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Homeowners Insurance Affordability: Countrywide Trends and State Comparisons

In the past 20 years, the average cost of claims per insured home in the United States has increased at a rate that has outpaced inflation[1]. This trend is being driven by a combination of factors, including natural catastrophes, rising home repair costs, supply chain disruptions, and the ongoing migration of populations into areas susceptible to disasters. Additionally, insurance companies face challenges related to fraud, excessive claims, and legal system abuse in the aftermath of catastrophic events. These cost drivers have led to less affordable homeowners insurance countrywide. Some areas are experiencing both affordability and availability crises, as some insurers respond to these challenges by reducing coverage or withdrawing from specific markets entirely. Examining these trends can reveal opportunities for improving both affordability and availability for all consumers.

A combination of natural catastrophes, economic factors, migration patterns, and claim abuse is driving overall affordability.

The IRC has developed a tool that measures homeowners insurance affordability, the affordability index, which determines the ratio of average homeowners insurance expenditures to median household income. It measures the proportion of household income used to pay for homeowners insurance; a higher index indicates less affordable insurance.

Data on median household income are from the U.S. Census Bureau. Average homeowners insurance expenditures data are from the National Association of Insurance Commissioners (NAIC). The IRC uses the average premium amount for dwelling fire and homeowners owner-occupied policy forms, which exclude renters and condo insurance.

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[1] Insurance Information Institute, "Homeowners Claims Costs Rose Faster Than Inflation for 2 Decades," May 4, 2023, https://www.iii.org/insuranceindustryblog/homeowners-claims-costs-rose-faster-than-inflation-for-2-decades/ (accessed November 10, 2023).

These data exclude flood and earthquake insurance, which are not part of standard homeowners policies. Average premiums can vary significantly depending on several factors, including the location of the home, its value, the coverage options, and the insurance company.

The goal of calculating an affordability index is not to establish a particular threshold at which homeowners insurance becomes affordable or unaffordable. Such a threshold would be subjective, as different parties can reasonably disagree about what would constitute affordable insurance. Rather, the index provides a method to compare homeowners insurance affordability over time and across state jurisdictions.

This analysis looks at the affordability of homeowners insurance for the overall population and does not address the issue of affordability for specific demographic or geographic risk profiles. It is also worth noting that the data to estimate affordability is available only through 2020, so this analysis does not reflect more recent increases in personal insurance rates.
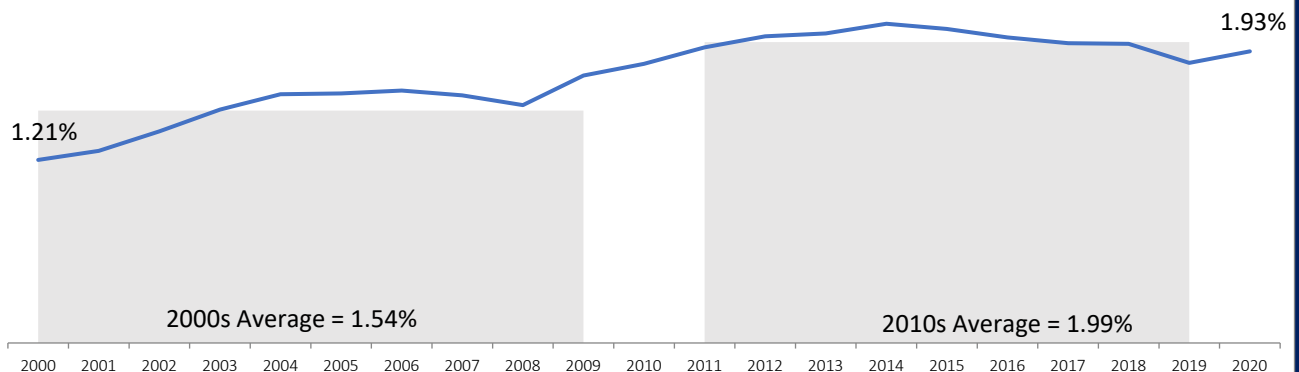
Countrywide Trends

In 2020, the most recent year for which data are available, the average homeowners insurance expenditure was $1,311. Median household income in 2020 was $68,010. Thus, U.S. households spent an average of 1.93 percent of their income on homeowners insurance, an increase from the previous year (1.85 percent) but lower than the peak of 2.11 percent in 2014. For comparison, at the turn of the millennium, households spent an average of 1.21 percent.

The overall trend in the expenditure-to-income ratio shows that homeowners insurance has generally become less affordable for the average U.S. consumer over time. In the 2000s, the median-income household spent an average of 1.54 percent of its income to pay for homeowners insurance. The index rose to an average of 1.99 percent in the 2010s, dropping slightly in 2019 and 2020.

