Flood insurance revamp aims for fairer rates

Seattle Times

A revamped U.S. flood insurance program going into effect this month will charge rates the federal government says better reflect a home's risk, a change that could mean higher premiums for coastal mansions and — for the first time — reduced rates for others.

The Federal Emergency Management Agency says its new formula means owners of lower-cost homes will no longer be subsidizing the flood risk for pricier, waterfront properties.

"This is about fairness," says Craig Fugate, former FEMA administrator under President Barack Obama. "People should be paying what their risk is."

The FEMA program is often the only flood insurance available in areas vulnerable to hurricanes and heavy rains, such as Louisiana's Gulf Coast. The agency underwrites the policies, which homeowners can buy through private insurance companies.

The new pricing method — known as Risk Rating 2.0 — takes effect Friday for new policies. Existing policyholders will see changes in April, but those up for renewal can apply for lower rates right away.

HOW IS THE NEW PROGRAM DIFFERENT?

It factors in more variables in determining a home's flood risk.

Previously, rates were based largely on a property's elevation and whether it was built in a designated flood zone, which FEMA defines as having a 1% chance of being flooded in any given year. But many experts say that didn't accurately capture flood risk, noting many communities damaged in recent hurricanes were not in such areas.

The new program takes into account different kinds of flooding that can damage property — including overflow from a river, storm surge, coastal erosion and heavy rainfall — as well as how far a home is from a water source.

Another new factor: the estimated cost for rebuilding after damage. Since smaller homes cost less to replace, FEMA says the change will lead to fairer pricing.

WHO WILL BE AFFECTED?

About 3.4 million single-family homes have policies under the FEMA program, which also serves businesses and renters. The average annual premium is $739.

Under the new program, about 625,000 single-family homeowners will see their rates decline, which hasn't happened before in the program's more than 50-year history. Rates for the rest will stay about the same or go up, according to FEMA. Increases are limited to 18% a year.

Most of the rate hikes in the first year won't exceed $120, though about 3% of policies will go up by more than $240 and keep rising until a new target price for the plan is reached.

But the total cost for a single-family homeowner can no longer exceed $12,125, a cap that could bring relief to some. Previously, the highest premium was $45,925.

Coastal areas in California, Florida, Louisiana, New Jersey, New York, South Carolina and Texas will see the biggest changes.

Among the most affected areas is Texas' sprawling Harris County, which encompasses Houston and was badly damaged by Hurricane Harvey in 2017. In Louisiana, New Orleans and surrounding areas recently struck by Hurricane Ida will see changes.

WHO WILL SEE RATES JUMP?

Relatively few policyholders will see big increases. But for those that do, the jump could be significant.

John Case, co-owner of the Lowry-Dunham, Case & Vivien insurance agency in Louisiana, says one policy on a duplex he checked will eventually rise from about $625 to more than $4,500 a year.

"We're hoping that the severity of this has not hit home yet and that there will be some reconsideration," Case says, adding that flooding is such an expensive risk that insurance for it needs to be subsidized, a principle of the federal program he says is getting lost in the new pricing method.

Joel Scata, a water and climate attorney at the Natural Resources Defense Council, says more accurate rates will lead to more informed development decisions. He says FEMA's old approach hid the true cost of flooding.

"If you don't know what your flood risk is, you can't take action to protect yourself," Scata says.

HOW DO HOMEOWNERS KNOW IF THEIR RATES WILL CHANGE?

So far, FEMA has only released information on price changes for the first year, and has not disclosed the eventual full cost of the policies.

Source: https://uphelp.org/flood-insurance-revamp-aims-for-fairer-rates/ Date: July 18, 2024