

[Home-insurance payouts are shrinking. Here's how to prevent the worst.](#)

Washington Post

Thanks to inflation and climate change, homeowners are getting less money back from their insurers to repair and rebuild.

With tornado season in full swing — hitting Texas and Iowa hard in the last week — and hurricane and wildfire season looming this summer, insurance experts say millions of homeowners will find their policies failing to cover repairs and rebuilding just when they're urgently needed.

A 2023 study published in the Connecticut Insurance Law Journal found 77 percent of insurance payouts in California in 2018 and 2019 didn't fully cover replacement costs, with the average payout falling 35 percent short. Following natural disasters like wildfires, 96 percent of insurance payouts were insufficient.

Amy Bach, executive director of the consumer advocacy group United Policyholders, says her organization has found that “two-thirds of the impacted people did not have enough insurance to rebuild” after a natural disaster.

One big factor is inflation, especially with construction costs — which can deliver a nasty surprise for homeowners who didn't update their policies. It's a result of the pandemic's supply-chain snarls and labor shortages, which pushed up the price of everything from cars to chicken wings.

Jim Baier, an Ohio farmer, found out the hard way after a tornado blew the roof off his two-story farmhouse in March. His insurance company's assessment was dire, calling it a “total loss” that required the entire house “to come down,” he said.

Then he was told the insurance payout wouldn't account for the spike in construction costs over the last several years. Now, the Ohio farmer says he's considering building a single-story house or getting a

mobile home in place of his old house to avoid going into debt.

If you hold a home-insurance policy, you can still stave off these worst-case scenarios. Here's what you need to know.

Why are home-insurance payouts falling short?

Construction-sector inflation has made the shortfall worse on a “magnified scale,” says Matt Simon, president of CoverLink Insurance in Bellefontaine, Ohio.

“Where [houses] may have been undervalued by 10 percent, some are now undervalued by 20, 30 or 40 percent,” he warned.

The increase in home replacement costs has far outpaced price gains in other sectors, rising by 55 percent between 2019 and 2022, an analysis from the Insurance Information Institute found. That's roughly twice the rate of overall inflation in that period.

The same effect of pandemic-era inflation, especially in construction materials, has driven up the cost of insurance policies, even in places far from flood-prone coasts and wildfire-prone forests.

Climate change is piling on to the challenge. Insurance companies are refusing to cover natural disasters in some disaster-prone regions, or pulling out of those places altogether, as State Farm did in California last year. (A State Farm representative told The Washington Post that non-renewed policies accounted for 2 percent of the total in the state.)

Homeowners are often left with fewer, and pricier, policies to pick from as a result.

What should homeowners check with their insurance policies?

Homeowners need to make sure they have adequate dwelling coverage, which covers the cost of repairs or replacement in the event of a catastrophe, says Mark Friedlander, director of corporate communications for the Insurance Information Institute. Some insurers automatically update policies to account for inflation, but many don't — so homeowners need to check with their insurance providers to find out if the policy has been changed accordingly.

In addition, homeowners should give their policy special scrutiny if they live in an area where

development encroaches on once-wild lands, notes Michael Richmond-Crum, director of Personal Lines for the American Property Casualty Insurance Association. This includes regions where floods, wildfires and tornadoes are more common.

But all homeowners, no matter where they are, need to grill their insurance agents for specifics about replacement costs and payouts, “to make sure they’re not passively accepting a number from insurance companies,” said Emily Rogan, senior program director for United Policyholders, a nonprofit consumer advocacy group. And they should do this every year, each time they renew their policy — to account for the likelihood that property values and building costs have risen.

What type of home insurance upgrades are worth it?

Insurance companies offer add-ons that may make sense if homeowners live in regions prone to natural disasters, experts say.

One example is extended replacement-cost coverage, which automatically covers more than the estimated cost of your home, thereby buffering against inflation.

“Extended replacement cost coverage will help in total loss [cases],” said Rogan.

And if your city or county has updated its building codes since you bought your home, building-cost coverage can also help, experts say.

“If you own an older house, there’s probably a lot of elements that don’t meet current building codes,” said Holden Lewis, a home and mortgage expert for NerdWallet. “And if your house is destroyed and has to be rebuilt, it has to be rebuilt to code — and that’s going to be more expensive.”

Lewis cited the single-pane windows in his home in Fort Worth, Texas, as an example.

“If this house was damaged and I had to replace the windows, I wouldn’t be allowed to replace the single panes,” he said, pointing to the city’s energy-efficiency requirements that mandate replacement with double-pane windows.

Home improvements such as reinforced roofs or doors that are more resistant to severe storms can also be worth it, Friedlander said, even though these are often pricey.

Does it make sense to forgo home insurance?

As the cost of coverage spikes, more and more homeowners are dropping insurance altogether. The share of uninsured homes rose from 5 percent in 2019 to 12 percent in 2022, according to the Insurance Information Institute. These are typically homeowners who have paid off their mortgage, thereby releasing themselves from the insurance requirement that comes with home-loan financing.

Experts, however, strongly recommend insuring your house against natural disasters, even in the face of increased policy prices, given how expensive major rebuilding can be.

How can you get information to pick an insurance policy?

Like with all major purchases, homeowners should shop around and compare policy prices and coverage before deciding on a policy. Consumer groups like Checkbook can help by pooling information and comparing quotes across providers.

But even consumer advocates like Rogan concede that assessing rebuilding costs in your municipality — so you can have that honest discussion with your insurer — is difficult. Typically, this information can't be found in a central database.

One state that's trying to remedy this problem is Colorado. The state's deputy commissioner for property and casualty insurance, Jason Lapham, points out that the state has recently passed a law requiring the creation of a database for tracking rebuilding costs — but it won't be available until next year.

"The insurance companies themselves have their own cost estimators," Lapham said. "Whether those are accurate or not, I'm not sure."