

[Will climate change make your homeowners insurance unaffordable? Here's what you need to know](#)

CNBC

With both premiums and sea levels rising, here's how you can save money on homeowners insurance.

Leigh C. knew that the homeowners insurance on her home in Black Forest, Colorado, an area just northeast of Colorado Springs, would be renewing soon. But when she opened her new bill, she thought she had misread the number. "I called them to see if that was a mistake," she told CNBC Select.

Looking at the itemized numbers, Leigh found that her annual property insurance premium renewal jumped 124% from \$3,767 to \$8,361. Even though she volunteers for United Policyholders, a nonprofit that advocates for homeowners insurance policyholders after major disasters, Leigh had trouble believing her eyes. "I was like, oh, my gosh, is that three or an eight?," she says.

These increases in homeowners insurance premiums aren't uncommon. According to data from online insurance marketplace Policygenius, premiums rose by an average of 21% between May 2022 and May 2023. To put that percentage in terms of dollars and cents, the average home in Arizona, which cost \$826 to insure in 2022, requires \$1,038 in 2023 — a jump of 26%.

And homeowners insurance isn't just getting more expensive — in some parts of the country, it's also harder to find, as major providers change where they're willing to underwrite policies. In late May 2023 State Farm General Insurance Company (State Farm's provider of homeowners insurance in California and the largest writer of homeowners insurance policies in the state by direct premiums in 2022) announced it would "cease accepting new applications including all business and personal lines property and casualty insurance" according to a press release. And in Louisiana, 22 insurers have either gone

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insolvent or stated that they would be withdrawing from the homeowners insurance market in the past three years, according to NOLA.com.

A factor behind both the increased costs and decreased availability of homeowners insurance is climate change. With home affordability at its lowest level in decades, the climbing costs of homeowners insurance is one more hurdle potential homebuyers struggle to clear. CNBC Select takes a look at how climate change is exacerbating the problem, and what you can do to mitigate the damage — at least to your finances.

How a changing climate contributes to higher homeowners insurance costs

While climate change isn't solely responsible for rising homeowners insurance premiums (higher construction costs and other factors also play a role), it's a major contributor — mainly because of the increased likelihood of natural disasters.

In its press release, State Farm specifically cited “rapidly growing catastrophe exposure” as one of the reasons it would no longer accept new applications for property insurance. Government officials have also noted the tie between homeowners insurance availability and climate change. Ohio Senator Sherrod Brown (D), who chairs the Senate Committee on Banking, Housing, and Urban Affairs stated in September that costs in the reinsurance market, where insurers spread their risk over larger pools, have been driven “in part by frequent and more severe natural disasters.” US Treasury Secretary Janet Yellen also noted earlier in 2023 that “there is growing evidence that these trends in physical risks have led to a decline in the availability and affordability of insurance in certain areas.”

The specific disasters driving up homeowners insurance premiums look different depending on where you are in the country. In the southeast, for example, Hurricane Idalia this August caused about \$2.5 billion of damage in 2023 according to NOAA. And the west remains a tinderbox — in California alone, more than 275,000 acres of wildfires have burned as of September 2023.

Even those not in disaster-prone areas are feeling the pinch. One reason is the reinsurance market — or the cost of insurance bought by insurance companies to spread risk over a larger pool. Events all over the world, from flooding in Greece to wildfires in Hawaii and beyond, can impact the rates offered by reinsurers. That can raise the cost of business for insurance companies, who then pass that cost onto homeowners.

In the southeast, hurricane damage is getting stronger each season, and premiums are rising. In the southeastern US, warmer water is contributing to more frequent and damaging hurricanes. The U.S. Geological Survey states that “with increasing global surface temperatures the possibility of more droughts and increased intensity of storms will likely occur.” And as stronger and more frequent storms batter America’s southeast, it becomes harder for homeowners to bounce back.

Louisiana insurance commissioner James Donelon, who is ending his tenure in office in 2023 after having held the position since 2006, believes that the state’s insurance market today compares to the aftermath of Hurricane Katrina. “For 15 years, our market was stable and competitive,” he says. “But then in 2020, the second-most powerful storm to ever hit Louisiana made landfall in our Southwest corner, Hurricane Laura.” The hurricane hit Cameron, Louisiana with sustained winds of 150 miles per hour as a category four hurricane, according to the National Weather Service.

A year and two days later, Hurricane Ida made landfall in Port Fourchon, a more populated area about 90 miles south of New Orleans. By the time Hurricane Ian hit Florida in 2022, causing between \$50 billion and \$65 billion of damage, Louisiana was already struggling with its insurance market. “That was not exactly as devastating to our market as if it had hit Louisiana,” Donelon said. “But it’s certainly impacted us.”

Other factors, including roofing scams in Florida and litigation issues, were also plaguing the southeast’s insurance industry. But climate change is one piece contributing to the larger puzzle.

“I’d have to be blind and dumb to claim that it’s not a major factor,” Donelon said.

