



## Homeowners Insurance & Inflation Guard Endorsements

If you've been to the hardware store recently, you may have noticed substantial price increases in building supplies such as lumber. The costs to build or repair a home in Alaska are going up. Is your homeowner's insurance keeping up with inflation?

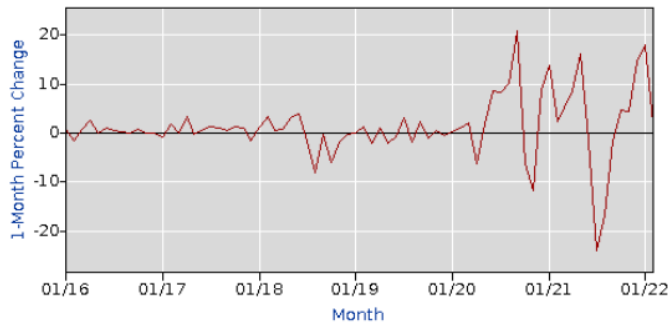
*The following graphic from the U.S. Bureau of Labor Statistics reveals recent percent changes related to lumber and wood products since 2016.*

Data extracted on: April 6, 2022 (5:06:52 PM)

### PPI Commodity Data

#### 1-Month Percent Change

**Series Id:** WPS081  
**Seasonally Adjusted**  
**Series Title:** PPI Commodity data for Lumber and wood products-Lumber, seasonally adjusted  
**Group:** Lumber and wood products  
**Item:** Lumber  
**Base Date:** 198200



As the policy holder you are responsible for the appropriate amount of coverage for your home. The replacement cost of your home may not be the same as the assessed value allotted when the home was purchased. You should notify insurers of upgrades or additions to your property to keep up with the appropriate amount of coverage.

## Product shortages, labor costs, recent natural disasters

- **What is inflation?** Inflation is the general rise in costs and the fall in purchasing power.
- **How does inflation affect residential property insurance?** Homeowners (HO) inflation affects homeowners, landlords and consumers purchasing HO policies. Insurers must keep up with costs to ensure coverage.

A recent survey by the American Property Insurance Association ([APCIA survey](#)) reveals that a majority of insured homeowners are at-risk of being underinsured amid rising inflation and

increased building costs. As we head into a potentially active disaster season with hurricanes,

## Important Insurance Terms to Know / Coverages to Explore with your Agent or Broker

### Endorsement

Written agreement attached to a policy to add or subtract insurance coverages. An endorsement modifies the original provisions in a policy.

### Inflation Guard Endorsement

An endorsement to a homeowner's policy that adjusts the policy limits based on the insurer's estimates of increases in building costs gradually and continuously increasing the limit of insurance by a specified percentage over a specified time period. Importantly, during periods of extreme inflation, it remains important to review coverage limits.

### Replacement Cost

The cost to repair or replace an insured item without adjustment for depreciation.

### Extended Replacement Cost Coverage

Increases coverage available to rebuild your home when labor and material costs skyrocket after a natural disaster.

### Actual Cash Value

In automobile insurance, actual cash value is equivalent to a vehicle's pre-loss market value. In homeowner's insurance, actual cash value represents the actual cost to replace a damaged item less depreciation.

### Building Code/Ordinance Coverage

Increases coverage to help comply with any new building code or green energy ordinances.

### Additional Living Expense (ALE) Coverage

Optional higher limits may help cover hotel and food costs if a longer timeframe is needed to rebuild your home.



*The Division of Insurance encourages consumers to periodically contact their agent or broker to confirm the appropriate amount of coverage is in place.*

For more information about Homeowners Insurance visit: <https://www.commerce.alaska.gov/web/ins/Consumers/HomeInsurance.aspx> or contact Consumer Services.

[Division Webpage](#) | Call 907-269-7900 | [CONTACT](#)

tornadoes, and wildfires, our survey results indicate many homeowners may find they do not have enough coverage to repair or rebuild their home if catastrophe strikes.

### Some Key Findings:

- Only 30 percent of insured homeowners have purchased more insurance or increased coverage limits to compensate for rising building costs. From December 2019 through December 2021, the price of construction materials rose by 44 percent.
- About two thirds of homeowners may be without key additional coverages, such as annual inflation adjustment (inflation guard), extended replacement cost, and building code/ordinance coverage, that can better protect them in these challenging market conditions.
- Only 30 percent of insured homeowners updated their insurance policy less than a year ago.
- Only 20 percent of insured homeowners say they created or updated a home inventory in the event of a loss less than a year ago. 25 percent say they have never completed a home inventory. Find more information about creating a [home inventory here](#).
- Among insured homeowners who completed renovations or remodels during the pandemic, less than half (40 percent) have updated their home insurance to account for those changes.