RIGHTSURE
FAMOUSLY FRIENDLY HUMANS

Where Does Your Premium Dollar Go?

Every month, you pay your insurance premium, but have you ever wondered where that money actually goes?

Many people assume it simply sits in an account until they file a claim. In reality, your premium immediately begins helping pay claims, support essential insurance services and keep the entire insurance system financially strong.

This report shows you exactly where your premium dollars go.

Where Does Your Premium Dollar Go?

How Insurance Premiums Work

At its core, insurance works by spreading risk across many policyholders. It's hard for individuals to plan for catastrophic events like fires and collisions, and the financial loss can be devastating. Insurance carriers solve this problem by creating risk pools that include a large number of individuals.

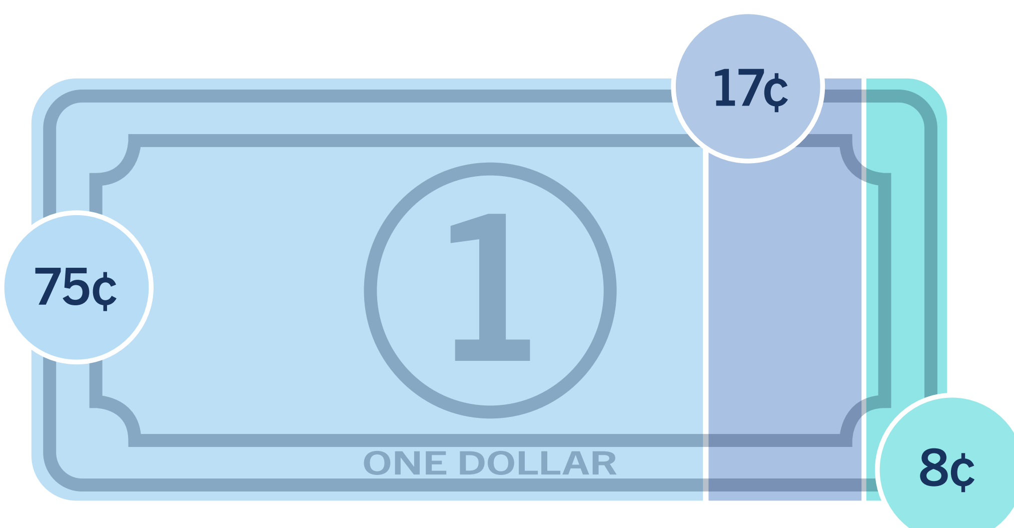
Policyholders pay premiums to the carrier. → The carrier uses the funds to cover its costs. → The carrier also invests some of the funds. → When a covered loss occurs, the carrier pays the claim.

For this system to work, the insurer needs to maintain sufficient funds to cover claims, as well as all the other costs associated with running an insurance company. If the insurer cannot cover claims, it risks going insolvent and shutting down.

Your premium dollars help fund the entire insurance system, making it possible for claims to be paid when policyholders suffer losses.

For every premium dollar your insurer collects:

- **75¢** helps pay claims and claims handling.
- **17¢** helps cover commissions and employee costs.
- **8¢** helps pay operating expenses like technology, customer service and regulatory compliance.



Where Does Your Premium Dollar Go?

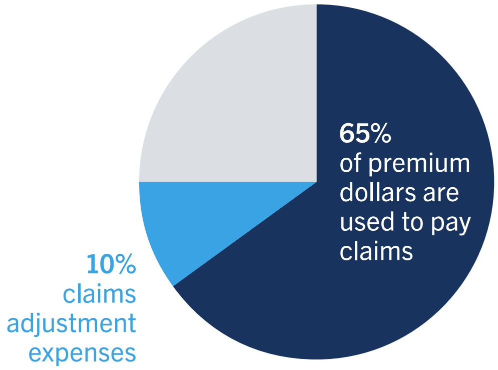
Claims: The Biggest Expense

The biggest share of every premium dollar goes toward paying covered claims. Insurance professionals measure how much premium money goes toward paying claims using a metric called the loss ratio. For most property and casualty insurers, it's about 65%.

According to 2020-2024 data in the Annual Report on the Insurance Industry, the loss ratio averaged about 65% for property and casualty insurers. This means that approximately 65% of premium dollars are used to pay claims.

However, before insurers can pay claims, they have to verify the loss and assess the value. This involves additional costs to pay the investigators and claims handlers. In insurance, the ratio of premiums to claims handling costs is called the loss adjustment expense ratio. The loss adjustment expense ratio usually hovers around 10%.

Combined, around 75% of your premium dollars go to handling and paying claims.



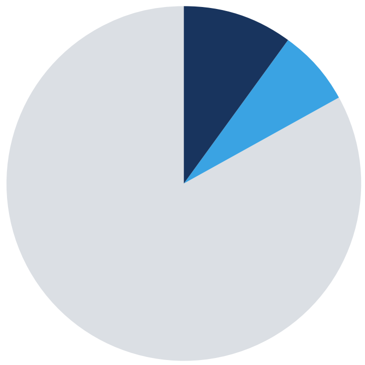
Why Do Insurers Need to Investigate Claims?

- Fraud occurs in approximately 10% of property and casualty insurance claims.
- Every year, American consumers lose more than $300 billion to insurance fraud.
- By investigating claims and fighting fraud, insurers can keep costs down for everyone.

