[Homeowners Flock to Last-Resort Insurance Policies](https://uphelp.org/homeowners-flock-to-last-resort-insurance-policies/)

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Robert Dubie was paying around $1,100 a year to insure his Paradise, Calif., home before it burned down in a wildfire five years ago. He rebuilt it with a host of fire protections, but it costs 10 times as much to insure.

He couldn't get a policy that covers fires, so he turned to California's insurer of last resort for fire insurance. The cost for that policy is more than $9,600 a year. He pays around $1,200 a year for a policy to cover other risks.

"The insurance is more than my mortgage," Dubie said. "The cost is astronomical and the coverage is not as good as it used to be." He said he and his wife will struggle to keep their home.

Hundreds of thousands of people nationally are signing up with state insurers of last resort as home insurers pull back from disaster-prone areas.

More than 30 states have some form of last-resort plan for people who can't get coverage elsewhere. Plans can be statewide or restricted to coastal regions. Coverage varies between states, ranging from all-perils policies to those that cover wind, hail or fire only.

The plans were designed to be temporary safety nets. As the private market shrinks, however, the plans are becoming insurers of first, not last, resort in some high-risk areas. In Florida, the Citizens Property Insurance last-resort plan is the biggest home insurer in the state with 1.4 million policies.

Florida, California and Louisiana have each seen policyholder numbers for their last-resort plans more than double within the past five years, according to plan representatives, and there's no sign of a letup.

The California Fair Access to Insurance Requirements Plan is piling on policies, adding what a spokesman called a historic 25,000 policyholders in August—more than three times the 7,000 monthly cap on new home policies Farmers Insurance imposed recently in the state.

The exodus to last-resort plans is leaving many people saddled with what can be high-cost, bare-bones coverage.

“These plans were really only supposed to be a ‘break glass in emergency’ type of a product,” said Douglas Heller, director of insurance at the Consumer Federation of America. “Now that the insurance industry is walking away from communities, we’d better have a much more robust and healthy public backstop.”

The surging numbers of last-resort policyholders, who by their nature tend to be higher risk, raise the possibility that a plan will need to be bailed out when the next big hurricane or wildfire strikes. Depending on the state, that would impose an added cost on insurers, policyholders or taxpayers.

“This is such an obvious slow motion train wreck,” said Rex Frazier, president of the Personal Insurance Federation of California, an industry body.

Insurers are concerned they will have to pick up the tab if the California Fair Plan can’t meet its claims, and may not be allowed to recover that cost through rate increases, Frazier said. That’s helping drive the pullback from the state, he added.

Michael Soller, California’s deputy insurance commissioner, said, “The growing Fair Plan is a problem not just for people in the Fair Plan, but for everybody in the state.”

Even in states where the last-resort plan offers fairly comprehensive home-insurance coverage, such as Citizens in Florida, the risk of an additional charge levied on insurers, policyholders or taxpayers can be a significant downside. Floridians with Citizens policies could get hit with a surcharge of up to 45% of their premiums if the plan is wiped out by a big storm.

“Policyholders are much better off being with a private insurance company than Citizens, not only for better coverage but to escape the potential ‘tax’ that can happen,” said Lisa Miller, a former Florida insurance regulator.

Another downside to the plans, consumer advocates say: Most are actively trying to shrink, so have little incentive to handle claims efficiently.

"They live in opposite land, they don't want people to buy their policy," said Amy Bach, executive director at the consumer-advocacy group United Policyholders.

State lawmakers and regulators are taking steps to try to reverse the influx into last-resort plans, by moving policyholders back into private home-insurance policies.

California Gov. Gavin Newsom last month said the steadily increasing number of last-resort policies, particularly in areas with the highest wildfire risks, "has threatened the ongoing stability of the plan."

Moves by other states to shift policyholders from last-resort plans have met with mixed results, in part because lawmakers are reluctant to allow politically unpopular rate hikes.

"Any time you get politicians involved in setting rates, there is always a tendency to suppress them from what is actuarially indicated," said David Sampson, chief executive of industry body the American Property Casualty Insurance Association.

The Texas Windstorm Insurance Association, which covers wind and hail losses for certain coastal properties, charges homeowners 20% less than the rate needed to cover the underlying risks, an official report this year found. But the plan's board, appointed indirectly by the state governor, voted to keep rates unchanged, the fourth time in the past five years there has been no increase.

In the spring, the state offered 31,959 of its 200,000 policyholders the chance to switch to a private insurer. Just 46 people accepted the offer.

Another planned round of offers has been axed because no insurance company wants to take part, according to the plan. A spokesman said the industry's cold shoulder "reflects the current state of the private market, which is generally restricting its [under]writing."

Florida also charges insufficiently high rates to cover the risks in its last-resort plan, according to a spokesman for industry body the Insurance Information Institute. Citizens is seeking regulatory approval for an 11.5% rate increase for its most popular home-insurance policy, compared with an average 42%

hike in the private market, he said.

Rate restrictions have also affected California's Fair Plan. It requested a 48.8% rate hike in 2021, but in July regulators approved an increase of just 15.7%, state filings show.

Still, its rates are plenty high enough for policyholders such as Dubie. The 57-year-old college biology teacher said insurance costs on his rebuilt home soak up much of his income.

"I'm working for the insurance company now," he added.