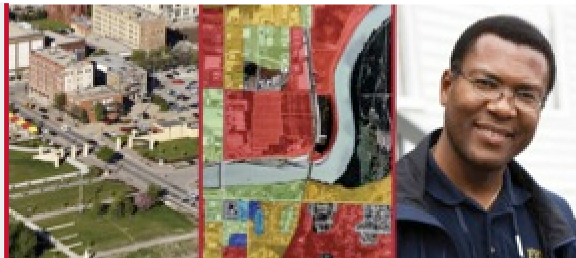
Changes Coming to the National Flood Insurance Program – What to Expect

Impact of changes to the NFIP under Section 205 of the Biggert-Waters Act



The NFIP - How it Works

Image by Al Goff

Why the Changes to the NFIP?

- 1968: Congress created the NFIP to make affordable flood insurance generally available (flood damage is not covered by most homeowners' insurance policies)and to decrease Federal disaster assistance expenditures.
- To participate, communities adopt and enforce floodplain management measures for all new development.
- For structures built before FEMA mapped the Special Flood Hazard Area (SFHA) (called pre-FIRM properties), the NFIP made flood insurance available at subsidized rates that did not reflect the true risk of flooding .
- 45 years later: Flood risks continue, and the costs and consequences of flooding are increasing.
- Artificially low rates and discounts no longer are sustainable.
- In 2012, Congress passed legislation to make the program more sustainable and financially sound over the long term.

THE BIG PICTURE

- 5.6 MILLION ACTIVE FLOOD INSURANCE POLICIES IN U.S.
- 80%, OR 4.5MM ARE POST FIRM, 20%, OR 1.1MM ARE PRE-FIRM
- TOTAL PREMIUMS PAID ANNUALLY, 3.65 BILLION.. ROUGH NUMBER, AVERAGE POLICY IS $650 ANNUALLY.
- THE AVERAGE IS SKEWED BECAUSE THE PREFIRMS ONLY PAY 40-45% OF THE TRUE RISK OR ACTURIAL RATE. OBVIOUSLY BUSINESS AND GOVERNMENT BUILDINGS PAY AN OVERALL HIGHER RATE.
- 25%, OR 1.4MM POLICIES ARE IN X ZONES AND GET A PREFERRED POLICY RATE.
- AS A RESULT OF MAJOR STORMS AND FLOODING EVENTS LIKE KATRINA, IRENE,SANDY, ETC ,PLUS THE PREFIRM SITUATION, NFIP IS 24-27 BILLION IN DEBT, WITH NO END IN SIGHT. PROGRAM WAS DESIGNED TO BE SELF SUSTAINING.

Changes are Coming to the NFIP

- **Congress passed the Flood Insurance Reform Act of 2012 (Biggert Waters 2012), which will:**
  - Make the NFIP more financially stable by raising rates on certain classes of property to reflect true flood risk; and
  - Trigger rate changes for certain properties within a revised or updated map area to accurately reflect the flood risk.

- **The changes will mean rate increases for many policyholders over time.**
- **Buying or selling a property, or allowing a policy to lapse may trigger rate changes.**
- **There are investments you and your community can make to reduce the impact of rate changes.**

What is Changing?

- **Flood insurance rates**
  - Rates for most properties will more accurately reflect risk.
  - Subsidized rates for non-primary residences are being phased out now.
  - Other subsidized rates will be eliminated over time:
    - New policies sold after July 6, 2012 to cover previously uninsured properties; and
    - Purchase of a property, allowing a policy to lapse, repetitive loss or cumulative damage, or other events, could trigger rate changes beginning in 2013.
  - When a community adopts a new flood map, discounts like grandfathering will be phased out – meaning premiums will increase over time. Expected in 2014
- **Flood risks and the costs of flooding**
  - Weather patterns, erosion, and development are a few factors increasing flood risk in many communities.
  - Better science, improved tools and more data are providing more accurate definition of flood hazards.
  - More buildings and other infrastructure are being built in areas at risk for flooding and replacement costs continue to grow.

Who Will Be Affected by Subsidy Changes?

