“It’s a gut punch”: Marshall fire survivors fear their homes were underinsured and they can’t afford to rebuild

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Colorado’s insurance commissioner, other experts worry underinsurance of homes is a statewide problem

When Dave Baron and his wife Kim Meyer closed on their new home on Mulberry Street in Louisville on Aug. 31, they believed they had all the insurance they would need should catastrophe strike.

Four months later, catastrophe came in the form of a 6,000-acre winter wildfire fueled by hurricane-force winds. Their $1.3 million home, with its hardwood floors, decorative arches, finished basement and “really cool metal banisters,” was destroyed.

To compound the tragedy, Baron and Meyer now are finding their insurance coverage wasn’t enough. The family’s policy will only cover about a third of the construction cost to rebuild the home, Baron said, and he blames the insurance company for underestimating exactly how expensive it is to build in today’s market.

“We are not able to afford at this time to move back into a home that we lost in a community we love,” Baron said. “We want people to know this is a rampant problem in the community. They’re setting their rebuild limits extremely low and it’s going to bankrupt people who are trying to rebuild their homes.”

It’s too early to know how many of the 1,084 homeowners who lost their houses in the Marshall fire were underinsured, but there’s been enough noise from those who believe they are that elected officials are paying attention. Homeowners have attended local government meetings to ask for help. They’ve called the Colorado Division of Insurance. They’re forming groups to fight together.

Those in the thick of the crisis, including the state's insurance commissioner, are sounding the alarm that more Colorado homeowners might hold insurance policies that fall short of the coverage needed to rebuild. And as wildfires become more frequent and more destructive amid a warming climate, this will be a continuing problem.

"This has been a problem for a long time, and it's not just localized to this time and place," said Erin Lindsay, who estimates her insurance policy will leave her about $500,000 short of the money needed to replace her Louisville home. "Policies are being written up for wildly inappropriate amounts. The limits are just wildly wrong."

She added, "Wildfires are going to continue to happen. This is going to be a concern in the future."

The underinsurance problem is exacerbated by just how expensive new home construction has become in Colorado during the pandemic, with supply chain backups, labor shortages and rising inflation.

People associated with the insurance industry say it's too early for Marshall fire victims to panic over their coverage. Rebuilding is months — maybe years — away and a lot can change between now and then. And some people may have more insurance than they realize, said Carole Walker, executive director of the Rocky Mountain Insurance Information Association.

"Don't get too far ahead of yourself before we put a nail to a board," Walker said.

But United Policyholders, a national nonprofit organization that advocates for and educates homeowners about insurance, says underinsurance is a chronic problem in the United States when disasters strike. After wildfires, the group surveys victims and consistently finds about two-thirds of the people who lose homes report being underinsured, said Amy Bach, executive director of United Policyholders.

That was the case after the massive East Troublesome fire burned through Grand County in October 2020, according to survey data from United Policyholders. The group sent a questionnaire to wildfire victims and at least 112 responded. Of those, 79 answered the question asking whether they had enough insurance, and 64% of those respondents said no. Another 7.6% said they didn't know.

"It is a real fear because it is true," Bach said.

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https://uphelp.org/its-a-gut-punch-marshall-fire-survivors-fear-their-homes-were-underinsured-and-they-cant-afford-to-rebuild/
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The Marshall fire comes at a terrible time for those who need to build a new home.

Already, the Front Range is facing an unprecedented housing shortage, whether it's people looking to rent or buy. At the same time, ongoing supply chain issues are causing the prices of building materials to skyrocket, and the labor shortage is making it impossible to build new homes quickly.

A month before the fire, the Louisville City Council adopted a local ordinance requiring all new home construction to meet a net-zero energy standard by including solar panels, energy-efficient windows and other features, making the cost to build a new home increase.

Historically, home construction prices surge after a wildfire, said Walker, who represents the home, auto and business insurance industry in Colorado, New Mexico, Utah and Wyoming.

"That happens every time we have a major hurricane, a tornado, a wildfire," Walker said. "That happens every time because we have so many people trying to rebuild at the same time."

Searching for every cent
On Dec. 30, the day the Marshall fire erupted, Baron's family returned from dropping off his parents at Denver International Airport to see heavy smoke in their neighborhood.

"It was orange," Baron said. "It smelled like smoke in the house, and we could see ash in the air."

The Barons had moved from Aurora after he got a new job that required him to spend time in Boulder and Lafayette. Louisville was the perfect location, and life was good for the young couple, who married the same month they moved into the house. They'd finally finished unpacking and had just celebrated their first Christmas in the home when they saw the smoke and ash in the air.

The couple grabbed their dog, their 18-month-old son's pack-and-play and left the house. They had planned to hold a New Year's Eve housewarming party the next evening.

"We had to call them all the day before and say it all burned down," he said.

The Baron family had insured their home for $392,000, which is what their insurance agent said they would need to rebuild the entire house. That leaves the family a little more than $100 per square foot to rebuild their 3,600-square-foot home. But Baron said the estimates he has received put the cost of rebuilding the same house he had at $350 to $400 per square foot.

