

Is Your Home Underinsured? Here's How to Tell.

The MSU Exponent

Your house isn't just a place to hang your hat — it's also one of your most valuable financial assets. That's why homeowners without enough insurance can face financial ruin when disaster strikes and they find themselves suddenly homeless and unable to rebuild.

The problem is widespread. Emily Rogan, senior program officer for United Policyholders, says underinsurance has been a problem in every disaster the nonprofit consumer advocacy group has worked on. "People are surprised to find out that what they've been paying for isn't enough to rebuild their home after a major loss."

For example, a stunning 74% of those who filed insurance claims after the Marshall Fire, a costly wildfire that swept through the Boulder suburbs in December 2021, didn't have enough homeowners insurance to fully replace their home. In fact, researchers at the University of Colorado found these homeowners were underinsured by an average of \$139,000.

The study, "Coverage Neglect in Homeowners Insurance," analyzed nearly 5,000 affected policyholders and concluded in 2026 that many homeowners buy the amount of coverage their insurer suggests, which often isn't enough. With rebuilding costs on the rise, most people who lost their homes in the Marshall Fire had not begun to rebuild more than a year later.

To avoid financial hardship if your home is destroyed, it's crucial to have enough insurance to rebuild.

Why rebuilding costs are rising

Rebuilding costs in the U.S. are rising year over year, especially in areas experiencing extreme weather. While building materials and labor are the foundation of rebuilding costs, those prices fluctuate for a few reasons.

Inflation is always nipping at our financial heels. Price indexes from the Bureau of Labor and Statistics show building materials were up 3.5% in 2025.

Labor shortages are a bottleneck that contributes to rebuilding costs. The Home Builders Institute estimates \$2.7 billion is lost annually in the U.S. due to delays caused by labor shortfalls.

Natural disasters wreak havoc on many homes at once, causing demand for materials and labor in the affected region to skyrocket and leading to price hikes.

Tariffs are more likely to inflate the cost of constructing a new home. However, some rebuilding expenses also get ratcheted up by these government-imposed taxes.

How to calculate what it would cost to rebuild your home

It's important to understand that the cost of rebuilding your home is not the same as its market value. What your house (and the land it's on) might fetch if you put it up for sale isn't the same as what it'll cost you to replace it from the ground up.

Rebuilding costs also aren't identical to what you'd spend to build a brand-new home. Reconstructing a damaged house often includes some extra steps like cleanup, demolition, site preparation and dealing with hazardous materials.

The median cost to rebuild a home in the U.S. is about \$280 per square foot, according to NerdWallet's analysis of 2025 data provided by First Street, a climate risk financial modeling firm. This translates to a rebuild cost of around \$410,000 for a typical-sized American home. However, rebuilding costs can vary significantly from state to state. For example, in New Jersey, the median cost per square foot is \$330, while in Montana you'll pay around \$240 per square foot to rebuild.

One way to avoid underinsurance is by using an online rebuilding cost calculator that can provide a home replacement cost estimate based on materials and labor costs in your area. Another option is asking a local independent insurance agent who knows rebuilding prices or a general contractor near you who can give you a cost-per-square-foot estimate.

4 steps homeowners should take to avoid underinsurance

The very worst time to discover you don't have enough insurance is in the middle of a calamity. Follow

these steps to avoid being underinsured, especially if you live in a high-risk area.

Step 1: Ensure you have enough dwelling coverage to rebuild.

Figure out the current cost to replace your home and make sure your dwelling coverage limit reflects that amount. It's your responsibility, and not your insurer's, to make sure you have enough insurance. Check the amount each year and update it if needed when your policy renews.

Step 2: Consider extended or guaranteed replacement coverage.

Home insurance companies offer extended or in some cases guaranteed replacement coverage. These add-ons sometimes cost extra but ensure you'll get a little more (or a lot more) to cover rebuilding costs.

In the case of extended replacement cost, you'll get anywhere from an extra 10% to 50% of your dwelling coverage amount, if needed to rebuild. Guaranteed replacement cost provides whatever is needed to replace your home in its original condition, even if the amount exceeds your policy limits.

Step 3: See if your policy includes inflation guard.

Inflation guard accounts for inflation by bumping up your policy's coverage limits (and of course your premiums) each year, typically by a set percentage. Some insurers include this in standard homeowners policies.

Step 4: Shop for quotes.

And last but not least, shop around periodically to surface gaps in your insurance coverage and to secure a better rate without scrimping on the financial protection your home needs.

Rogan says homeowners should periodically update their home insurance as part of their disaster planning, and the process doesn't need to be scary.

"The new normal is having to pay more attention to your insurance," she says. "If not, you're just paying all of this money for something that isn't the safety net you were sold."