The average annual homeowners insurance premium in Florida is 35% higher in May 2023 than it was in May 2022 according to a Policygenius report, and Louisiana prices surged 27% in the same time frame.

In the west, fires are becoming more damaging and common. In Black Forest, Leigh and her family have hit the 10-year mark since the 2013 Black Forest Fire. Estimates show that the fire was, at the time, the second most costly fire in the state’s history, causing about \$420 million in damages. It was second place to another Colorado Springs-area fire that took place in 2012, the Waldo Canyon Fire, which cost about \$453 million.

Since these two fires in 2013 and 2012, respectively, the Rocky Mountain Insurance Information Association estimates that two more fires have caused significantly more damage in the state — an October 2020 wildfire in Grand County, Colorado cost \$543 million in damages, and a 2021 fire in Boulder County cost about \$2 billion in damage.

California, however, has seen some of the costliest wildfire damage of all time, including the \$10 billion Camp Fire in 2018 and the 2017 Tubbs Fire, which incurred about \$8.7 billion in damages.

While the initial causes for these fires vary, climate change is creating more favorable conditions for them to catch and spread. A 2016 report from the Proceedings of the National Academy of Sciences of the United States shows that climate change is responsible for over half of the documented increases in fuel aridity since the 1970s. And, these changes have doubled the forest fire burned areas since 1984.

It's making homeowners insurance more expensive. And, it's making it less available — in 2021, about 241,000 California households faced insurer-initiated non-renewals and cancellations for homeowners and dwelling fire policies according to the California Department of Insurance.

For Leigh and her family in Colorado, mitigating fire risk has become paramount. Creating defensible spaces by clearing brush and ignitable materials and using non-combustible building materials are common mitigation techniques, according to the Federal Emergency Management Agency. “We’ve done a lot of mitigation,” she says. “But is it enough?”

Homeowners need to think about their insurance coverage more than ever before. With climate change driving up the cost of homeownership for many Americans, homeowners need to do whatever they can to make sure they’re getting the best insurance coverage for the cheapest price.

Shopping around for insurance (when you have a choice of providers) can help you find a good deal, but there’s more you can do to save money and stay protected. Several things to consider when buying homeowners insurance include:

Read your policy carefully to understand what it does and doesn’t cover. For those in high-risk areas, this is especially important. Some last-resort homeowners insurance options cover less than a standard homeowners insurance policy, including California’s FAIR plan which doesn’t cover water damage, theft

and personal liability. While these coverages can be purchased separately, they're not included as they would be on a standard homeowner's insurance policy. Reading your policy before you need coverage can help you be sure of the resources you have available if a situation arises.

Consider additional coverage. A changing climate is increasing the likelihood of natural disasters. Even if you've felt confident up until now that you wouldn't have to deal with flooding or a wildfire, it's worth reconsidering and possibly adjusting your insurance coverage to include a flood insurance policy, for example.

Understand your deductibles and make sure you can comfortably cover them. A deductible is the amount a homeowner is responsible for covering before homeowners insurance kicks in during a claim.

Understand what they are on the policy, noting any separate deductibles that may apply to specific disasters (such as hurricanes). Typically, the higher your policy's deductible the lower your premium payments, but be careful — if you don't have enough money to cover up to the deductible, you'll face financial hardship when you need to make a claim.

Create a home inventory. By documenting the items in your home and their value, you can ensure you have the right amount of coverage. If faced with a disaster, it could also help replace those items.

Creating a video walkthrough of your home can help if you need to replace items or submit a homeowners insurance claim.

Natural disasters are creating challenges in the homeowners insurance market

While the annual cost of homeowners insurance may pale in comparison to some of the other expenses of having a home, rising premium costs have changed the calculus for many homeowners.

Some of them are considering forgoing their insurance coverage altogether — a choice that could spell financial ruin for those hit hard by a disaster who can't pay for repairs out of pocket. Others have been forced to take on expensive policies as they've seen their choice of providers dwindle.

In Louisiana, Donelon says that Louisiana Citizens, the state's insurer of last resort — which offers homeowners insurance for applicants who cannot obtain coverage through the regular insurance market — has grown in recent years, from 35,000 policies to 130,000 policies since Hurricane Laura in 2020. State law mandates that Louisiana Citizens charge more for its policies than what's on the private market, and Donelon speculates this is putting many homeowners in an untenable position. "Thousands of those 130,000 can't afford it," he says. "I am sure many are either going uninsured or turning in the keys to their lender and giving up their homes."

In Colorado, Leigh is weighing her options for homeowners insurance. She is considering a policy with less dwelling coverage than she feels is necessary. “If our house got burned, a total loss, we wouldn’t be able to replace it,” she says.

“We love Black Forest,” Leigh says. “There are birds and sunshine and Ponderosas and we have a creek that runs through the side of our property. But I don’t know if we can stay here if we have to pay that much for insurance.”

Bottom line

Homeowners insurance costs are on the rise across the US in part because of climate change. It could become unavailable for some and unaffordable for others, and homeowners need to pay more attention to their coverage than ever before.

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