Reports Advise How to Make Flood Insurance Affordable

A new report suggests the federal flood insurance program may want to target mitigation grants to households with high premiums, urge homeowners to select higher deductibles, expand the educational role of insurance agents, and provide mitigation loans to help make flood insurance more affordable.These proposals are part of a new Congressionally-mandated report looking at ways to make flood insurance more affordable. The report was prepared by the National Research Council (NRC), the operating arm of the National Academy of Sciences (NAS), for the Federal Emergency Management Agency (FEMA), which manages the flood program.The report found that other policies that have been raised as possibilities for addressing affordability such as reduced administrative fees, disaster savings accounts, and income tax credits and deductions "either may not have an effect on lowering premiums or may not be accessible to cost-burdened policyholders."Another ReportA second report by an environmental interest group due out Wednesday promises to go even further, urging the government to make it easier for people to move out of areas vulnerable to flooding and coastal storms. This proposal from the Natural Resources Defense Council (NRDC) would "guarantee homeowners a buyout in exchange for reducing their flood insurance premiums," according to the announcement by the group, which plans to reveal details Wednesday."NRDC's proposal would guarantee the ultimate mitigation action — moving out of harm's way," said RDC senior policy analyst Rob Moore.Moore said his group's reforms could "transform the NFIP from a program that prolongs flood risk and is a serious financial liability into one of the best tools the nation has to prepare for the impacts of climate change and decrease our current and future vulnerability to floods."FEMA ChallengesThe NAS report notes that the National Flood Insurance Program (NFIP) within FEMA faces the dual challenge of keeping flood insurance premiums affordable while also ensuring that premiums and fees cover claims and expenses over time, yet these objectives "are not always compatible and may, at times, conflict with one another." NFIP currently owes the Treasury about $23 billion.A Government Accountability Office (GAO) report last month that evaluated the performance of FEMA's management of the NFIP said that while the agency has made progress in carrying out key changes mandated by Congress in two recent laws, it has lacked

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resources and data to completely implement others, including producing required studies on affordability.FEMA told GAO that the studies had been delayed by data challenges but that the National Academy of Sciences would deliver two reports — one this Spring and another in the Fall — that identify approaches for both an NFIP affordability framework and nationwide affordability study.Targeted AssistanceThe just-released first NAS report discusses measures that could make insurance more affordable and provides a framework for designing targeted assistance programs. It suggests that a combination of policy measures, rather than a single step, could help address affordability concerns.The NAS said that a second report later this year will propose alternative approaches based on lessons learned from a proof-of-concept study.According to the new report, there are no objective definitions of affordability. The report says that it is up to policymakers to determine which households will receive assistance, the form and amount of assistance provided, how it will be provided, who will pay for the assistance, and how an assistance program will be administered.While the NAS report does not recommend whether specific policies should be implemented, it identifies these as possible measures:Prioritizing existing mitigation grants to households burdened by premiums. Mitigation could help lower the risk of flood-related damage, in turn reducing expected claims and premiums.Providing loans to financially burdened households for investments in mitigation measures.Issuing vouchers to policy holders for use in paying premiums or offsetting mitigation costs.Expanding the range of mitigation measures that can result in reduced premiums.Encouraging homeowners to choose higher deductibles.Expanding the role of insurance agents in educating policyholders about mitigation and other premium-reducing alternatives.Relying on the U.S. Treasury to help pay claims in catastrophic loss years to allow for lower risk-based premiums and less spending for an assistance program.Community measures that can lower premiums, such as enrollment in the Community Rating System and supporting mitigation that benefits clusters of structures, especially multifamily properties.

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