United Policyholders
Empowering the Insured

Americans Are Bailing on Their Home Insurance

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Homeowners are increasingly forgoing home insurance, gambling that the likelihood of a disaster isn't high enough to justify the cost of a policy

Some skipping insurance say they are doing so because they can no longer afford the rising premiums. The national average for home insurance based on $250,000 in dwelling coverage increased this year to $1,428 annually, up 20% from 2022, according to Bankrate.

Others, particularly among the wealthy, say they have enough money saved to rebuild or move elsewhere should their home be destroyed.

The risks of forgoing a policy are significant. When you don't have insurance and your home is destroyed by fire, you don't just lose your house and its contents. You might also have to pay for removing your home's remains as well as the costs to rebuild it.

Few people can financially withstand the loss of an uninsured home, according to financial advisers. It is particularly precarious considering the high price to rebuild or buy a home in many areas of the country.

"It is a risky proposition to go without home insurance, and you need to fully understand the financial consequences if you lose your home," says Noah Damsky, a financial adviser in Los Angeles.

A standard insurance policy typically covers the cost of replacement of the home and some of its contents in the event of damage or theft. Most mortgage lenders require borrowers to have home insurance, so those skipping a policy often own their homes outright.

In the past three years or so, more people who own their homes without a mortgage or who have inherited a home are opting to drop insurance because they can't afford or can't accept the current high price of home insurance, says Amy Bach, executive director at United Policyholders, a national nonprofit insurance consumer-advocacy group.

Larry Farinholt hasn't had home insurance in more than 25 years. He estimates he has saved more than $50,000 on his roughly 1,100 square foot Los Angeles home.

Farinholt, a 73-year-old retired public defender, didn't renew his policy when he paid off his mortgage. He says he could have afforded a policy, but thinks the risk of wildfire or flood is very low in his neighborhood. He has always had at least one dog to scare away unwanted visitors and has been burglarized once in more than 40 years.

"It would probably be financially devastating if I lost my house, but I have enough money in savings to move into a condo in that event," says Farinholt.

Others opting to "go bare," in industry parlance, say they are doing so because their policy hasn't been renewed by their insurer as a result of increased risk of severe weather damage. Owners might not want to get a state-run policy that typically offers higher premiums and less coverage.

Twelve percent of homeowners in the U.S. don't purchase homeowners' insurance. About half of them have annual household incomes of less than $40,000, according to a 2023 survey by Insurance Information Institute, an industry trade group, and the reinsurer Munich Re.

If a homeowner has a mortgage and doesn't purchase insurance, the lender will typically buy lender-placed insurance for that property, says David Sampson, president and chief executive officer of the American Property Casualty Insurance Association. Lender-placed insurance is generally more expensive than the coverage homeowners would buy for themselves, financial advisers say.

The higher cost of policies is a blow to both existing and hopeful home buyers.

Some borrowers are delinquent on mortgage payments and are blaming their late or missed payments on unexpected increases in their insurance premiums, says Rick Sharga, founder and CEO of CJ Patrick, a real-estate consulting firm.

Compared with around four years ago, mortgage lenders are more focused on factoring in higher insurance costs when determining how much of a mortgage a borrower can qualify for, Sharga says. This is particularly the case in areas that are experiencing more natural disasters such as California and Florida.

Ultimately, this will bump some prospective buyers out of the housing market. They will either be unable to afford a home, or won't qualify for a mortgage, Sharga says.

People with money are finding ways around the problem.

A client of Angie Newman in coastal Florida figured that the total cost of replacing his vacation home and all of its contents would be about $1.5 million. His longtime insurer recently didn't renew his policy. The only remaining insurer in the area was offering a policy with flood insurance for about $17,000 a year, up from about $7,000 a year that he paid previously, says Newman, a financial adviser at UBS Financial Services in Florham Park, N.J.

The client separated the possible costs of repairs and rebuilding from his other investible assets and invested the funds instead.

He assumed he could make an average return of about 6% on the roughly $1.5 million while waiting for some other insurers to re-enter the market, Newman says.