

Homeowner's Insurance amid Greater Climate Disaster Risk

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Homeownership can help households accumulate wealth and promote financial stability, particularly amid elevated inflation. But climate-fueled extreme weather events threaten to undermine households' ability to maintain homeownership. Disasters such as flooding, tornadoes, and wildfires can severely damage a property, reduce its value, and increase the likelihood of mortgage default.¹

Homeowner's insurance provides financial protection against physical damage to a property (Khater et al. 2024). As a result, it can help households and the property they own recover from catastrophic weather events.

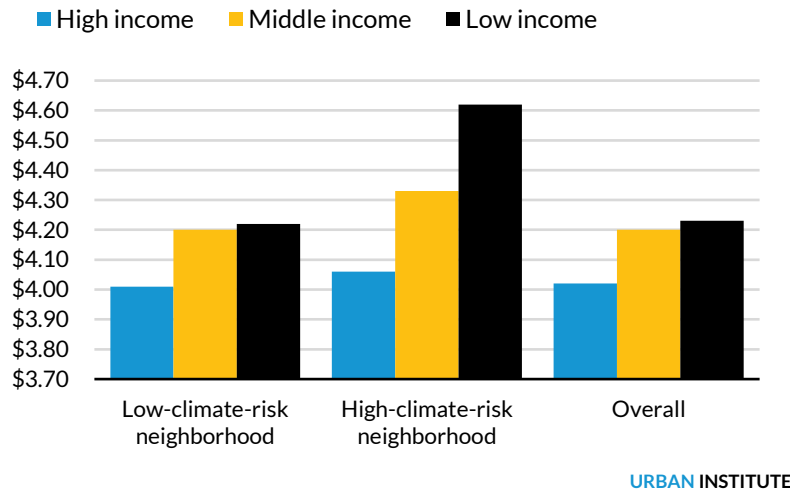
Given rising climate risk, unpredictability of future warming, inflation, skyrocketing construction costs, and state rules about insurers' ability to raise premiums, private-sector providers of homeowner's insurance are raising premiums and suspending coverage in some areas, notably California and Florida.² Higher insurance premiums contribute to growing affordability concerns because of high home prices and interest rates.

LOWER-INCOME HOMEOWNERS APPEAR MORE AT RISK

Lower-income homeowners (i.e., those whose household incomes are up to 200 percent of the federal poverty level) appear to be the most vulnerable. Calculations using the 2021 American Housing Survey indicate that lower-income homeowners paid higher effective insurance rates compared with higher-income homeowners. In addition, lower-income homeowners, including many homeowners of color, are less likely than higher-income homeowners to pay any homeowner's insurance.³

FIGURE 1
Median Annual Homeowner’s Insurance Premium per \$1,000 in Home Price

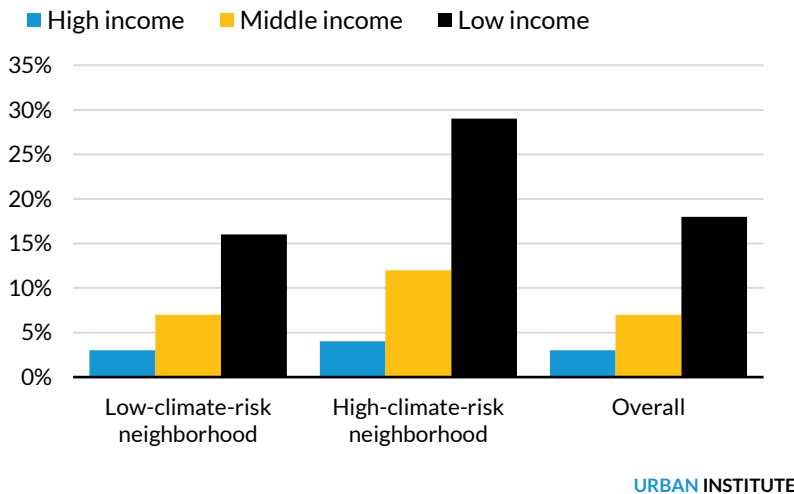
By income group and neighborhood climate risk



Source: 2021 American Housing Survey.