Insurance companies advise owners that a home's coverage amount is based on construction cost, not the actual value of a house or the sales price, which includes the land.

Baron blames his insurance carrier for failing to recommend the correct amount of insurance. He bought the policy just four months ago and it was clear then that construction costs are soaring, he said.

"This what they do for a living," he said. "We trust them to know what the costs are."

Now, after working all day and then taking care of their son, the couple spends late nights attempting to list everything they once owned in their home, trying to scrape together every cent available from their policy. Their families started a GoFundMe fundraising campaign to help the couple with recovery.

"Every single drawer and every single closet," Baron said. "What items did you have? How much did it cost? How old was it? Literally, thousands of items in your house. And then you have to go to bed at some point."

Setting the base coverage
When someone looks to insure a home, they get estimates from insurance companies that use proprietary software to estimate what it would cost to build the same house. That software accounts for square footage, roofing, decks and various features of a home.

The insurance agent then recommends a dollar figure of what it would cost to replace the home from the ground up.

That dollar figure becomes the basis for other types of coverage, too. A homeowner's insurance for contents, sheds, decks, fences and building code upgrades would be a percentage based on that dwelling number. So, for example, a policy that insures for $300,000 might have 10% for building code upgrades, or $30,000, added on.

So setting that base dwelling coverage is critical.

But even then, it’s hard to collect everything.

Before paying for destroyed contents — everything from furniture to clothes to forks to ceiling fans — homeowners often are required to itemize every single object that was in their house. They must document those things with pictures or receipts and then find the current market value to seek reimbursement.

For Mario Jannatpour, creating that list is so emotional that his family hasn’t started.

They were on a family day trip to Garden of the Gods in Colorado Springs when they heard about a wildfire tearing through their Louisville community via text message. First they heard Costco was on fire. Then a movie theater. Then a neighborhood skate park. Then the blue house across the street. And then their deck.

One of his daughters started screaming.

“Being a parent and you hear your kids in pain and agony, I wanted to die right there,” Jannatpour said.

He and his wife, Smitha Sundaresan, lost all their wedding pictures, their daughters’ childhood photographs and other cherished belongings. Their insurance policy gave them 30% of the contents’ value up front, as required by state law. To claim the rest, they must make a list and prove they once owned everything on it.

“We haven’t done it yet,” he said. “It’s way too emotional for us to go through that list.”

On top of that, the family expects their total insurance coverage to fall short of rebuilding costs by several hundred thousand dollars. Their 4,000-square-foot home, which the family bought in 2004, was valued at $1.2 million before the fire.

“We’re at a point where we can still work and recoup our money,” Jannatpour said. “We might have to dip into our retirement accounts. We don’t know.”

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Assured they were insured
It’s up to the insurance agent to give good advice, said Walker, of the Rocky Mountain Insurance Information Association. But homeowners also share responsibility by providing enough information about their property to be adequately insured.

The replacement value of a home is not what its estimated resale value is, but what it would cost to rebuild the exact same house. So skyrocketing home values are not the reason people are finding they were underinsured. Instead, it’s the steep cost of construction, Walker said.

But many people who lost homes in the Marshall fire say they took responsibility and still fell short. The Marshall fire victims who spoke to The Denver Post used a variety of insurance carriers, and their complaints did not center around one company. And many of them spoke highly of their agents, who have been helping them navigate claims.

Lindsay, who was entering her eighth month of pregnancy when the fire struck, shopped around for new insurance in 2019. She said she tried to increase their coverage limits and repeatedly was told the family had plenty to rebuild their 4,000-square-foot, which was valued upwards of $1.6 million before the fire.

“It’s a very difficult feeling where you try and do your due diligence to make the best choice and you’re told that you’ve got plenty of money and you’re overinsured,” she said. “When that turns out to not be true, the feeling in the air is, well, you should’ve gotten more insurance.”

Shaun Howe updated her family’s insurance in early December after her 16-year-old son started driving, which made their auto-insurance rate spike. She decided to revisit all of the family’s coverage and signed a new policy on Dec. 7, covering their 4,060-square-foot Louisville home for $773,000.

“It was absolutely represented to me that it would be the cost to rebuild our home,” Howe said.

Twenty-three days after updating their homeowners policy, the Howes’ house burned to the ground.

The estimate she received to rebuild their home is $1.4 million to $1.6 million, she said. Before the wildfire, the home’s value sat around $1.2 million.

“How can my family afford to lose a half of a million dollars in a day?” Howe said. “It’s a gut punch to have to take that kind of financial hit in addition to losing everything you own. I don’t understand how it’s allowed to happen.”

Howe is going through her policy line by line to find more money. She believes if she pools the money for the dwelling, the contents, the building upgrades and the debris removal she can claim up to $900,000 — still hundreds of thousands of dollars short of what she believes will be needed.

“We’re going to have to rebuild three-quarters of the house we had,” she said.

Hope for rebuilding
If rebuilding started today, the Colorado Association of Home Builders estimates that it would cost $300 to $350 per square foot to build a home that is 2,000 to 2,400 square feet, said Ted Leighty, the association’s chief executive officer.

