DEDUCTIBLES

What Deductible Should Your District Purchase?

How much can the district afford? When we were young, we needed a low Collision deductible for our car, because we couldn't afford $1,000.

"Buy Down" the Deductible to a Lower Amount

Deductible too high? What is the break-even point - risk versus premium? A district with a $50,000 Wind/Hail deductible was offered the opportunity to "buy down" the deductible to $25,000 for $2,400.

For a single year, simply divide the risk by the premium. To reduce the risk by $25,000, the quoted cost is $2,400. $25,000/2,400=10.4 years. What is the likelihood of having a storm within 10.4 years?

The following calculates the break-even assuming the Buy Down is purchased every year, at a 10% annual premium increase. The break-even is 7+ years.

	A	B	C	D	E
1		**Buy Down**	**Annual**	**Cumulative**	
2	**Year**	**Risk**	**Premium**	**Premium**	**Years**
3	1	25,000	$2,400	$2,400	10.4
4	2	25,000	2,640	5,040	5.0
5	3	25,000	2,904	7.944	3.1
6	4	25,000	3,194	11.138	2.2
7	5	25,000	3,514	14,652	1.7
8	6	25,000	3,865	18,517	1.4
9	7	25,000	4,252	22,769	1.1

Row 4 formulas: +C3*1.10 +D3+C4 +B4/D4 Copy to rows below.

Determine the Best Risk/Cost Option

Compare various deductibles by adding the cost of insurance premium plus the total deductible cost. Use this chart for all types of insurance including Auto Liability & Damage, Liability, Property, Boiler, Equipment.

	A	B	C	D	E	F	G	H	I
1		**Incurred**	**Deductible**						
2	**Policy**	**Losses (List)**	0	1,000	2,500	5,000	10,000	25,000	50,000
3	Auto	250	0	250	250	250			
4		7,500	0	1,000	2,500	5,000			
5		20,000	0	1,000	2,500	5,000			
6		75,000	0	1,000	2,500	5,000			
7		Total Ded Cost	0	3,250	7,750	15,250			
8		Premium	30,000	26,000	24,000	20,000			
9		Total Cost	30,000	29,250	31,750	35,250			

D3 formula: @if($B3>C$2,C$2,$B3). Copy to columns and rows.

Wind/Hail Deductibles @ Damaged Valuations

Compare the district's cost of a flat deductible with various % deductibles. What can you afford? What is the cost of a Deductible Maximum?

	A	B	C	D	E	F	G
1	Deductible		100,000	1%	2%	3%	5%
2	Minimum Deductible		Flat*	100,000	100,000	100,000	100,000
3	**Building**	**Replacement Cost**	**Deductible**				
4	Portables (5)	450,000	*100,000*	*100,000*	*100,000*	*100,000*	*100,000*
5	Elementary	15,000,000	*100,000*	*150,000*	*300,000*	*450,000*	*750,000*
6	Middle School	25,000,000	*100,000*	*250,000*	*500,000*	*750,000*	*1,250,000*
7	High School	50,000,000	*100,000*	*500,000*	*1,000,000*	*1,500,000*	*2,500,000*
8	District	90,000,000	*100,000*	*900,000*	*1,800,000*	*2,700,000*	*4,500,000*

D4 formula: @if(($B7*E$4)>D$5,$B7*D$4,D$5) Copy to columns and rows.

* Flat deductible may be higher in Wind/Hail prone areas. Place quoted flat deductible in C1 and copy to C4-8.