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California's \$1 Billion Insurer Bailout Deepens Housing Strains

- FAIR Plan assessment likely spreads costs across the state
- Housing market already under pressure amid chronic undersupply

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Insurance after wildfires

By [John Gittelsohn](#) and [Eliyahu Kamisher](#)

February 13, 2025 at 7:00 AM MST

California's housing market is already one of the most expensive in the country. A San Francisco condo can cost as much as a four-bedroom house in Texas and families drive hours inland just to find a starter home.

Now, the Los Angeles wildfires are likely to add another financial burden to households across the state.

A \$1 billion assessment announced Tuesday for California's FAIR Plan, the state-mandated insurer of last resort, is expected to drive up premiums as companies will likely pass some of the costs onto homeowners. The charge, meant to help cover wildfire losses, underscores a broader crisis in California's housing market, in which rising risks from natural disasters,

dwindling insurance options and intractable shortages are colliding to make homeownership even more expensive.

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Higher insurance rates are “going to make the affordability challenges we already have, owing to chronic undersupply, even more challenging,” said Jordan Levine, chief economist for the California Association of Realtors.

The FAIR Plan assessment comes after the Palisades and Eaton fires destroyed at least 11,000 homes last month, causing as much as an estimated \$75 billion in insured losses. Under new state regulations, insurers must cover half of the FAIR Plan’s initial \$1 billion shortfall. Beyond that, they can shift all additional wildfire-related costs onto policyholders.

Private insurers have already been factoring the assessment into their projected wildfire losses. State Farm, California’s largest home insurer, has requested an emergency 22% rate increase to take effect May 1, which the regulator is now reviewing.

Well before the latest blazes, California’s housing market was under immense pressure, with an estimated shortage of 2.5 million units. Until now, scarcity has been a bigger driver of rising home prices than insurance costs, said Dave Jones, a former state insurance commissioner.

“Even though we’ve been seeing for the past five years tremendous increases in insurance prices and less availability of private insurance, that’s not really having an impact on prices,” he said in an interview. “Because the supply of homes in California is 2.5 million short that’s a bigger determinant of price and is driving prices higher.”

Single-family home prices in the state climbed 5% last year to a median of \$861,000 – more than double the US level – with only 15% of households able to afford to buy a median-priced home, according to the California Association of Realtors. In Los Angeles County, where the median home price exceeds \$900,000, that figure was just 11%.



Homes in Discovery Bay, California. *Photographer: David Paul Morris/Bloomberg*

Mortgage payments in California now average \$5,550 a month, including taxes and insurance, pricing out vast swaths of middle-class buyers.

Insurance alone accounts for a relatively small fraction of that cost, at about \$65 a month, according to Levine’s estimates. The new assessment is expected to add at least \$60 a household for the 8 million-plus owners with fire insurance. Future price hikes will depend on how insurers adjust to new financial strains and how they price in evolving wildfire risks.

“The assessment will likely lead to increased premiums or reduced coverage availability in the private market as insurers adjust to offset their increased liabilities from FAIR Plan contributions,” Fitch Ratings reported last month.

The insurance costs won’t be evenly distributed, adding another layer of inequity to a market already defined by its extremes, said Levine. The biggest

strain may be felt by homeowners in fire-threatened areas, where private insurers have already begun retreating, leaving more homeowners reliant on the FAIR Plan.

Over the past four years, the number of residential and commercial policies under FAIR has more than doubled to 450,000. But even in lower-risk areas, homeowners may be affected since private insurers operating all across California must contribute to the program's shortfalls.

“Low-income communities would essentially subsidize FAIR Plan coverage in high-fire risk areas, including vacation homes,” a state Assembly committee warned in 2023.

“Assessments, in the near and long term, could lead traditional insurers to further withdraw from the California market, which would mean even fewer voluntary market insurance options for customers, a higher concentration of risk covered by the FAIR Plan, and an acceleration of the looming insurance unavailability crisis for many Californians regardless of where they reside.”

Read More: [Burnt LA Home Asking \\$1 Million Draws More Than 60 Offers](#)

California established the FAIR Plan in 1968 as an alternative to commercial plans. Unlike private home insurers, who can turn customers down, the state-mandated program must take anyone who, through no fault of their own, can't obtain insurance otherwise.

Every property insurer licensed in the state automatically becomes a member as a condition of doing business and is required to contribute to the FAIR plan based on its market share. By law, they may be called on to fund its continued operations in case of an extreme catastrophe.

Insurance rates increased across Southern California after the 2018 Woolsey Fire, which burned 97,000 acres and destroyed 1,643 structures in Los Angeles and Ventura counties, prompting major insurers like Chubb and American International Group Inc. to drop coverage in fire-prone areas.

Many owners of multimillion-dollar homes now piece together multiple policies to exceed the FAIR Plan's \$3 million cap for rebuilding costs, lost

possessions and temporary housing, said Beverly Hills real estate agent Tomer Fridman. Some are ditching single-family homes for condos, where fire insurance can fall under homeowners' associations.

“It’s a big sticking point for all sellers and buyers,” Fridman said. “It’s affecting decisions.”

Excavators prepare to remove debris from homes destroyed by the Eaton Fire. *Photographer: Kyle Grillo/Bloomberg*

Consumer Watchdog, an insurance industry monitoring group, has accused private insurers of offloading high-risk properties onto the FAIR Plan while selectively covering homes that are deemed less risky. “Homeowners across California should not have to pay a penalty to repair the damage from home insurance companies’ predatory behavior,” Carmen Balber, Consumer Watchdog executive director, said in a statement.

California’s leaders, including Governor Gavin Newsom, acknowledge the challenge of keeping private insurers in the state while ensuring coverage is affordable. They point to the state’s relatively low insurance rates compared with Texas and Florida.

Ricardo Lara, the insurance commissioner, recently pushed through a plan giving insurers more scope to increase rates in exchange for broadening coverage in wildfire zones, as part of an effort to stabilize the market.

“Thirty years of stagnant regulations have placed more people at risk,” Lara said in a statement on Tuesday. “We will move people away from the FAIR Plan, and insurance companies will write more policies under the Sustainable Insurance Strategy I finalized last year.”

– *With assistance from Michelle Ma*

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