State Notes

TOPICS OF LEGISLATIVE INTEREST

Winter 2025

Self-Insurance of State Property

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Executive Summary

- Self-insurance is the practice of protecting oneself against losses in addition to or in place of using traditional insurance policies.
- Property insurance premiums are increasing in the United States while the costs of property repairs and replacement also continue to rise.
- States have a long history of establishing self-insurance funds to supplement coverage of state property.
- Michigan has experienced increased insurance premium costs partially resulting from several costly insurance events in recent years.
- The Fiscal Year (FY) 2024-25 and FY 2025-26 Executive Recommendations proposed a deposit of $10.0 million General Fund/General Purpose dollars for self-insurance purposes, but no deposit was included in final appropriations.

Introduction

Self-insurance refers to the practice of assuming financial responsibility against loss by dedicating funds into a financial reserve in place of, or in conjunction with, purchasing traditional insurance. While it is possible for private individuals and households to self-insure, the practice is more common among businesses, governments, and large-scale organizations.

The structure of self-insurance can vary by the type of insured (the individual or entity covered by the insurance plan) and the purpose of the insurance. Government self-insurance may cover areas including liability, workers' compensation, and state property. A private household may elect to self-insure against home damage or loss by keeping a large savings or investment reserve that could adequately cover major losses or replacement. Complete self-insurance often is not achievable even for large businesses, organizations, and governments because of the high sums involved. These entities generally are more able to reserve adequate funds, raise revenue, and accommodate risks, than insureds with less access to resources.

A 2021 study by The Pew Charitable Trusts and the Homeland Security Operational Analysis Center concluded that at least 21 states, and Washington, DC, used some form of self-insurance for natural disaster-related risks to property.[1] As the frequency and cost of severe weather events increases, property insurance costs rise,[2] posing risk, security, and planning challenges for state governments. In evaluating states' ability to pay for unexpected natural disasters through various mechanisms, Pew rated Michigan a "preemptive" state, meaning that it has fiscal mechanisms—a disaster fund and a rainy day fund—that can immediately help pay for such disasters. These options are in addition to more "responsive" mechanisms, such as transfer authority or the possibility of making supplemental appropriations. Not all states have such mechanisms available.[3]

Increasing Premiums

Multiple factors have driven ongoing increases in property insurance premiums for both private and public property owners in the United States.[4] Most public research regarding property insurance trends pertains to private homeowner policies rather than publicly held ones, but the factors affecting home insurance are applicable to the state insurance market. These factors include weather trends, inflation, and replacement/repair costs.

A 2025 Federal Insurance Office report found that homeowner insurance policy premiums increased 8.7% faster than inflation between 2018 and 2022.[5] A National Bureau of Economic Research study similarly found a 13.0% average increase in home insurance premiums nationwide between 2020 and 2023, unrelated to rising home prices. Certain ZIP codes designated as "high disaster risk" saw much greater increases to premiums that were heavily tied to geographic area.[6] The study concluded that approximately 25.0% of the increase in premiums over the 2018-to-2023 time period was due to increased disaster risk. The increasing cost of climate-related events and natural disasters is a significant contributor to the increase in homeowner property insurance premiums.

An October 2024 global disaster cost analysis found that, for the first three quarters of 2024, the five costliest disasters in terms of insured losses all were in or affected the United States. According to the Federal Insurance Office study, there were five times as many yearly weather events costing at least $1.0 billion between 2018 and 2022 compared to the 1980s (adjusted for inflation).

While some regions are more vulnerable to natural disasters such as hurricanes and earthquakes than others, the insurance market effects are not restricted to those geographic areas. In addition, extreme weather events are predicted to increase nationwide. Recent weather events resulting in substantial private and public damage in Michigan have included the northern ice storm of March 2025 and several tornadoes. Other costly disasters, such as the 2020 Midland County dam failure, have combined weather events along with infrastructure and regulatory concerns.

According to the National Oceanic and Aeronautics Administration, severe storms have been the most common type of disaster to cause losses over $1.0 billion from 1980 through 2024, although this figure is not restricted to property damage.[7] Of the 60 qualifying events recorded as of June 2025, 41, or 68.3%, were severe storms, which are distinguished in the data from winter storms. However, it should be noted that while these events *affected* Michigan, the costs were not necessarily exclusive to Michigan—for example, a June 2024 flooding event also affected Iowa, Minnesota, South Dakota, and Wisconsin. Michigan partially compensates cities, villages, townships, and counties for disaster clean-up costs through the Disaster Emergency Contingency Fund and other efforts. However, these funds are not self-insurance for State property and are exclusively awarded to local government units.