However, it’s too early to lock in prices, he said. The rebuilding cannot start until the remains of burned homes are removed, and that work won’t even start until next month. Some foundations will need to be scraped, but homeowners won’t know until their properties are inspected. Local governments and homeowner associations also could make changes when it comes to building codes, permitting, design and review guidelines, and other issues that affect building costs.

For example, the Louisville City Council could make Marshall fire victims exempt from its new net-zero energy requirements in new construction.

“After that work is complete, builders will take into account any changes in inflation and the costs of fees, materials, labor and other factors that go into building a home,” Leighty wrote in an email. “This may increase the final square-foot cost when rebuilding ultimately begins.”

The costs of rebuilding also will depend upon what features people want in their homes. Granite countertops, inlaid wood floors and stone patios are things that would drive up costs.

Walker, with the insurance association, said now is a tough time to need to rebuild a house because of the rising costs, and the Marshall fire is heartbreaking.

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“At this point, the people in the Marshall fire have what they have for insurance,” she said. “The best they can be doing right now is working through that claims process.”

John Putnam, a career insurance agent who volunteered with Colorado Springs Together to aid recovery after the Waldo Canyon fire destroyed 346 houses in 2012, said the Marshall fire homeowners may be better off than they think.

“At the beginning of Waldo recovery, we had the same fear that we would have serious underinsurance,” Putnam said. “In retrospect, I will have to tell you we probably did have some underinsured. How you quantify underinsurance is particularly difficult because there’s lots of moving parts.

“As it turns out, that was not a barrier to our rebuild down here.”

Insurance policies have multiple categories for payouts and once people start going through a policy line-by-line they often find they have more money than expected, Putnam said. “There are all kinds of nooks and crannies,” he said.

After the Waldo Canyon fire, homebuilders stepped up to help people work through issues, and the people in the community found creative ways to help each other, Putnam said.

He’s heard about fears over underinsurance among Marshall fire survivors and described it as “almost hysteria,” because his experience indicates there are ways to solve the financial gaps. But he admits there are factors facing the victims of the Marshall fire that didn’t exist after Waldo Canyon — three times the number of destroyed homes, an ongoing pandemic and the highest inflation rates in 40 years.

“In the first 90 days, people get panicky because there’s so much to deal with,” Putnam said. “People didn’t ask for this. What we tried to give people was hope and give them some direction on navigating the process.”

Searching for solutions
Colorado Insurance Commissioner Michael Conway said his office has never collected data on underinsurance after a natural disaster. But plans are in place now to do so for Marshall fire victims. Data should be available by the end of the month on what amounts people have for total losses, but that will

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only provide part of the picture, he said.

“We will take a hard look at what’s going on with particular insurance companies to see if we have insurers who were underpricing the market,” Conway said.

His office is hearing from enough people that it makes state insurance regulators worry about the possibility that there are “a great number of people across the state who are underinsured,” Conway said.

“It’s a chronic problem we need to find solutions for and absolutely the insurance industry needs to be a part of the solution,” he said. “It’s chronic throughout the country. And it’s not just wildfires.”

Mark Wiranowski, a lawyer whose home was destroyed by the Marshall fire, is digging into the reasons why underinsurance seems to be a systemic problem.

He objects to any arguments that the burden of knowing exactly how much insurance to carry on a home falls on the owners.

“Baloney! How is it possible for every homeowner to assess construction costs every year and figure out what the prevailing cost will be,” Wiranowski said. “They’re the experts. We’re all relying on our insurers to give us that amount.”

But he also said he doesn’t believe insurance companies are looking to scam homeowners.

“It’s too simple of an answer to say it’s a conspiracy and all the insurance companies are conspiring to make that happen,” he said.

He believes the problem starts with insurance companies fighting in a tight market to gain the most customers. If agents told people the true amount they need to insure their homes, he said, then they would lose customers to bargain-basement competitors.

When he bought his house eight years ago, the insurer gave him a dollar figure that seemed too low. Wiranowski asked to increase the coverage by another $100,000 and the insurer agreed to do it. Over the years, he’s made adjustments and bought an extended policy to add more coverage.

Still, he estimates he will be $250,000 short of what he will need to rebuild.

“This is not a story of homeowners skimping on their premiums,” Wiranowski said. “This is a story of middle-class homeowners trying to protect their biggest investment and being falsely assured they have enough insurance to rebuild.”

His idea for a solution would be for the state to require insurers to give homeowners an honest assessment of what it would take to rebuild after a total loss, factoring in the costs of supply, labor and specialized features in a home. If a homeowner declines, that’s on them. Put a disclaimer on the policy, he said.

Wiranowski said his legal practice is successful and he is young enough to recover from the financial hit. But he’s worried about some neighbors who have lived in their homes for 30 years and are at retirement age or close to it.

“I worry that all along they’ve been paying premiums faithfully for years, thinking, ‘If something ever happens, I’m covered.’ They’re not. That’s a problem,” he said.

“We can’t fix this problem if we don’t admit it. The answer cannot be we sweep this under the rug and keep on telling homeowners they have enough insurance.”

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