

[Disaster prep: How to know if you're underinsured](#)

News Nation

The Los Angeles area wildfires have devastated entire communities and those who are planning to rebuild could be in for an unwelcome surprise, finding their insurance coverage isn't enough to cover the full cost of their claim.

It's a widespread problem known as underinsurance and may result in homeowners paying tens of thousands of dollars in unexpected costs to rebuild.

United Policyholders, a nonprofit consumer advocacy group, said its surveys consistently find more than half of homeowners do not have adequate coverage to replace or rebuild their homes. Other research suggests nearly 75% of homeowners may be underinsured.

For perspective: insurers covered \$80 billion of the \$114 billion of losses attributable to natural disasters in 2023, meaning 30% of those losses were not insured, according to the Congressional Budget Office.

In California, the recent wildfires have claimed nearly 16,000 structures and according to an AccuWeather estimate, there could be more than \$250 billion in total damage and economic loss.

Here's how to know if you're underinsured and what to do about it.

How common is underinsurance and why is it a problem?

Most homeowners do not have enough insurance coverage to rebuild their house after a total loss, according to a study published last month.

Researchers looked at data from the Marshall Fire in Colorado and found that 74% of the nearly 5,000 policyholders who filed claims were underinsured. Of those, more than a third were classified as severely

underinsured, meaning their coverage limits were less than 75% of their home's actual replacement cost.

"To put that in context, if it costs \$1 million to rebuild, that's \$250,000 people have to come up with. Most households don't have ready access to those types of resources," Tony Cookson, a finance professor at the University of Colorado Boulder and a co-author of the study, said in a statement.

The study found something else interesting — homeowners with inadequate insurance coverage were 25% less likely to apply for rebuilding permits within a year and were more likely to sell their properties instead of rebuilding.

In other words: the consequences of underinsurance go beyond individual homeowners and potentially harm local economies trying to bounce back after major disasters.

But why are so many people underinsured? Part of it is because people don't know how much coverage they need and tend to focus primarily on premiums.

"When consumers focus on premiums rather than coverage limits, insurers have a very natural incentive to cut prices by offering less insurance," Cookson said.

How do you know if you're underinsured?
Figure out how much coverage you need

When calculating your insurance needs, it's important not to confuse your home's market value with what it would cost to rebuild. Those numbers can be significantly different.

Market value is what your home is worth on the housing market. The replacement cost is what it would take to rebuild or repair your home today, accounting for current construction and labor costs.

Many homeowners misunderstand that distinction and wind up underinsured, or in some cases, overinsured.

A 2020 Policygenius survey found nearly half of all homeowners (49%) incorrectly believed that the amount of home insurance coverage they need should be based on their home's market value, not the rebuild cost.

Generally, the amount of insurance you buy should be based on rebuilding costs, according to the Insurance Information Institute, an industry trade group also known as Triple-I.

Most insurance companies require homeowners to insure their homes for at least 80% of the replacement cost to receive full coverage on a claim.

You also need to consider the value of everything inside your home. Most homeowners insurance policies cover your personal possessions for approximately 50% to 70% of the insurance you have on the structure of your home.

The math breaks down like this: If you have \$200,000 of coverage on the structure of your home, you would be covered for \$100,000 to \$140,000 worth of the contents, depending on your policy.

That could be enough but it may not be, so it's a good idea to keep a detailed home inventory. Track down receipts for expensive items and take a video recording of different rooms in your house for additional proof.

"Open all the cupboards, open all the closet doors. Go through your garage," Janet Ruiz, strategic communications director at Triple-I, told NewsNation in a recent interview. "These are all the things that people really have a hard time itemizing after a loss."

Understand your policy and identify gaps in coverage

Make sure you know what your insurance policy does and doesn't cover, especially if you live in a disaster-prone area.

Standard homeowners insurance policies typically cover damage from wildfires, tornadoes and lightning strikes, according to Triple-I.

Other destruction, such as damage caused by floods or earthquakes, generally isn't covered unless you purchase a separate policy.

According to FEMA, just 4% of homeowners have flood insurance even though 99% of U.S. counties have been impacted by flooding over the past 30 years. Those who do carry the coverage tend to be in coastal

counties, leaving homeowners further inland vulnerable.

When Hurricane Helene dumped 40 trillion gallons of water across the Southeast and Southern Appalachia, less than 1% of residents in Buncombe County, North Carolina, had federal flood insurance.

There's another reason to understand your policy: to make sure you get what you're owed.

A 2023 working paper published by the Federal Reserve Bank of Philadelphia found that almost 40% of post-fire claims are underpaid.

The researchers looked at data from California wildfires that burned at least 1,000 acres and damaged at least one structure from 2013 to 2020. They found that homeowners received settlements 28% lower on average than the amount to which they were legally entitled.

"A back-of-the-envelope calculation suggests that households receive about \$200,000 to \$300,000 less than their entitled amount under California law," the authors wrote.

How to avoid being underinsured?

United Policyholders has several tips on how to make sure you're fully covered.

Here are a few steps the group says you should take:

- Do a rough calculation of how much you're insured for per square foot to assess how well you're covered.
- Be honest with your insurance company so it knows the size of your home, other structures, the style of construction, major improvements, unusual features and high-value personal property items.
- Take and safely store notes that document when and how your insurer, agent, or broker confirms that your limits are adequate to replace your home and possessions.
- Buy the highest percentage replacement cost endorsement you can afford. Most insurers offer 25-100% above the limits that appear on your "declarations page."
- Raise your deductible to keep your premium affordable when you increase your coverage limits.

These are things you shouldn't do, according to United Policyholders:

- Don't rely on the purchase, appraised or estimated sale price of your home to set your dwelling limits. That is not predictive of the cost to rebuild.
- Don't be penny-wise and pound-foolish by buying the lowest-priced homeowners policy. Your home is your biggest asset, so make sure it's covered.
- Don't be afraid to switch insurers to get a better policy.
- Don't wait until after a loss to get appraisals of valuables.

The information presented in this publication is for general informational purposes and is not a substitute for legal advice. If you have a specific legal issue or problem, United Policyholders recommends that you consult with an attorney. Guidance on hiring professional help can be found in the "Find Help" section of www.uphelp.org. United Policyholders does not sell insurance or certify, endorse or warrant any of the insurance products, vendors, or professionals identified on our website.

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