Source: Coalition Against Insurance Fraud

Where Does Your Premium Dollar Go?

The People Behind Your Coverage



The insurance process involves a lot of different types of insurance professionals:

- Brokers who help you find the right coverage
- Underwriters who evaluate risk
- Customer service representatives who answer questions and process policy changes
- Claims professionals who help you recover after a loss
- Compliance teams who ensure insurers follow state and federal regulations
- Administrative teams who keep operations running smoothly

As you can see salaries and commissions are a significant expense for insurance companies.

The ratio of premiums to broker commissions is called the net commission ratio. This is usually around 10%. The ratio of premiums to salary and benefits is called the salaries and benefits ratio. This is usually around 7%.

Combined, around 17% of your premium dollars go to salaries, benefits and commissions.

Key Insurance Terms to Know

- Property and Casualty Insurance: The insurance sector that provides coverage for physical assets and legal liability. This includes personal lines like home and auto and commercial lines like general liability and commercial property.
- Underwriting: The process in which insurers evaluate the level of risk associated with an insurance application. Underwriters look at a variety of factors, including the applicant's loss history.
- Combined Ratio: A metric used to measure underwriting profitability. To calculate an insurer's combined ratio, add the losses and expenses, and divide the sum by the earned premiums.

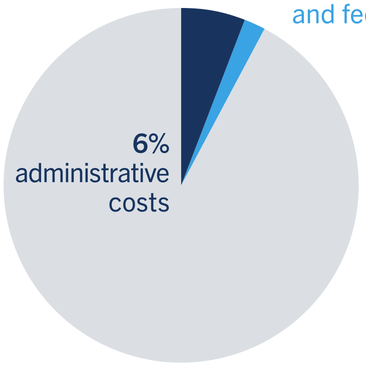
Where Does Your Premium Dollar Go?

The Cost of Running an Insurance Company

Running any type of business requires money. Insurers have to cover their operating costs, including office space, equipment, taxes and utilities.

Insurers typically spend a little over 2% of their premium dollars on taxes, licenses and fees. Another 6% or so goes to administrative costs and other expenses.

Combined, around 8% of your premium dollars go to various operating expenses.



Reinsurance: Insurance for Insurers

Insurance is a heavily regulated industry. Although insurers do occasionally go insolvent, this is rare because insurers are required to maintain adequate reserves. This is done through premiums and investments. Insurers also secure reinsurance to cover catastrophic claims.

Reinsurance is like insurance for insurance companies.

Imagine a hurricane causes billions of dollars in insured damage. Even a financially strong insurance company could face far more claims than it expected in a single year. Reinsurance helps absorb those extraordinary losses so insurers can continue paying claims when losses exceed expected levels.

Reinsurers also charge premiums based on risk. When reinsurers raise their rates, insurers need to adjust. Some of the costs may be passed on to policyholders in the form of higher premiums.

Insured natural catastrophe losses have exceeded $100 billion for five years in a row.

- 2025: $107 billion
- 2024: $141 billion
- 2023: $108 billion
- 2022: $125 billion
- 2021: $105 billion

Source: Swiss Re

Where Does Your Premium Dollar Go?

How Insurers Stay Financially Strong

Most premium dollars are used to pay claims and cover operating expenses. In some years, those costs exceed the premiums collected, resulting in an underwriting loss. In other years, premiums are greater than claims and expenses, resulting in an underwriting profit.

To remain financially strong over time, insurers also rely on investment income. By investing a portion of the premiums they collect, insurers can strengthen their ability to pay future claims and provide long-term protection for policyholders.

In 2024, U.S. property and casualty insurers received investment income of $89 billion.

Source: AM Best

How You Can Help Control Premium Costs

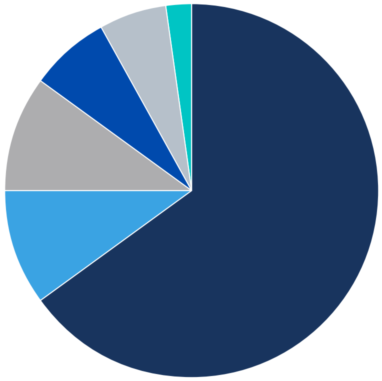
The value of insurance isn't measured by whether you file a claim this year. It's measured by knowing protection is there if you ever need it. Every premium dollar helps ensure that you, and millions of other policyholders, have access to financial protection when unexpected events occur.

If you ever experience a loss, your insurance coverage will help you get back on track. And if your neighbors experience a loss, the practice of risk pooling in insurance means they'll get the help they need.

You can also take steps to keep your premiums down:

- Take a stand against insurance fraud. Report suspected fraud, and consider installing dashcams to protect yourself from staged crashes.
- Drive responsibly. By avoiding accidents, you can help keep your insurance costs down while staying safe.
- Protect your property. Simple upgrades can reduce the risk of damage. Options include smart water sensors, security systems, defensible space and fire-resistant roofing and vents.

Are you getting the right coverage at the right price? RightSure can help you explore your coverage options.



65% Claim Payouts
10% Claim Handling
10% Broker Commissions
7% Salaries and Benefits
6% Administrative and Other
2% Taxes, Licenses and Fees

Approximate values based on 2020 to 2024 data from the Annual Report on the Insurance Industry