Homeowners Insurance Has Become Less Affordable Over Time

Homeowners Insurance Expenditures as Percent of Median Income

1.21%

1.93%

2000s Average = 1.54%

2010s Average = 1.99%

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
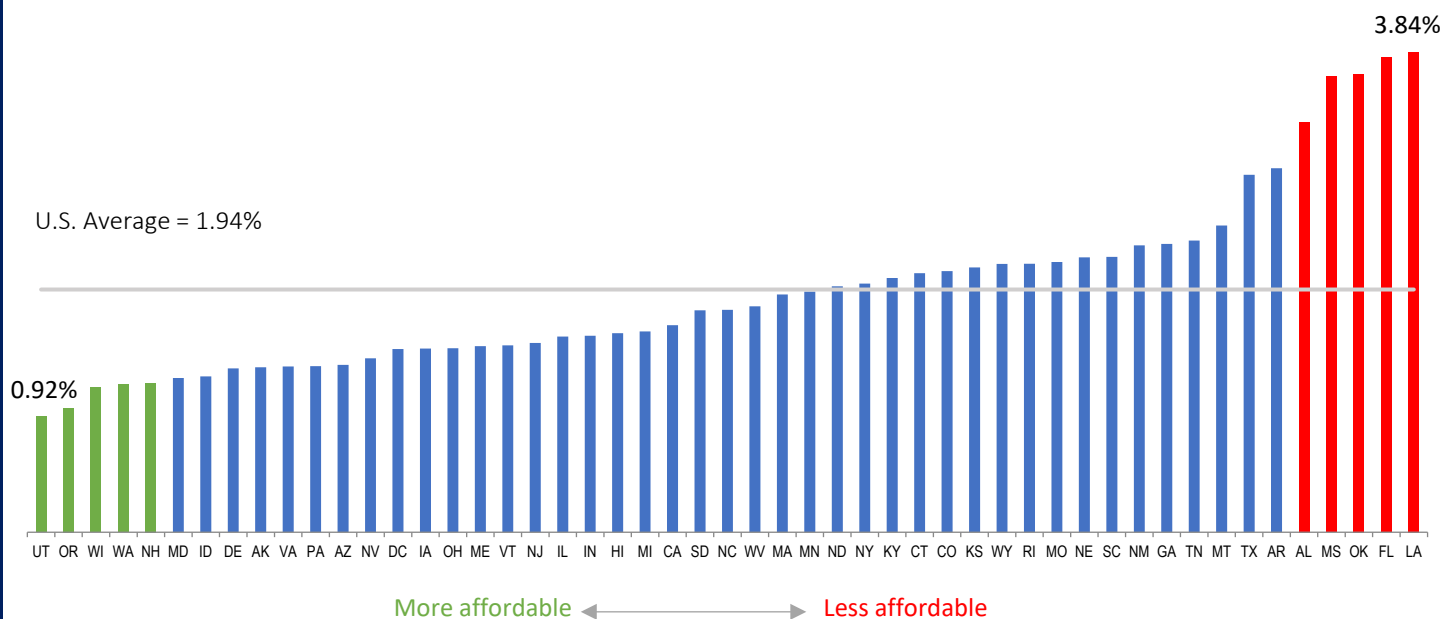
State Rankings

Based on the 2020 affordability index, homeowners insurance was most affordable in Utah, where households spent 0.92 percent of their income on homeowners insurance. Other states with low expenditure-to-income ratios in 2020 included Oregon, Wisconsin, Washington, and New Hampshire. The least affordable state in 2020 was Louisiana, with an index value of 3.84 percent. Rounding out the top five least affordable states were Florida, Oklahoma, Mississippi, and Alabama—catastrophe-prone states.

The index is a ratio, so some states with high average homeowners insurance expenditures appear lower on the affordability rankings because of higher-than-average median income. For example, Colorado had the fifth highest expenditures but ranked 18th least affordable due to its median income being 23 percent higher than the national average. Other states are pushed up the ranks of least affordable states because they have low median household incomes. For example, New Mexico, with expenditures 11 percent below the national average and the third lowest median income, ranked 11th in least affordability for homeowners insurance in 2020.

States Exhibit Dramatic Differences in Homeowners Insurance Affordability

2020 Homeowners Insurance Premiums as Percent of Median Income

3.84%

U.S. Average = 1.94%

0.92%

UT OR WI WA NH MD ID DE AK VA PA AZ NV DC IA OH ME VT NJ IL IN HI MI CA SD NC WV MA MN ND NY KY CT CO KS WY RI MO NE SC NM GA TN MT TX AR AL MS OK FL LA

More affordable ⟵⟶ Less affordable

Cost Drivers

Ultimately, homeowners insurance affordability is determined by the underlying key cost drivers, which must be addressed to improve affordability. The specific factors driving high insurance costs can vary from state to state. Many of these key cost drivers are described below and shown in the "Cost Drivers by Affordability of Home Insurance" table.

