OPINION

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FAX: (606) 878-7404 E-MAIL: newsroom@thetimestribune.com

GUEST COMMENTARY

Insurance for natural disasters is failing homeowners

BY JAY M. FEINMAN Kentucky Lantern

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The wildings under tated large parts of Los The wildfires that devas-Angeles County have drawn fresh attention to the struggles many Americans face insuring their homes.

Since 2022, seven of the 12 largest insurance companies have stopped issuing new policies to homeowners in California, citing increased risks due to climate change. California isn't alone: The same thing has happened in other vulnerable states, including Louisiana and Florida. The proportion of Americans without home insurance has risen from 5% to 12% since 2019. Meanwhile, those fortunate enough to have insurance are paying more than ever: Premiums in California, like elsewhere, have increased dramatically over the past five

When the private insurance market fails to provide coverage, the government often comes in to fill the gap. For example, the National Flood Insurance Program was established back in the 1960s because almost all private insurers excluded flood coverage. Meanwhile, the California FAIR Plan, which serves more than 450,000 Californians, is a typical state-created insurer of last resort. Such programs, which are available in many states, offer limited coverage to people who can't get private

But the sheer scale of need means it's hard for public programs to stay afloat. It's not inconceivable that the recent wildfires could exceed the reserves and reinsurance available to the California FAIR plan. Because of the way the plan is set up, that would force

other insurers – and ultimately homeowners – to make up the difference.

These are tricky problems, and - speaking as an expert in insurance – I can't say I have answers. But I do know the right questions to ask. And that's a crucial first step if you want to find solutions.

What is insurance for, any-

One of the most important questions is also the most basic: What are the goals of insur-

Insurance is a financial product that allows people to share risk – meaning that if a catastrophe strikes any one person, they won't have to bear the costs alone. But it's not just about money. Even if most people don't realize it, every form of insurance embodies values and serves public policy goals. This often requires making social, political and even moral trade-

What is the problem we're trying to solve?

The first step in solving a problem is to identify it. When it comes to insurance, this isn't always easy. For example, "Homeowners need insurance coverage that they can't afford in the private market" might seem like a good description of the problem. But it's not. This is because some homes in disaster-prone areas are simply too risky to insure.

Imagine a home in a coastal area that floods over and over, for example. If you were an insurer, how much would you charge for that policy? When a house is subject to repeated losses, it makes more economic sense to buy and demolish it

Defining the problem carefully also helps to clarify the values at stake. For example, one value is protecting the investments of current homeowners - particularly, say, longtime, elderly residents. But another value is pricing risk correctly, so people don't move into dangerous developments.

Put more broadly, one value is recognizing society's collective responsibility toward people who suffer financial distress, and another is promoting fair and efficient use of social resources. These values can be

What does the government have to do with insurance?

Back in 1881, in his classic lectures on The Common Law, Supreme Court Justice Oliver Wendell Holmes Jr. said:

The state might conceivably make itself a mutual insurance company against accidents and distribute the burden of its citizens' mishaps among all its members. There might be a pension for paralytics, and state aid for those who suffered in person or estate from tempest or wild beasts.

Holmes' own position was clear: "The state does none of these things," he wrote – and it should not. This strain of individualism has remained strong in U.S. politics: Individual liberty, personal responsibility and economic opportunity are the foundations of American life, individualists say, so each person should win or lose on their

Under this approach, the private insurance market bases its pooling, risk classification and pricing mostly on how much risk each policyholder presents, so that homes in wildfire-prone areas are charged higher premiums. In theory, this is both morally sound and economically efficient, since each policyholder bears the cost of their own risks. But when the private market fails – as happened with flood insurance - the government has a strong incentive to

Today, as an empirical matter, Holmes' statement couldn't be more wrong. The state does, in fact, make itself "a mutual insurance company against accidents" and provides a "pension for paralytics," through Medicaid, Social Security Disability Insurance and other programs. And in California, as elsewhere, the government does provide aid for those who "suffered in estate ... from tempest," through the Federal Emergency Management Agency and other entities.

Since at least the New Deal, there has been broad recognition that some level of collective responsibility is essential; the only questions are where and how much. In the health insurance realm, for example, the Affordable Care Act provides subsidized health insurance for many Americans, and changing Medicare is a political third rail.

Public policy on disaster losses is situated between the two extremes of letting losses lie and having the state assume all of the burdens of those losses. Often policymakers and researchers see insurance or insurance-like plans as solutions - whether provided by a public entity or involving a mixed public-private program. FEMA, for example, operates the National Flood Insurance Program in cooperation with private insurers and also gives direct grants for mitigation of flood damage.

What should a public insurance solution look like?

Sometimes one question leads to another, and that's the case here. In my research, I've identified more than a dozen questions that policymakers must answer in order to design an effective public solution to disaster insurance. Three questions are most important:

- What are the goals of the insurance?
- Who is being insured?
- How are policyholders and their risks classified?

Let's start with the first question: What are the goals of the insurance? As I mentioned earlier, any form of insurance faces trade-offs and limits.

When an insurance solution has been adopted rather than some other form of intervention, a primary goal is to compensate the policyholder for a loss. But that's not the only goal. For example, insurance often aims to reduce losses in addition to paying if they occur. Insurers have many ways to shape behavior, such as charging lower premiums for homeowners who keep their property free of flammable brush. Because many of these behaviors affect other people as well, they generate a social benefit. And since insurance has social benefits, how those benefits are distributed – along race, gender, class and other lines – is also important.

