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Higher Insurance Threatens Economy

Skyrocketing Homeowner Rates Pinch Wallets, Curtail Spending

By Scott Blake
FLORIDA TODAY

Across Brevard County, alarmed residents have seen their homeowners' insurance bills double -- or more -- a trend experts said might hurt the local economy and real estate market.

In Satellite Beach, Rebecca Lambert received a bill from Hull & Co., socking her with a yearly insurance premium increase from \$1,373 to \$5,500. The \$344-a-month increase sent her scrambling for another insurer. The company since reduced the quote to \$3,200 a year, still more double what she is paying.

In Mims, retiree Jean Young, has seen her annual premium on her mobile home multiply during the years. It's now about \$2,700 a year. And she thinks another increase by State Farm -- which she is expecting in coming months, but doesn't yet know how much it will be -- would be her financial breaking point.

"To be able to pay this increase they are talking about, we would not be able to afford our medicine anymore," Young said. "Why should we have to pay more? We never collected on a hurricane (claim) at all. We live on Social Security and a small pension."

It's the same in Titusville, Palm Bay, Cocoa Beach, Melbourne.

Rate increases that home insurers described to state regulators as 15 percent to 25 percent on "average" in Florida have resulted in bills doubling or even tripling in coastal Brevard, cutting deeply into monthly budgets and draining residents' escrow accounts.

The same residents face bigger deductibles and more restrictions on coverage.

The insurance increases have far exceeded increases in other consumer costs since the hurricanes of 2004 and 2005.

Combined with rising interest rates and higher housing prices, insurance costs might contribute to slowdowns in the real estate market and consumer spending, which spells trouble for the economy, say economists, real estate officials and consumer advocates.

"It's a confluence of events that will slow the general economy," said David Scott, executive director of the Dr. Phillips Institute for the Study of American Business Activity at the University of Central Florida.

"It's a rather sobering picture for anyone who makes their living in housing construction and sales," Scott said. "And it is a daunting picture for anyone looking to get into their first house or move up" into a better house.

Feeling powerless

Emblematic of the situation is the latest proposed rate increase by State Farm Insurance, Florida's largest homeowners' insurer, with about 940,000 policyholders.

If approved by state regulators by mid-August, State Farm will raise annual premiums by an average of more than 70 percent statewide, with larger increases in coastal areas such as Brevard and Indian River counties.

Local policyholders can expect average increases of more than 100 percent.

"We understand the impact this rate increase will have on you as homeowners. We don't take it lightly," State Farm counsel Paula Fernandez said during a public hearing this month on the proposed rate increase.

"We need the premiums to pay claims in Florida -- to ensure we can pay, based on the risks here," she said. "We can't ignore the risks here."

In interviews and e-mail exchanges with FLORIDA TODAY, homeowners -- many of modest means, some who have never filed a claim -- expressed a sense of powerlessness over paying so much more to large corporations that collect billions of dollars a year in premiums.

Because they already had raised rates and cut coverage, companies that sell property insurance in Florida managed to earn profits, despite record-setting hurricane losses in 2004 and 2005, industry reports say.

"These companies don't exist to please everyone, but to please those who have taken a financial stake in their companies -- investors," Scott said.

"They're not going to say: 'We'll bite the bullet on this rate increase.' " he said. "You're not going to see that in a capitalist-based economy. You're not going to see that kind of altruism. The stock investor isn't going to say: 'I feel sorry for my neighbor.' "

But insurers do have to comply with certain restrictions. When setting rates, insurance companies can use past losses as a predictor of future losses, but they are not allowed to recover past losses through rate increases.

"If they place too much weight on the past two years, we're going to say 'No,' " said Bob Lotane, a spokesman for the state Office of Insurance Regulation.

Companies have set rates using computer models that apply secret formulas to predict their probable maximum losses in future hurricanes and, in turn, help make the companies' case to state regulators.

Consumer advocates take issue with those models, saying insurance companies change them to suit their needs.

Robert Hunter, a former state insurance commissioner in Texas and now the director of insurance at the Consumer Federation of America, said the insurance industry is switching from a rate modeling system based on risks over a period of decades to one that looks ahead a few years.

Hunter said the previous long-term system, which the industry adopted after Hurricane Andrew in 1992 to stabilize rates, makes more sense than short-term forecasting.

"That's not science. That's collusive modeling," Hunter said about the switch to short-term forecasting. "People should not have prices jumping from year to year. The industry promised stability. This is a renege."

Sam Miller, executive vice president of the Florida Insurance Council, which represents insurance companies, said he was unaware of any industry shift to short-term risk forecasting.

Instead, he said, the changes reflect requirements that insurance companies submit financing plans that account for a 1-in-100-year storm, and, in some cases, a 1-in-250-year storm.

Bill Newton, executive director of the Florida Consumer Action Network, said his organization tried again this year to get state lawmakers to approve insurance reforms. He said those efforts generally failed.

However, the state did OK a proposal to allow insurance companies to raise rates up to 5 percent statewide, and up to 10 percent in certain areas, without getting approval from state regulators. The measure awaits certification by state regulators before it can go into effect.

"People are angry because they see the insurance companies making record profits, and the rates keep going up," Newton said. "They really don't see anything being done by the Legislature."

Housing hit

Florida Association of Realtors spokeswoman Marla Martin said her organization is concerned about the impact of rising insurance rates on the real estate market.

"It was one of our legislative concerns, as it was, I'm sure, for a lot of people. It's impacting the market," Martin said. "We're trying to get more insurers to stay here and keep coverage available. Whether it's affordable, that issue hasn't been touched on yet."

When Joyce Turkowski and her husband moved into a three-bedroom house on Merritt Island three years ago to retire from the Chicago area, their annual premium with State Farm cost about \$800.

They kept State Farm since moving to Florida, and now their annual premium is nearly \$1,500 a year. They recently received a renewal notice from State Farm, raising their annual premium to more than \$1,900.

"It seems like the insurance companies, just like the oil companies, are gouging everyone," she said. "You might not be able to do the things in retirement you'd like to do. For some people, it will really hurt them. They won't be able to afford their medication or their home. I don't want to have to go back to work to afford my house."

Scott, the economist, said other aspects of the economy will be affected as well.

"It's going to make the process of qualifying for a conventional mortgage all the more difficult for the average wage earner, even the white-collar wage earner," he said.

"It's going to hurt discretionary spending -- the ability to do things like go to a movie, go to a restaurant, buy some clothes for the kids, take that one-day trip to a theme park," Scott said. "The economy will be under a thicker gray cloud."