Claim frequency, catastrophe claims (CAT)—The number of catastrophe claims paid in a particular year for every 100 exposures insured for the entire year. An event is designated a catastrophe by the industry when claims are expected to reach a certain dollar threshold, currently set at $25 million, and more than a certain number of policyholders and insurance companies are affected. Claim frequency is a standardized measure of how often homeowners insurance claims are paid. This report's paid claim frequency data are from the IRC study, Trends in Homeowners Insurance Claims: 2001–2021.

Claim frequency, non-catastrophe claims (NonCAT)—The number of non-catastrophe claims paid in a particular year for every 100 exposures insured for the entire year. Claim frequency is a standardized measure of how often homeowners insurance claims are paid. This report's paid claim frequency data is from the IRC study, Trends in Homeowners Insurance Claims: 2001–2021.

Claim severity, catastrophe claims (CAT)—The average claim payment for all catastrophe claims paid during the year. Claim severity measures how much is paid for the average homeowners insurance claim. This report's claim severity data are from the IRC study, Trends in Homeowners Insurance Claims: 2001–2021.

Claim severity, non-catastrophe claims (NonCAT)—The average claim payment for all non-catastrophe claims paid during the year. Claim severity measures how much is paid for the average homeowners insurance claim. This report's claim severity data are from the IRC study, Trends in Homeowners Insurance Claims: 2001–2021.

Weather risk—The expected annual loss per $1 million of aggregate building value from weather-related hazards, based on National Risk Index data from the Federal Emergency Management Agency (FEMA), which includes both residential and commercial buildings. Weather hazards include cold wave, hail, heat wave, hurricane, ice storm, lightning, strong wind, tornado, and winter weather. Losses due to coastal or river flooding are excluded since they are not covered by standard homeowners policies.

Other natural hazard risk—The expected annual loss per $1 million of aggregate building value from non-weather hazards, based on National Risk Index data from FEMA, which includes both residential and commercial buildings. Non-weather hazards include avalanche, landslide, tsunami, volcanic activity, and wildfire. Losses due to earthquake are excluded since they are not covered by standard homeowners policies.

Expense index—The amount insurers spent to process, investigate, and litigate claims (loss adjustment expenses) as a percent of incurred losses. Based on the five-year average from the NAIC's [Report on Profitability by Line by State in 2021](#).

Claims litigation—The percent of homeowners claims with litigation, based on data from the NAIC's [Market Conduct Annual Statement Scorecard](#) and measured by the ratio of suits opened to claims closed without payment multiplied by the ratio of claims closed without payment to the total claims closed. New York and North Dakota do not participate.

The following table shows a value for each of these cost drivers in each state, with color coding representing where each jurisdiction rates relative to the rest of the country. The red highlights represent the states with higher expenditure-to-income ratios that tend to have less favorable rankings with respect to these cost drivers, while the green highlights illustrate the more favorable rankings among the more affordable states.

This visual evidence shows the importance of these factors in determining overall homeowners insurance affordability. Furthermore, the report's data cost driver analysis can provide direction for policymakers in individual states to explore ways to improve the affordability of insurance in their specific jurisdictions.

Cost Drivers by Affordability of Home Insurance
Red highlights show less favorable rankings; green highlights show more favorable rankings. See notes on previous pages.

