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OUR NEWS LETTER HRSI

Homeowners facing rising insurance rates as Climate change hits hard A growing number of Americans are finding life difficult

Business News

A growing number of Americans are finding it difficult to afford insurance on their homes, a problem only expected to worsen because insurers and lawmakers have underestimated the impact of climate change, a new report says.

A report from First Street Foundation released Wednesday says states such as California, Florida and Louisiana, which are prone to wildfires and damaging storms and flooding, are likely to see the most dramatic increases in premiums. But the fire that destroyed the Hawaiian community of Lahaina on Aug. 8, as well as the historic flooding that happened in Vermont and Maine in July, are examples of events that could drive up insurance costs for homeowners in other states.

"If you're not worried, you're not paying attention," said California Sen. Bill Dodd, whose district includes the wine-country counties devastated by the LNU Complex fires in 2020.

First Street estimates, factoring climate models into the financial risk of properties in its report, that roughly 39 million properties - roughly a quarter of all homes in the country - are being underpriced for the climate risk to insure those properties.

"Some places may be impacted very minimally, but other places could see massive increases in insurance premiums in the coming years," said Jeremy Porter, head of climate implications at First Street and a co-author of the report.

In Our Newsletter

First Street, a New York-based non-profit, has been a to-go researcher on the financial implications of climate change for years. Their research is used by Fannie Mae, Bank of America, the Treasury Department and others for understanding the potential risks to properties.

There are several signs that climate change is taking its toll on the insurance industry. The US homeowner's insurance industry has had three straight years of underwriting losses, according to credit rating agency AM Best. Losses for the first half of 2023 totaled $24.5 billion, which is roughly what was lost in all of 2022.

"(Climate change) is a problem that is already here," said Todd Bevington, a managing director at the insurance broker VIU by HUB. In his 30 years of doing insurance, he said "I've never seen the market turn this quickly or significantly."

Skyrocketing insurance costs are a serious concern for the small town of Paradise in Northern California, which was nearly wiped out by a deadly 2018 wildfire that killed 85 people.

Jen Goodlin moved back to her hometown from Colorado with her family in 2020, determined to help in the town's recovery. They began building on a lot they had purchased, and moved into their new house in October 2022.

In July, she was shocked to receive notice that the family's homeowner insurance premium would be $11,245 -- up from $2,500.

"Our insurance agent said, `Just be thankful we didn't drop you,' and I said, `You did, you just dropped me,"' she said.

Goodlin, a former dental hygienist who is now executive director of the nonprofit Rebuild Paradise Foundation, said hundreds, if not thousands, of people are being hit by these rate hikes in a town being built with updated fire-safe building codes and little if any fuel to burn. She knows a homeowner whose premium is now $21,000 for a newly constructed home.

Record numbers of Americans are now insured through state-affiliated "insurers of last resort" like California's FAIR Plan, or Louisiana or Florida's Citizens property insurance companies. These programs were designed to insure properties where private insurance companies have refused to insure or the price for private insurance is too expensive.

Goodlin will soon be one of those homeowners. She said she's in the process of transitioning to the FAIR Plan.

The number of homeowners covered by California's FAIR Plan was 268,321 in 2021, almost double what it was five years before. That figure has almost certainly increased in the last two years, experts say. In Florida, Citizens Property Insurance Corp. now has 1.4 million homeowners' policies in effect, nearly triple in five years.

In some cases, policymakers have bound the hands of insurance companies, leading to an underpricing of risk. For example, the most a California insurance company can raise a homeowner's premium by law each year is 7% without involving a public hearing, a process that most insurers want to avoid. Those policies, along with the increased chance of catastrophic events, have led insurers like State Farm and Allstate to either pull out of the California market or pause underwriting new policies.

As a result, California's FAIR plan, which was created 50 years ago as a temporary stopgap measure for those impacted by riots and brush fires in the 1960s, is now the only option available to homeowners in some ZIP codes.

