

Biggert-Waters and the National Flood Insurance Program

Last year, Congress passed the Biggert-Waters Flood Insurance Reform Act with broad bipartisan support to put the National Flood Insurance Program (NFIP) on sounder financial footing. Biggert-Waters made important changes to NFIP including more accurate flood zone mapping, risk-based rates, and strengthened mitigation programs. Reforms in Biggert-Waters that move NFIP toward actuarially sound rates, reflecting real risk to homeowners and protecting environmentally sensitive areas, must be quickly implemented.

Without these reforms, not only would taxpayers continually have to bail out the program, but property owners in less risky areas would have to pay more for their flood insurance relative to their risk. This cross subsidization will be necessary because FEMA is required to collect a certain amount in premiums each year—an amount that now includes catastrophic loss years. If riskier properties continue to see subsidized rates, FEMA will be forced to raise rates on other properties, unfairly burdening Americans who do not live in the riskiest areas.

NFIP has been in significant financial trouble because it subsidizes insurance rates regardless of need:

- NFIP is currently almost \$28 billion in debt to U.S. taxpayers with no way to repay the U.S. Treasury. Without key reforms, the program would continue to rely on taxpayer bailouts and would be threatened with financial insolvency.
- Over 20% of NFIP policies are deeply subsidized, regardless of need. Over a ten year period, GAO found that NFIP collected \$17 billion less than what it would have if non-subsidized rates were charged. Subsidized rates are on average half of what risk based rates should be, and in the riskiest areas, rates are a third of risk-based.
- Most subsidized properties are in counties with higher than average home values—43% of subsidized properties are in counties in the top decile of home values; 26% are in the next decile. This is compared to less than 1% of all subsidized properties in the lowest three deciles.
- NFIP's artificially low rates have not only cost taxpayers billions, but they have masked risk, disincentivized mitigation, and incentivized harmful development.

Reforms in Biggert-Waters that move NFIP toward actuarially sound rates, reflecting real risk to homeowners, and protecting environmentally sensitive areas must be quickly implemented. Efforts to delay or eliminate NFIP rate reforms merely preserve a dysfunctional and dangerous system.

Rate Reforms in Biggert-Waters Are Reasonable, Targeted, and Phased

Biggert-Waters makes reforms to NFIP that are necessary to move the program toward solvency, but are also balanced to take into account the potential financial burdens to policy holders.

- Nearly all primary residential properties will continue to have subsidized rates. According to GAO, less than one percent of primary residences will experience a rate increase due to Biggert-Waters. Out of the 438,000 policies that would no longer qualify for subsidized premium rates, only .74 percent are primary residences while the vast majority are nonprimary residences, businesses, and severe repetitive loss properties.

- According to FEMA, roughly 80% of NFIP policies or 4,480,669 policies will not be affected by rate increases as they are already actuarially rated.
- Primary residences (578,312 policies) will retain their subsidies until sale to a new owner, policy lapse, or re-mapping.
- Other properties will see 25% increases until the true risk premium is reached. This includes second homes and severe repetitive loss properties and properties that have incurred flood-related damage that exceeds the home's value. Properties experiencing repetitive losses make up a disproportionate amount of NFIP costs. CBO reports that the number of repetitive-loss properties insured by NFIP has grown by more than 50% in ten years and there are now 70,000 of these properties.
- Biggert-Waters eliminates the subsidies on newly-mapped areas, requiring properties to pay risk-based rates within 5 years of re-mapping. Prior to Biggert-Waters, even when maps were updated to reflect real risk, rates for properties in newly mapped areas were "grandfathered" and allowed to pay the old, lower rates. This meant that any property that was newly mapped would pay subsidized rates in perpetuity and FEMA would continue to collect much less than was needed to pay claims.
- Biggert-Waters also requires a study of the economic costs and benefits to taxpayers of providing flood insurance assistance to lower-income property owners.

Congress should consider implementing a premium support program as follows:

- By placing a small surcharge on all NFIP policies, FEMA could provide targeted premium support for primary residences or affordable rental properties based on need.
- Only low-income households should receive assistance, and FEMA should target funds to those who most need them.
- Funds could be used for mitigation or premium support.
- Congress should also make the following changes to the program to help with affordability of rates and accuracy of maps:
 - GAO should conduct a study on how to address affordability more broadly, including how to prioritize mitigation, and how on a longer-term basis, households with true affordability issues can be helped.
 - FEMA should immediately incorporate into its maps and its rate structure the level of protection provided by any flood control systems. Currently, if a structure does not provide protection from a 100 year flood, FEMA's maps and rates do not take into consideration the level of protection conferred (i.e. if the levee provides protection from a 50 year flood that should be accounted for in the rate structure). This will ensure more accurate mapping and will ensure that rates are actuarial.
 - FEMA should use 25% of its pre-disaster mitigation funding for properties impacted by flood insurance rate increases.