That leads to the second key question: Who is being insured?

Insurance involves transferring risk from an individual to a larger group of people who can share the risk. Insurance experts call this "risk pooling." Pools that are too small will struggle because there aren't enough people to share the burden.

In public solutions to catastrophe problems, getting more people in the pool could be especially useful in expanding coverage. For example, the National Flood Insurance Program brings many homeowners across the country into a pool, but it also excludes some, such as those who suffer damage from wind during a hurricane. In contrast, the proposed INSURE Act, introduced in the last Congress, would effectively put the entire nation in a pool to cover a variety of catastrophic risks, including flood, wildfire, earthquake and

Still, just because you're in the same pool as someone else doesn't mean you'll be treated the same - people with the same insurance can be charged different premiums and receive different amounts of coverage.

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■ GUEST COLUMN

Progressivism explains much of what the new book 'Abundance' deplores

BY GEORGE F. WILL The Washington Post

years ago, any reconstruc-Lafter tion of Manhattan's West Side Highway took 35 years, Daniel Patrick Moynihan noted that the more challenging construction of the George Washington Bridge took just 39 months. Moynihan, New York's four-term Democratic senator, lamented that whereas Americans once celebrated people who built things, "in the 1970s, civic reputation began to be acquired by people who prevented things from happening."

Many decades later, two center-left journalists, Ezra Klein (the New York Times) and Derek Thompson (the Atlantic), know that this problem has worsened, and that solving it is a prerequisite for reviving the Democratic Party. In their book "Abundance," they properly applaud what Democratic Gov. Josh Shapiro of Pennsylvania did when, in 2023, a tanker-truck explosion collapsed a bridge in Philadelphia's section of Interstate 95, a crucial artery for East Coast commerce.

If all the environmental, diversity, equity, inclusion of minority-owned firms, and other laws, rules, and procedural fetishes had been adhered to, just issuing the construction contract would have consumed 12 to 24 months. Because Shapiro shredded laws and red tape, I-95 was reopened in 12

Government, Klein and Thompson demonstrate, is one reason the median home price, which was 2.2 times the average annual income in 1950, is now six times this. And as Democrats anguish over a CNN poll showing the Democratic Party with an anemic 29 percent favorability rating, Klein and Thompson say liberals should be angry about the condition of the states and cities that liberals govern. "Liberals should be able to say: Vote for us and we will govern the country the way we govern California! Instead, conservatives are able to say: Vote for them and they will govern the country the way they govern California!"

California's housing affordability problem is the nation's worst, but 30 percent of all

American adults are "house poor" — spending at least 30 percent of their incomes on housing — partly because of what the authors call "lawnsign liberalism." You know the multicolored signs: "Kindness is Everything," "No Human Being is Illegal." Klein and Thompson: "Those signs sit in yards zoned for single families, in communities that organize" for anti-growth regulations requiring larger lots, more parking, etc. Since 2015, Texas, which now has 9 million fewer residents than California, has authorized construction of twice as many homes as California.

What Klein and Thompson call environmentalists' "tradeoff denial" helps to produce this: Whereas the Empire State Building was built in 410 days (1930-1931), in 2023 in San Francisco it took, on average, 523 days to get clearance to construct housing, and 605 days to secure permits.

What the authors call "everything-bagel liberalism" overloads public projects with goals that should be extraneous: environmental fastidiousness, "equity" strategies (the "e" in DEI), child care for construction workers, etc. These make the bagel become (if not a chimera, like California's tragi-comic high-speed rail) ludicrously over budget and over-

Writing in Foreign Affairs, Jason Furman, former chair of Barack Obama's Council of Economic Advisers, says Joe Biden's "muscular" governing was enfeebled by government: Despite a more than \$500 billion infrastructure law, "the costs of construction have left the United States building less than it was before the law's passage." This is partly because of maddeningly slow permitting, and because Biden, even more foolishly than Donald Trump, "enforced 'Buy American' rules for government procurement."

Progressivism explains much of what "Abundance" deplores. The opposite of abundance is scarcity, in which progressives see opportunity. They (mistakenly) think scarcities justify rationing; hence detailed government supervision of society; hence the administrative state, which is a full-em-

ployment program for lawyers, and a reason America has so many. And a pesky perennial human nature — guarantees
a steady supply of people who derive pleasure from regulating others. Hence a steady supply of progressives.

Klein and Thompson face facts: "Almost every part of America shifted right" in 2024, and the shift was largest in blue states and blue cities. Nearly every California county shifted right. On the other coast, Queens and the Bronx did by 21 and 22 points, respectively.

The authors robustly defend government, especially its indispensable support for innovation-through-science. They say, however, that this is "a molten moment when old institutions are failing, traditional elites are flailing, and the public is casting about for a politics that feels like it is of today rather than of yesterday." They might ruefully sympathize with this from a president's inaugural address 44 years ago: "In this present crisis, government is not the solution to our problem; government is the prob-



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MARK WALKER | Publisher **BRAD HALL** | Nighttime Editor bhall@thetimestribune.com mwalker@thetimestribune.com JANIE SLAVEN | Editor

MACEE SWAFFORD | Staff Writer islaven@thetimestribune.com mswafford@thetimestribune.com SHARI SEVIER | Production Manager advertising@sentinel-echo.com

JESSIE ELDRIDGE | Salesperson jeldridge@sentinel-echo.com

thumphrey@thetimestribune.com **RHAE HOSKINS** Circulation District Manager RHoskins@sekypub.com

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