How Insurance Deductibles Work

An insurance deductible is the amount you, the insured, pay before any claim is paid by your insurance carrier. Depending upon the type of insurance, a policy may set the amount of deductible, or offer you the ability to select a deductible amount.

Deductibles serve a dual purpose: they save the insurance company money (including the administrative cost of processing small claims) and may help keep your premium costs lower.

Choosing the Right Deductible Amount

Generally speaking, the trade-off between deductible levels and insurance premiums is simple: The higher the deductible, the lower the cost of insurance. Conversely, the lower the deductible, the higher the cost of insurance.

Deciding how to make that trade-off is a function of math and your own comfort level with higher out-of-pocket costs if you choose a higher deductible.

Only you can decide if saving $65 a year in premiums for a deductible that is $500 rather than $200 is worth it to you. You may find that the relationship between deductible amount and premium cost is different depending upon the type of insurance. For instance, the savings with a higher deductible may be significant with auto insurance, but much less so with homeowners insurance.[1]

Not only will this relationship between deductibles and premiums differ based on insurance type, but it may differ based upon other factors, such as your age and the value of your car, for example.

When you consider the appropriate deductible level for health insurance coverage, remember that deductibles may be on each member of the family.

When shopping for insurance, you should always ask your insurance agent what the premium costs are at each of the available deductible levels. Knowing that information may help you make a sound decision regarding your coverage.

1. For illustrative purposes only. This example is not meant to indicate any actual relationship between deductible amount and insurance premium cost.