



## **TWIA Policyholder FAQ: TWIA Premiums and Adjusted Building Cost (ABC) Factor Increases**

*August 2022*

**Is it true that my TWIA premiums are increasing 11 percent even though the TWIA Board of Directors voted for no rate increase?**

TWIA policyholders will receive an automatic increase in coverage of approximately 11 percent reflecting an increase in building costs. Premiums will increase for policyholders who accept the increase in coverage but for most policyholders the premium increase will be less than 11 percent. The increase in premiums is not a rate increase, as it is the direct result of an increase in coverage.

**How is TWIA allowed to increase my premiums without a rate increase?**

TWIA policies include an endorsement approved by the Texas Department of Insurance – the Adjusted Building Cost (ABC) Endorsement – that automatically increases the amount of coverage on each policy to keep up with building costs. The 11 percent increase in coverage is voluntary and will apply to renewing policies beginning in September 2022.

**Will my premium increase by the same percentage as the increase in coverage from the ABC Endorsement?**

Generally, no. The ABC Endorsement only increases the level of coverage on physical structures, i.e., your home. Most TWIA policies also cover the contents inside your home, and that part of your coverage is not affected by the ABC Endorsement. As a result, the actual increase in premium will vary depending on the specific details of what you have chosen to have covered by your policy.

**Are these coverage and premium increases mandatory?**

No, you are not required to accept this increased coverage when you renew your policy. However, in order to be eligible for replacement cost coverage, TWIA policies are required to have policy limits equal to at least 80 percent of the estimated cost to rebuild your home. If policyholders do not qualify for replacement cost coverage, claims will only be paid at actual cash value.



### **What if I don't want to accept this increase in coverage and premium?**

You can work with your insurance agent to set your coverage level at a lower amount than the ABC increase. We encourage policyholders to talk to their insurance agent to find the most appropriate amount of coverage to protect their property, especially if you want to maintain replacement cost coverage.

### **How do I know how much my premiums will go up if I accept this increased coverage?**

Find out how much your coverage and premium will increase by talking to your insurance agent about your TWIA policy renewal. You can also contact TWIA Policy Services directly by emailing [agentservices@twia.org](mailto:agentservices@twia.org) or calling (800) 788-8247.

### **If this increase is voluntary, why should I accept it?**

Increasing your level of coverage to keep up with inflation is important if you have an insurance claim with TWIA. It helps to ensure you receive enough money for your claim to repair damage to your home.

### **Why are costs going up if my house has stayed the same?**

The amount of coverage on your home is based on the estimated cost to repair or rebuild it if it's damaged by a storm. Those costs are increasing due to inflation. Insurers like TWIA automatically increase the amount of coverage on your policy to keep up with this inflation in building costs.

### **What has TWIA done to reduce the impact of inflation on premiums?**

TWIA started reintroducing building cost adjustments last year after taking a pause following Hurricane Harvey. We update the ABC factors based on a two-year average increase in construction costs in order to lessen the impact on policyholders. If TWIA had directly implemented coverage increases the same as this year's building cost factors, the increases could have been as high as almost 20 percent.



### **How does TWIA determine how building costs have changed?**

The annual automatic adjustments associated with the ABC endorsement are based on an index called the Marshall & Swift/Boeckh building cost index. The index is produced by CoreLogic, a company that provides independent construction cost estimates to insurance companies like TWIA to help them set coverage levels. The index is zip code-specific and incorporates local construction costs, including materials and labor, and changes in demand for construction.

### **Why have building costs gone up?**

Building costs have gone up since 2020 mostly due to the residual effects of the COVID-19 pandemic on the global supply chain and other geopolitical issues. The construction industry is seeing significant delays, shortages, and increased prices for many materials essential for construction and repair. Items like shingles, plywood, and drywall have all seen double-digit price increases in the last 18 months. Labor costs have seen similar increases.

### **Haven't building costs gone back down recently?**

While price increases for some building materials have slowed down somewhat in the last few months, they are still significantly elevated since 2020. TWIA policy limits and premiums will still increase less than actual inflation in construction costs because TWIA is using a two-year average.

### **How is an increase in ABC factors different than a rate increase?**

An increase in TWIA rates would cause premiums to rise without a corresponding increase in the amount of coverage the policyholder is receiving. Premium increases due to the increase in ABC factors will only be applied to policyholders who accept increased coverage.