FIGURE 2
Share of Households That Report Zero Homeowner’s Insurance

By income group and neighborhood climate risk



Source: 2021 American Housing Survey.

Residing in a neighborhood the homeowner considers to be at high risk of floods and other disasters corresponds with greater vulnerability (Zhu et al. 2024). For example, the median homeowner living in a neighborhood they believe to be at risk of flooding or other disasters pays a higher effective homeowner’s insurance premium relative to the median homeowner living in a neighborhood they do not believe to be at high risk. And the median low-income homeowner pays the highest effective premium of all.⁴

In addition, living in a neighborhood the homeowner believes to be at risk for floods or other disasters corresponds with a larger proportion of homeowners not paying homeowner’s insurance. In 2021, nearly one-third of lower-

THE HEALTH IMPLICATIONS OF A NATURAL DISASTER

This overview of homeowner’s insurance confirms the growing *financial* vulnerability emerging for families in the event of a climate catastrophe. At the same time, natural disasters can have serious consequences for people’s health.

Disasters directly affect the health of the population, resulting in physical trauma, acute disease, and emotional trauma. In addition, disasters may increase the morbidity and mortality associated with chronic disease and infectious disease through the impact on the health care system. And these problems can be long term.^a

In addition to the disproportionately greater vulnerability to weather disasters low-income communities and communities of color face, these groups are more likely to experience health disruptions.^b

^a “A Closer Look at the Long-Term Health Consequences of Natural Disasters,” Tulane University blog, March 15, 2018, <https://socialwork.tulane.edu/blog/health-consequences-natural-disasters/>.

^b Ethan J. Raker, Mariana C. Arcaya, Sarah R. Lowe, Meghan Zacher, Jean Rhodes, and Mary C. Waters, “Mitigating Health Disparities after Natural Disasters: Lessons from the RISK Project,” *Health Affairs* 39, no. 12 (December 2020): 2128.

income homeowners, 90 percent of whom did not have a mortgage, who live in these at-risk neighborhoods did not pay homeowner's insurance.⁵

WHAT CAN POLICYMAKERS DO?

Amid these challenges, policymakers can take several steps:

Public policymakers can **reduce costs for insurance companies and homeowners**. Through the National Flood Insurance Program (NFIP), federal policymakers have underwritten the flood insurance market to keep it affordable. By ensuring lower-income households have affordable access to the NFIP and broadening the NFIP to include other climate risks, specifically for homeowners already living in the area, it can continue to fill key insurance gaps and can adapt to respond to increasing climate risk while ensuring affordable coverage options.⁶

State policymakers play an important role regulating the homeowner's insurance industry. For example, through its Insure Louisiana Incentive Program, policymakers in Louisiana are using financial incentives to attract new insurers and to encourage existing insurers to continue writing policies to reduce the number of policyholders through the state's insurer of last resort.⁷ Additionally, states can ensure that homebuyers are aware of the flood risk to which their property is exposed to mitigate future unexpected losses. About half of states—including high-flood-risk states like Florida—have inadequate or no flood disclosure requirements⁸ but can follow the lead of Louisiana and Texas in requiring mandatory disclosures of a property's history of flood insurance coverage and damage claims made.⁹

Policymakers can also **strengthen data used** to quantify climate risk (Zhu et al. 2024) by simulating future climate disasters and geographic coverage in key datasets, including the Federal Emergency Management Agency's National Flood Hazard Layer.

All levels of government can help build **greater weather resilience and adaptation** in residential and commercial structures.¹⁰ For example, the Federal Emergency Management Agency and the US Department of Energy provide programs for communities to adopt new building codes around energy efficiency and resiliency.¹¹ That said, special attention must be made to the impact of these programs on housing affordability, particularly for lower-income homeowners.