"We've got to find a way to get insurers to get back into the market, to take people out of the FAIR Plan so that we can reduce the risk there," Dodd said.

Dodd was one of the key lawmakers trying to negotiate a bill in the final weeks of the state's legislative session to address the issue. But all sides failed to reach an agreement.

There are likely to be more insurance market failures in the future, Porter said, as more insurers simply refuse to underwrite policies in certain communities or go property by property. Comparisons to the National Flood Insurance Program, which is now $22.5 billion in debt, have become common.

Even the backstop programs are buckling under tremendous losses. Louisiana's insurer of last resort, Citizens, raised its rates for 2023 by 63.1% statewide to cover higher costs.

This summer, reinsurance companies such as Swiss Re and Munich Re raised their property catastrophe reinsurance premiums in the US by an average of 20% to 50%. Reinsurance brokerage firm Guy Carpenter & Co. said it was the highest increase for reinsurance rates since the year after Hurricane Katrina devastated New Orleans and the Gulf Coast.

"It's a global problem. Virtually every geography is seeing a repricing of risk," said Lara Mowery, global head of distribution at Guy Carpenter, in an interview.

Reinsurers step in to help cover losses resulting from a catastrophe, so regular insurance companies do not take on all of the risk. In one example of a typical reinsurance contract, a $20 million contract could require the insurance company to cover the first $10 million in claims and the reinsurer to pick up the other $10 million.

Mowery added that many reinsurance firms now have resources dedicated to studying the impact of climate change on how to price catastrophes.

There have been other factors impacting the insurance industry as well. Inflation has made the cost of repairing homes pricier and home prices remain near record levels. A labor shortage means getting damaged homes repaired may take longer, requiring insurers to pay for temporary housing for policyholders longer.

In short, an industry whose business model is calculating risk based on what happened in the past is increasingly unable to do so.

“You can no longer rely on 100 years of wildfire data to price risk when the unprecedented has happened,” Mowery said.

While the intensity of wildfires, floods and storms can vary from year to year, the trend lines in these models point to more wildfire activity as well as more intense storms, all likely to result in more catastrophic amounts of damage that insurance companies will have to cover.

Factoring in climate models and acres estimated to be burned, First Street estimates that by 2050, roughly 34,000 homes will burn down because of wildfires every year. That’s roughly the equivalent of losing the city of Asheland, N.C., every year.

Going forward, it may become more necessary for potential homebuyers to look at the cost of insuring the property they are looking at before locking in a mortgage rate, due to the potential for significant rate hikes in the future.

“It used to be homeowner’s insurance was an afterthought when you are looking at buying a property. Now you’ll really need to do your research into what risks there may be in that property in the coming years,” Bevington said.

Interest rates staying 'higher for longer' means at least through 2026 for the Fed

A common refrain around the Federal Reserve in recent months has been the notion that interest rates will remain "higher for longer."

Meaning that even after the central bank ends its current rate-hiking cycle and begins the process of bringing rates down, interest rates will remain higher than what the Fed thinks would be needed to sustain economic growth with inflation at 2%.

What, exactly, "longer" entails is at the heart of investor debates about the Fed's policy future. But on Wednesday, the central bank offered further outlines of its answer — at least three more years.

Alongside its policy decision on Wednesday to hold rates in a range of 5.25%-5.5%, a 22-year high, the Fed released updated economic forecasts for interest rates, unemployment, growth, and inflation.

The so-called dot plot, which offers officials' forecasts for rates in the coming years, showed most Fed officials think one more rate hike will be needed this year.

But the changes to 2024, 2025, and the first look at 2026 offered even more clues about where the central bank sees things headed.

Since offering these forecasts in June, the central bank took away 0.50% worth of rate cuts for 2024, 0.50% worth of rate cuts for 2025, and suggested rates would end 2026 above where rates are expected to land over the longer run.

Now, as readers will recall, just two days ago we argued that the Fed's economic forecasts don't quite offer a destination for the Fed. And throughout his press conference on Wednesday, Fed Chair Jerome Powell emphasized these best estimates are just that — estimates.