Insurers have reacted to rising costs in particularly vulnerable states or specific areas, such as coastal areas prone to flooding, in multiple ways, including increasing premiums, pulling out of certain markets, and increasing or refunding costs to areas that are less expensive to insure. In addition to climate change-related losses and premium changes, the cost of replacing damaged property also has increased due to rising materials and labor prices.The result is that even in the absence of severe weather events, the cost of replacing losses from causes like burst pipes or other aging infrastructure has increased.

A 2021 report concluded that state and local insurance policies covered just 28% of repair costs for buildings, contents, vehicles, and equipment.[8] The same study found myriad reasons for inadequate insurance coverage, including concerns about credit ratings and high premiums.

Self-insurance allows the insured to decide the extent to which it will cover losses, which may not be the case under an insurance policy from another entity.[9] This provides some security to the insured from the possibility that an insurer could deny all or part of a large claim despite its regular premium payments. However, it also means that the insured may be completely responsible for covering any losses.

For state governments, the ability to self-insure partial losses and have some protection against rising premiums represents a greater degree of autonomy and, depending on specific internal processes, the potential for greater oversight of claims from internal departments. One of the primary risks associated with self-insurance is the possibility that the extent of harm, destruction, or damage from an incident may exceed the amount of funding set aside for the purpose.[10] Michigan had a self-insurance fund that was depleted and thereafter abandoned in the 1950s, with an official elimination in 1965.[11] States also may accrue costs if they need staff to dedicate time and state resources to processing and handling claims, depending on the specific structure of the self-insurance system.[12]

Trends in Michigan

The State of Michigan's property insurance costs have increased over the last decade, particularly since FY 2019-20. This parallels recent trends in the home insurance industry; Insurify, a website that compares American insurance companies, found that Michigan's home insurance premiums increased an average of 14% between 2023 and 2024, while in 2025 it is predicted to rise by 8%.[13] According to the Department of Technology, Management, and Budget (DTMB), the State has recently received quotes that would represent a double-digit increase on its property insurance premiums.[14]