NOTES

- ¹ Sean Beckett, *The Impact of Climate Change on Housing and Housing Finance* (Washington, DC: Mortgage Bankers Association, 2021).
- ² Lindsey Jacobson, "Insurers Such as State Farm and Allstate Are Leaving Fire- and Flood-Prone Areas. Home Values Could Take a Hit," CNBC, last updated February 5, 2024, <https://www.cnbc.com/2024/02/05/what-homeowners-need-to-know-as-insurers-leave-high-risk-climate-areas.html>; and Chelsey Cox, "Senators Take Up Looming Insurance Crisis as Policy Issuers Flee Florida and California," CNBC, last updated September 7, 2023, <https://www.cnbc.com/2023/09/07/senators-take-up-looming-insurance-crisis-as-issuers-leave-risky-areas.html>.
- ³ Consumer Federation of America, "Millions of Consumers Lack Vital Homeowners Insurance, Resulting in \$1.6 Trillion in Unprotected Market Value," press release, March 11, 2024, https://consumerfed.org/press_release/millions-of-consumers-lack-vital-homeowners-insurance-resulting-in-1-6-trillion-in-unprotected-market-value/.
- ⁴ Christopher Flavelle, Mira Rojanasakul, and Desiree Rios, "Home Insurance Rates in America Are Wildly Distorted. Here's Why," *New York Times*, last updated July 8, 2024, <https://www.nytimes.com/interactive/2024/07/08/climate/home-insurance-climate-change.html>. Using medians may mask wide geographic variation in premiums.
- ⁵ We use income relative to the federal poverty level in the 2021 American Housing Survey to identify low income (up to 200 percent of the federal poverty level), middle income (201 to 400 percent of the federal poverty level), and high income (greater than 400 percent of the federal poverty level). Household income relative to area median income was not publicly available. We use homeowners' responses to the question "Do you agree or disagree with the following statement: This neighborhood is at high risk for floods or other disasters" to identify neighborhoods considered risky. Approximately 2 percent of homeowners

with a mortgage were not paying homeowner’s insurance. Accordingly, these results are illustrative and should motivate more systematic analysis on this important topic.

- ⁶ Zephranie Buetow, letter to Charles Schumer, April 21, 2023, https://www.fema.gov/sites/default/files/documents/fema_letter_sent_congressional_leadership_senate_majority_leader_schumer.pdf. It is worth noting an important philosophical debate on the moral hazard presented by the NFIP. See Kevin T. Starbuck, *Moral Hazard: How the National Flood Insurance Program Is Limiting Risk Reduction* (master’s thesis, Naval Postgraduate School, 2016), <https://core.ac.uk/download/pdf/81223394.pdf>. See also Adam Abadi and Natalie Tawil, *Flood Insurance in Communities at Risk of Flooding* (Washington, DC: Congressional Budget Office, 2024).
- ⁷ “Insure Louisiana Incentive Program,” Louisiana Department of Insurance, accessed July 11, 2024, <https://ldi.la.gov/industry/insure-louisiana-incentive-program>.
- ⁸ “How States Stack Up on Flood Disclosure,” NRDC, accessed July 11, 2024, <https://www.nrdc.org/resources/how-states-stack-flood-disclosure>.
- ⁹ Joel Scata, “NRDC Pushes FEMA for Climate-Smart Flood Maps and Standards,” NRDC, January 27, 2022, <https://www.nrdc.org/bio/joel-scata/nrdc-pushes-fema-climate-smart-flood-maps-and-standards>.
- ¹⁰ “Low-Income Communities Bonus Credit Program,” US Department of Energy, Office of Energy Justice and Equity, accessed July 11, 2024, <https://www.energy.gov/justice/low-income-communities-bonus-credit-program>.
- ¹¹ “Building Code Funding Opportunities,” Federal Emergency Management Agency, last updated February 16, 2023, <https://www.fema.gov/emergency-managers/risk-management/building-science/funding-opportunities>; and “Resilient and Efficient Codes Implementation,” US Department of Energy, Office of Energy Efficiency and Renewable Energy, accessed July 11, 2024, <https://www.energycodes.gov/RECI>.

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