"It's a culmination of individual forecasts from 19 people, and then what you're seeing are the medians," Powell said Wednesday. "So I wouldn't want to bestow upon [the dot plot] the idea that it's really a plan."

And though perhaps not a plan on where the Fed's benchmark policy rate will go, there are suggestions in these estimates of where the Fed sees the economy headed and what the economy will need to get there.

Namely: The Fed sees higher real rates, meaning interest rates minus inflation, working to slow an economy growing more than expected. So while the headline on Wednesday suggested one more rate hike is needed this year, the Fed's lowered inflation outlook suggests officials think even higher real rates are required in 2023.

As Powell said Wednesday, "It's a real rate that will matter and that needs to be sufficiently restrictive."

And if this sounds just as squishy as "higher for longer," don't worry, it's even fuzzier.

"I would say you know it's sufficiently restrictive only when you see it," Powell said. "It's not something you can arrive at with confidence in a model or in various estimates."

In central banking as in life.

Americans are feeling worse about the economy as gas, grocery prices rise

The feel-good vibes about a resilient US consumer and overall economy from the summer have cooled down.

In September, the Conference Board's Consumer Confidence Index declined to 103, down from 108.7 in August, according to data released Tuesday. That marked the largest monthly decline for the index since December 2020, according to Wells Fargo Economics.

The Expectations Index, which aggregates consumers' short-term outlook for income, business, and labor market conditions, drove the overall decline. The Expectations Index sank to a reading of 73.7 in September, down from 83.3 in August and 88 in July.

Historically, any number below 80 signals a recession within the next year.

“Expectations for the next six months tumbled back below the recession threshold of 80, reflecting less confidence about future business conditions, job availability, and incomes," Dana Peterson, the chief economist at The Conference Board, said. "Consumers may be hearing more bad news about corporate earnings, while job openings are narrowing, and interest rates continue to rise — making big-ticket items more expensive."

Peterson also highlighted in the release that the reaccelerating of inflation is likely on consumer's minds. Notably, food and gas prices have risen at a faster pace in recent data releases. Concerns about the Federal Reserve holding interest rates at higher levels for longer than initially anticipated as well as "political uncertainty" weighed on consumer confidence in September.

In aggregate, the long list of consumer concerns comes in line with the headwinds Wall Street economists and strategists have been highlighting in recent weeks. A combination of rising oil prices, a strike from auto workers, the resumption of student loan payments, and a potential government shutdown could all weigh on the American consumer in coming months, economists have said.

"Amid rising headwinds, the Conference Board's consumer confidence measure notched a second consecutive monthly decline, reinforcing our expectations for a slowdown in consumption in Q4," Oxford Economics US economist Matthew Martin wrote in a research note after Tuesday's release.

Wells Fargo senior economist Tim Quinlan notes that consumer confidence and consumer spending haven't tracked in line with each other in the post-pandemic era as stimulus-filled bank accounts supported resilient spending.

That could change, though, as credit card delinquencies increase.

"With savings running dry and credit now scarce and costlier, the biggest monthly decline in consumer confidence since 2020 could be more impactful on actual spending," Quinlan wrote in a new note on Tuesday.

WHY IT IS IMPORTANT TO COMPARE OPTIONS FOR 2024

Open Enrollment is your chance to review and compare your current Medicare coverage with other options for 2024.

Even if you're happy with your current coverage, it's **important to check for any changes next year,** and compare with other available options. You may save money, find better coverage, or both!

Create or log in to your Medicare account — and add your prescription drugs — to get more personalized recommendations. Drug costs can vary based on the pharmacy you use, so we'll help you easily find pharmacies in your area.

Important: If you make less than $22,000 a year ($30,000 for married couples), it's worth applying for **"Extra Help."** Extra Help can pay for your prescription drug coverage (Part D) premiums, deductibles, coinsurance, and other costs.
Visit **ssa.gov/extrahelp** or call Social Security at **1-800-772-1213** to apply for Extra Help.