



Consumer Federation of America

Fact Sheet – Why BW-12 Must Not Be Delayed

J. Robert Hunter¹ | 703-528-0062

Director of Insurance, Consumer Federation of America

The Biggert-Waters Act of 2012 (BW-12) reformed the National Flood Insurance Program (NFIP) to improve the financial, actuarial and public safety standards of the nation’s public flood insurance monopoly. With a \$24 billion shortfall, the NFIP had become a significant burden on and threat to taxpayer dollars, and BW-12 created a pathway toward stability and equity. Delaying BW-12, as proposed by S. 1926, only increases the burden on taxpayers, decreases public safety and makes the eventual transition to full rates more expensive for policyholders.

Without BW-12, NFIP is Financially Unstable and Increases Risk

- There is no disagreement that the changes BW-12 makes are necessary to correct the NFIP’s financial problems.
- The NFIP will continue to drain taxpayer dollars if BW-12 is delayed. Every premium dollar not collected from policyholders during the delay will ultimately come out of the pockets of taxpayers.
- Lower than actuarially indicated prices encourage people to buy or build unwisely in the nation’s flood plains.

Current Subsidies Are Unfair

- Under the current haphazard system of subsidies, many receiving subsidies do not need them.
- Taxpayers, including lower-income taxpayers in regions with low flood risk, pay for subsidization, much of which benefits higher-income homeowners living on coastlines and beside lakes and rivers. (See “Where are Subsidized Properties Located” in sidebar).
- Nearly one-third of subsidies go to policies for second homes

¹ Mr. Hunter Administered the National Flood Insurance Program under Presidents Ford and Carter; and served as Texas Insurance Commissioner.

Most Americans Do Not Need or Would Be Burdened by Delay of BW-12

- Taxpayers do not need this delay and would have to pay for it;
- Flood insurance policyholders (80 percent of all flood policyholders) who will see no rate increases under BW-12 do not need the delay;
- Flood insurance policyholders who only see a small rate increase under BW-12 do not need the delay;
- Wealthy flood insurance policyholders who face large rate increases to get to actuarially sound premiums do not need the delay (don't forget, a large increase now means these policyholders have received large subsidies in the past); and
- Lower-income flood insurance policyholders facing large rate increase would not need a delay in implementation of BW-12 if more transparent, targeted subsidies were enacted by Congress (see below).

Where Are Subsidized Properties Located?

GAO found that “counties with the highest median household income and highest median home value had the highest percentage of remaining subsidized policies.”

Of the 1,075,248 policies with subsidies:

| | |
|-----------------------------|---|
| 25% are in Florida | All remaining states and |
| 8% in New Jersey | jurisdictions have less than |
| 6% each in New York & Texas | 5% of subsidized policies, 37 states have less than 2%. |

S. 1926 Would Reverse Gains Already Made Under BW-12

- BW-12 has already begun to phase out subsidies for the 1.1 million subsidized policies. About 175,000 subsidized second homes are halfway to full rates, and the remaining 175,000 second homes are one-quarter of the way. Subsidized rates for non-residential buildings and severely flooded homes are also on their way to full rates. The bill not only stops much of this progress, it apparently (depending on the meaning of the word “restore” in the bill) will require NFIP to pay back all the premium collected above the old subsidized rate for some of the structures already paying more adequate rates.

Premium Hikes Will Be More Severe if Transition is Delayed

- Delaying BW-12 does not solve any newly identified problems; it only attempts to put off the necessary corrections that will cause some rates to go up, corrections of which Congress was well aware of when it passed BW-12.
- We should not delay what is known to be urgently necessary, because all of the same political pressures will still exist to not fix the NFIP in four years that exist

today. If a four-year delay precedent occurs under S. 1926, what is to stop Congress from delaying again after the four-year period expires?

- New construction in flood plains drives flood elevations up, so the jump to full actuarial prices will be even greater four years from now than it is today.

Recommendations for Congress

Targeted Subsidies

- Develop a targeted subsidy for lower-income flood insurance policyholders to ensure affordability of NFIP policies. Congress should not wait for the “Affordability Study” since the decision to provide targeted assistance to those in need is a political, not a scientific, decision. Congress should not delay BW-12 but muster the courage to allow the NFIP to become sound and enact targeted subsidies now.

Public Safety Improvements

- Require FEMA to produce elevation estimates for the nation within two years (Congress required the mapping of the entire nation in about two years under such a mandate in the early 1970s, a much more difficult task, which was accomplished).

Increased Program Efficiency

- Require FEMA to eliminate well-documented excesses in insurer overhead costs associated with the Write Your Own (WYO) program and pass these savings to consumers.
- Require FEMA to make more use of the direct program and less of WYO and pass the savings on to the policyholders. A direct program requires no commissions and has about half as much in overhead as WYO approach, so it would provide large savings for consumers who chose to use it.
- As rates rise quickly, cap the increase in agent’s commission dollars to no more than a certain percentage above the old commission dollars or simply institute a lower percentage commission on the formerly subsidized structures (since rates for these structures are expected to rise by about 100%, the commission could be cut in half without lowering agent income). Pass on these savings to consumers.
- Do not allow FEMA to pay commissions to insurers that do not use agents and pass on these savings to consumers.

Recommendations for Communities and Consumers

Actions Communities Can Take to Reduce Risk and Lower Premiums

- Mitigate risk.

- Join the NFIP Community Rating System program.
- Seek mitigation grants from FEMA.

Actions Consumers Can Take to Reduce Risk and Lower Premiums

- Obtain an Elevation Certificate. If it shows lower risk, immediate relief is available. A discussion of Elevation Certificates is provided below.
- Raise the policy deductible and get immediate relief.
- Mitigate the structure.
- Work to get your community to mitigate your part of town.

Consumers with Rates Increasing Should Consider Getting Elevation Certificates (“EC”)

The full rate is based on the lowest floor elevation of a structure. Most structures built in high-risk zones after the maps were in place (1974) have elevations. The homes built before the maps (called “pre-FIRM”) are the ones often without an EC. ECs are needed only in the high-risk flood zones (Zones identified with an “A” or a “V”). Getting an EC is important for a homeowner who thinks the new rate after the subsidy is removed is too high since a higher elevation means a lower rate. FEMA published a hypothetical where the subsidized rate is \$3,600 a year in a high-risk zone. As for the rates with no subsidy; (1) if the home is at the base flood elevation (BFE is the flooding level for a 1% risk flood) on an EC the premium drops to \$1,815, (2) if the home were 3 feet above BFE the premium would be only \$553. However, if the home were 3 feet below BFE the rate would jump to \$10,723.

The cost of an EC can be high. Our research showed one community where the average cost was \$350 but others where the cost was \$800 and up. FEMA says typical is \$500 to \$2,000. Don’t forget to try your community’s housing department files. Elevation information is sometimes in those files. Also, the builder of your home may have the information. FEMA is studying ways to lower this cost and the research is due in June 2014.

Conclusion

Two years ago, Congress made the right decision to face up to the real need to fix the NFIP. Now, the nation, and particularly those living in flood prone areas must begin the process of adjusting to this reality. In fact, the most responsible approach now is to implement BW-12, demand efficiency from NFIP and enact targeted subsidies for lower-income residents to smooth this transition to a sustainable flood insurance program.