
- Superior building -- 11%
- Masonry -- 6%
- Hail-resistant roof -- .3%

As you can see, insurers love new buildings. A builder follows current building practices, which are stricter than decades ago. An insurer can't be sure how a builder constructed a 50-year-old home or the work done over the years. They have more confidence in new buildings.

How regular maintenance can lead to lower home insurance rates

Your insurer expects you to perform routine home maintenance. One of the most important parts of your home is the roof. A damaged roof can lead to hefty home insurance claims.

With that in mind, your home insurance company will expect you to keep an eye on your roof for any damages. It also expects you to replace the roof when it begins to show wear.

Insurers start to get concerned about roofs after they turn 20. Your insurer may ask that you replace it. An insurer may drop coverage once it reaches its 20s and 30s. They also don't like overhanging tree limbs. Don't be surprised if you hear from an insurer about removing overhanging tree limbs.

On average, home insurers will give you a 5% discount on your home insurance when you upgrade your roof. That's an average savings of $80 a year on your premiums. Eighty dollars won't reimburse the cost of construction, but replacing your roof may allow you to keep home insurance.

A plumbing upgrade also saves you on average .6% off your home insurance. It's another minor discount, but multiple reductions can add up.

How alarm systems can lower your home insurance rates

An insurance company doesn't like forking over thousands to pay claims. The more you can do to prevent claims, the more your insurer will reward you.

One example is an alarm system. Here's how much an insurer may discount you for installing alarms and fire-suppression systems:

- Sprinklers -- 5%
- Burglar alarm -- 1.4%
- Smoke detector - .5%
- Water leak detection alarm -- .3%

These systems offer minor rate cuts but are a nice bonus for improving your home's protection.

How your community's public safety departments can help cut rates

Living near a fire station or police station can reduce rates. The thinking goes that residing near one of those buildings, especially a fire station, will result in lower rates.

Here's how much you can save by living near one of those stations:

- Central fire station -- 4%
- Police department -- 3%

On the other hand, living far away from a fire station can lead to higher rates. Residing more than five miles from a fire station increases your rates on average by 3%.

How you can limit home insurance rate increases

We've reviewed how your rates can fluctuate based on the home's building materials, location and other factors. There's a decision you can make that will cause lower rates -- increase your home insurance deductible.

The deductible is what you have to pay when you file a claim. So, let's say a kitchen fire causes $20,000 damage. You have a $1,000 deductible. Your insurer would pay $19,000 to repair the damage. You'd pick up $1,000.

Insurers offer lower rates to homeowners with higher deductibles. Not only will they have to pay less if you file a claim, but insurers know that a higher deductible will prevent homeowners from filing too many claims.

Here's how the average costs differ for $300,000 dwelling coverage with $300,000 liability coverage:

- $500 deductible: $1,866
- $1,000 deductible: $1,737
- $1,500 deductible: $1,667
- $2,000 deductible: $1,566
- $2,500 deductible: $1,545

So, increasing your deductible from $500 to $1,000 can save you $129 on average. If you were to go from $500 to $2,500, you could save $321 on average.

Increasing your deductible is an easy way to bring down rates. The downside to increasing your deductible is that you'll need to pay more if you file a claim.

If you decide to increase your deductible, make sure you set aside enough money in case you need to file a claim. It doesn't help if you increase your deductible to $2,000, but don't have the money set aside when to file a claim.

Home insurance is a vital part of home ownership. There's no way to avoid spending at least $1,000 or as much as $5,000 or more annually for home insurance. Surcharges and filing claims only leads to more costs.

There aren't many ways to decrease your rates. One option is to increase your deductible, so you can lessen the pain to your wallet. Another is to make sure you only file claims when you absolutely need it. You may find that a $500 repair bill would be better handled by your checking account rather than your insurer. And, don't' forget to shop around to find the lowest premiums for your current situation.

Methodology:

Home insurance rate data:

Insurance.com in February 2019 commissioned Quadrant Information Services to field rates for up to six major insurers in 20 ZIP codes in every state for the following home owner profile: Married 35-year-old, with a policy that includes $200,000 dwelling coverage with a $1,000 deductible, other structures at 10 percent of coverage limit, or $20,000, personal property limits of $100,000, loss of use $20,000, guest medical at $5,000, replacement value, dwelling replacement at 120 percent. Rates were then calculated to show average percentage and dollar increases and decreases for various home insurance surcharges and claims. Some calculations may be slightly off due to rounding issues with rate data.