Figure 1

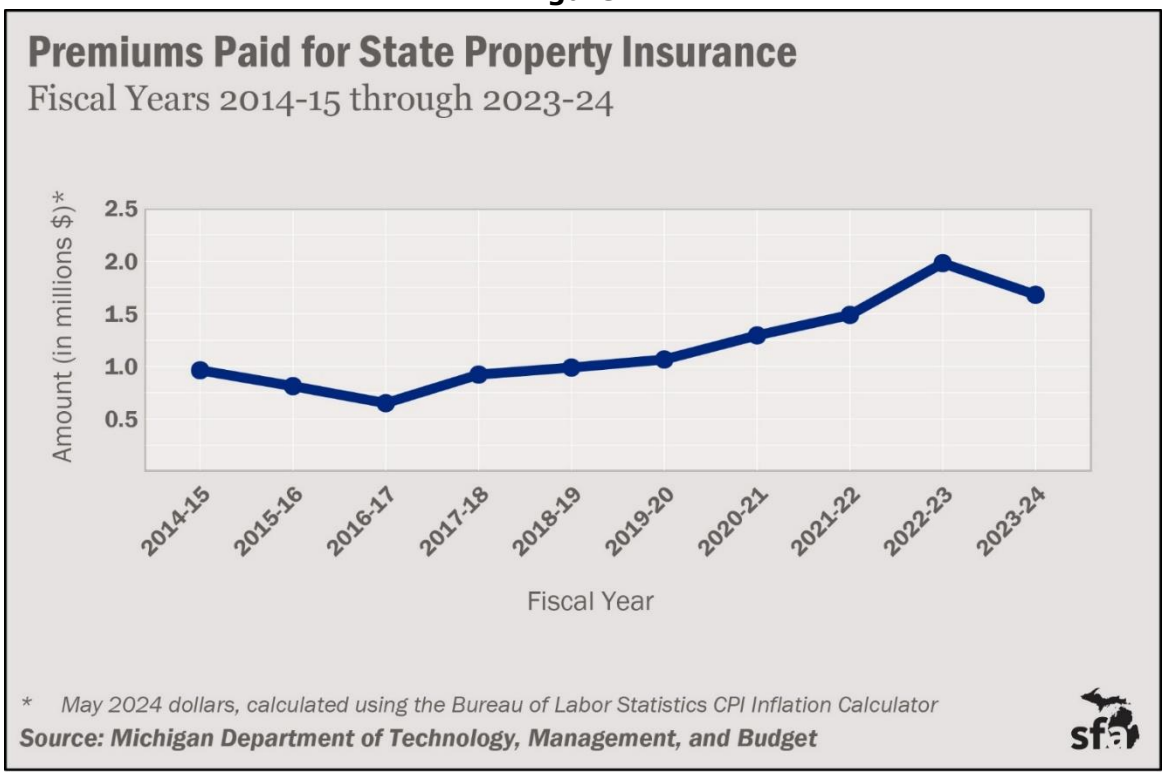


Figure 1 above shows the premium paid by the State for property insurance from FY 2014-15 to FY 2023-24, adjusted for inflation. The State paid $1.7 million in premiums for FY 2024-25. Despite the trend of increasing premiums, there was a slight reduction in premiums for FY 2023-24. This decrease resulted from coverage being dropped in states deemed a higher risk due to their exposure to natural disasters; however, these reductions or savings are not expected to continue. Overall, the real premiums paid for State property insurance have increased by 74.6% since FY 2014-15. As of November 2025, the DTMB reported that the State's property insurance policy covers approximately $2.3 billion in assets.[15]

Self-Insurance for State Property: Two Summaries

Self-insurance for state property in the United States dates to at least the year 1900.[16] Michigan itself established a State Insurance Fund in 1913.[17] A 1951 arson fire at the Lewis Cass Building in Lansing, which housed multiple State offices and many State records, virtually depleted the Fund, and the Fund was terminated in 1965.[18] Michigan does not currently have a property self-insurance fund.

The state property self-insurance systems used in Nebraska and Colorado are outlined below, as they are similar in structure to the Self Insured Property Fund proposed for Michigan in the FY 2024-25 and FY 2025-26 Executive Recommendations for annual budget appropriations (see "Executive Proposals in Michigan", below).

Nebraska

Nebraska's State Self-Insured Property Fund is established in statute. The Fund is not intended to fully cover state property losses. Instead, the Fund is meant to provide coverage in addition to the state's traditional insurance policies. Claims are made by the state department or agency that has experienced loss or damage. The Risk Management Division of the Nebraska State Department of Administrative Services has engaged the Nebraska Risk Management Association (a third-party administrator) to handle claims of damages or losses that exceed the relevant insurance deductible.[19] The claimant agency is then expected to pay the amount of a separate deductible for the state coverage. The above applies to state-owned/operated buildings and properties; state-owned/leased vehicles are completely self-insured.[20]

Colorado

Colorado also has a Self-Insured Property Fund. It was created by the General Assembly following the state's then-insurer's cancellation of coverage for state liability insurance in 1985.[21] The Fund is part of the state's Division of Risk Management and was created after no bids were offered for insurance of Colorado's state property.

The Fund can be used to pay for loss or damage claims for both real and personal property, provided the damage was incurred because of an allowed cause, including natural disasters, flooding, malicious acts, or theft. Claims made to the Self-Insured Property Fund are based on the property's actual cash value and on the replacement costs for properties, parts of properties, or items within. A state department making a claim through the Fund is required to pay a $5,000 (originally $1,000) deductible. The State General Assembly is required to make annual appropriations to the Fund to cover administrative costs.[22]

Executive Proposals in Michigan

Governor Gretchen Whitmer's Executive Recommendations for FY 2024-25 and FY 2025-26 each included a proposal for a property self-insurance program under the purview of the DTMB. Each Recommendation proposed a $10.0 million General Fund/General Purpose deposit into the existing Risk Management Internal Service Fund, which then would be used to create a new self-insurance fund within the Enterprise Risk Management (ERM) Division.

The State Budget Office characterized the proposed fund as a strategic reserve. The DTMB cited market instability and the increasing cost of policy premiums as the primary arguments for the creation of such a fund. The Department also pointed to several recent weather and equipment failure events with substantial cost figures to support its proposal.[23] Only structural property would be covered by the state's traditional commercial insurance policy, but other contents could be covered depending upon the amount of money appropriated.[24]

Any interest earnings from the fund, invested as common cash, would revert to the General Fund rather than remaining in the Self-Insurance Property Fund. As with Colorado and Nebraska, Michigan's executive departments would need to pay a set deductible to receive coverage from the Fund. The deductible is intended to be set at $50,000 per claim, which would be reassessed by actuarial studies to evaluate its effectiveness and accuracy when data become available. The ERM Division would cover costs under the new $1.0 million commercial deductible; the higher deductible would allow the State to save on premium costs.

Conclusion

Despite Executive-proposed deposits for the Fiscal Years 2024-25 and 2025-26, neither a deposit nor related language has been included to reinstate a self-insurance fund for the State of Michigan. The topic of property insurance costs is likely to continue to be a factor in State decision-making and budget planning.

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[23] Michigan Department of Technology, Management, and Budget, "FY 26 Budget", Michigan Senate Appropriations Subcommittee on General Government, 3-20-2025.
[24] Note 16.