	Expenditure Share	Claim Frequency (CAT)	Claim Frequency (NonCAT)	Claim Severity (CAT)	Claim Severity (NonCAT)	Weather Risk	Other Natural Hazard Risk	Expense Index	Claims Litigation
Utah	0.92	1.03	3.71	$9,255	$11,161	$21	$387	13.2%	0.23%
Oregon	0.99	0.73	2.35	$26,812	$17,563	$5	$129	12.9%	0.41%
Wisconsin	1.16	1.50	2.02	$10,939	$14,140	$174	$4	12.9%	0.20%
Washington	1.18	0.28	2.68	$10,782	$18,014	$4	$189	13.9%	0.33%
New Hampshire	1.19	0.23	1.62	$5,419	$14,714	$303	$7	13.1%	0.43%
Maryland	1.23	2.11	4.84	$9,078	$12,312	$404	$7	13.0%	0.23%
Idaho	1.25	1.14	3.91	$9,745	$12,245	$13	$326	12.6%	0.23%
Delaware	1.31	0.82	3.29	$10,238	$11,709	$303	$9	13.3%	0.27%
Alaska	1.32	0.04	2.35	$7,074	$20,325	$3	$169	13.1%	0.23%
Virginia	1.32	2.05	4.12	$8,430	$11,495	$415	$8	12.9%	0.17%
Pennsylvania	1.33	1.47	3.55	$8,778	$11,308	$139	$4	14.4%	0.65%
Arizona	1.34	0.76	3.58	$8,303	$11,804	$18	$162	13.4%	0.23%
Nevada	1.39	0.17	3.10	$7,213	$13,031	$3	$197	14.2%	0.33%
D.C.	1.46	0.69	4.52	$6,045	$12,234	$53	$1	13.7%	0.39%
Iowa	1.47	6.41	3.34	$12,379	$12,013	$436	$5	12.2%	0.15%
Ohio	1.47	2.04	3.02	$8,980	$11,499	$148	$4	13.1%	0.24%
Maine	1.49	0.52	2.24	$4,536	$14,028	$386	$5	13.1%	0.46%
Vermont	1.49	0.37	2.70	$4,784	$13,914	$117	$10	12.7%	0.33%
New Jersey	1.51	1.64	3.56	$7,399	$13,320	$311	$15	14.4%	0.79%
Illinois	1.56	4.22	2.68	$11,628	$15,131	$180	$1	12.7%	0.25%
Indiana	1.57	2.25	3.02	$9,853	$12,778	$199	$2	12.8%	0.29%
Hawaii	1.59	0.11	2.88	$49,796	$14,993	$112	$159	14.9%	0.37%
Michigan	1.60	1.59	3.22	$7,750	$13,670	$181	$3	13.0%	0.39%
California	1.65	0.92	2.47	$56,785	$21,965	$5	$209	15.7%	0.59%
South Dakota	1.77	2.36	4.77	$12,474	$10,925	$512	$144	12.2%	0.06%
North Carolina	1.78	2.73	3.80	$7,177	$10,715	$897	$13	12.5%	0.14%
West Virginia	1.80	0.56	2.93	$11,995	$15,265	$91	$32	13.8%	0.32%
Massachusetts	1.90	0.58	0.93	$5,530	$16,473	$355	$3	14.7%	0.52%
Minnesota	1.92	4.03	2.98	$17,564	$15,269	$273	$29	12.2%	0.09%
North Dakota	1.97	1.82	4.73	$11,327	$10,534	$583	$52	12.2%	
New York	1.99	1.47	2.79	$7,339	$17,533	$202	$2	14.5%	
Kentucky	2.03	2.48	4.20	$7,749	$10,116	$237	$26	13.0%	0.27%
Connecticut	2.07	2.17	3.27	$9,755	$17,155	$365	$2	13.9%	0.85%
Colorado	2.09	6.35	3.86	$12,750	$14,061	$376	$115	12.4%	0.22%
Kansas	2.12	2.98	4.23	$11,950	$11,401	$404	$29	12.3%	0.09%
Wyoming	2.14	2.71	5.00	$13,427	$13,044	$86	$121	11.8%	0.13%
Rhode Island	2.15	2.24	4.69	$6,199	$13,185	$314	$2	14.0%	0.62%
Missouri	2.16	3.18	3.29	$11,320	$13,765	$279	$12	12.5%	0.31%
Nebraska	2.20	4.46	3.90	$11,725	$9,394	$674	$13	11.9%	0.06%
South Carolina	2.20	2.25	3.50	$7,843	$11,398	$1,514	$15	13.7%	0.27%
New Mexico	2.29	1.71	4.85	$10,883	$10,130	$38	$211	12.8%	0.28%
Georgia	2.30	3.54	4.55	$8,968	$12,769	$485	$12	12.9%	0.19%
Tennessee	2.33	2.07	3.88	$12,803	$12,642	$173	$6	13.1%	0.24%
Montana	2.45	1.64	3.73	$18,356	$15,871	$39	$203	12.9%	0.33%
Alabama	2.68	2.94	4.26	$10,080	$12,651	$840	$9	12.8%	0.23%
Texas	2.86	6.88	3.75	$11,435	$12,332	$750	$48	13.6%	0.50%
Arkansas	2.91	3.03	5.24	$10,396	$11,209	$394	$43	12.4%	0.06%
Mississippi	3.64	2.45	4.45	$10,325	$12,494	$1,010	$32	12.5%	0.20%
Oklahoma	3.66	3.76	4.06	$13,023	$13,446	$509	$116	13.0%	0.26%
Florida	3.79	4.02	4.12	$15,933	$14,691	$2,291	$83	19.3%	4.39%
Louisiana	3.84	11.55	4.16	$15,335	$11,705	$1,724	$14	13.4%	3.83%

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