- **Not everyone –** only 20% of NFIP policies receive subsidies – and an even smaller number will see immediate changes.
- Owners of subsidized **non-primary residences** in a Special Flood Hazard Area will see 25% increase annually until rates reflect true risk – began January 1, 2013.
- Owners of subsidized **property that has experienced severe repetitive flood losses** or that has incurred flood cumulative damage with flood insurance payments exceeding the value of the structure will see 25% rate increase annually until rates reflect true risk – beginning late 2013.
- Owners of subsidized **business properties in a Special Flood Hazard Area** will see 25% rate increase annually until rates reflect true risk -- beginning late 2013.
- Owners of substantially damaged or substantially improved subsidized property will see 25% rate increase.

LOSS OF PREFIRM RATE

- EXAMPLE-STRUCTURE FOUR FEET BELOW BFE WITH PRE FIRM RATE OF $2,000 PER YR. –New maps come in

YEAR 1 PREMIUM (25% OVER $2000)	$2500
YEAR 2 PREMIUM (25% OVER $2500)	$3125
YEAR 3 PREMIUM (25% OVER $3125)	$3906
YEAR 4 PREMIUM (25% OVER $3906)	$4883
YEAR 5 PREMIUM (25% OVER $4883)	$6104
YEAR 6 PREMIUM (25% OVER $6104)	$7630
YEAR 7 PREMIUM (25% OVER $7630)	$9537 OR RISK BASED

PREFIRM PRIMARY RESIDENCE

- AT THIS POINT, PREFIRM PRIMARY RESIDENCES CAN KEEP THEIR SUBSIDIZED RATES UNLESS OR UNTIL:
- THEY LET THEIR POLICY LAPSE-VERY IMPORTANT
- THEY SUFFER SEVERE, REPEATED FLOOD LOSSES
- THEY PURCHASE A NEW POLICY
- IF PROPERTY IS SOLD, NEW OWNER WILLPAY NEW FULL RISK RATE; IF BEQUEATHED TO FAMILY, NO MONEY INVOLVED, SUBSIDY STAYS, ASSUMING POLICY HAS REMAINED IN FORCE CONTINUOUSLY

SEVERE REPETITIVE LOSS PROPERTIES

- 8,300 IDENTIFIED IN USA. THESE INSURED PROPERTIES HAVE EITHER A HIGH FREQUENCY OF LOSSES (4 OR MORE CLAIMS OF $5,000 OR MORE EACH), OR AT LEAST TWO CLAIMS WHERE PAYMENTS EXCEED TOTAL VALUE OF STRUCTURE
- NFIP HAS SPENT OVER $3.5 BILLION ON JUST THESE CLAIMS
- WOULD CHARGE ACTURIAL RATES TO ANY PROSPECTIVE INSURED THAT REFUSED TO ACCEPT ANY OFFER OF MITIGATION ASSISTANCE FOLLOWING A DECLARED DISASTER, OR IN CONNECTION WITH A REPETITIVE LOSS PROPERTY

When Will Changes Occur?

- **Now – Changes underway:**
  - Full-risk rates will apply to property not previously insured, newly purchased, or to a policy which is repurchased after a lapse.
  - Premiums for older (pre-FIRM) non-primary residences in a Special Flood Hazard Area will increase by 25 percent each year until they reflect the full-risk rate – began January 1, 2013.
- **Later in 2013:**
  - Premiums for pre-FIRM business properties, severe repetitive loss properties (1-4 residences), and properties where claims payments exceed fair market value will increase by 25 percent each year until they reflect the full-risk rate.
  - Normal rate revisions which occur annually, and increases will include a 5% assessment to build a catastrophic reserve fund.
- **Late 2014:**
  - Premiums for properties affected by map changes will increase over five years at a rate of 20 percent per year to reach full-risk rates.

What Can I Do to Lower Costs?

- **Home and business owners:**
  - Talk to your insurance agent about your insurance options
    - You'll probably need an Elevation Certificate to determine your correct rate
    - Higher deductibles might lower your premium
  - Consider remodeling or rebuilding
    - Building or rebuilding higher will lower your risk and could reduce your premium
    - Consider adding vents to your foundation or using breakaway walls
  - Talk with local officials about community-wide mitigation steps
- **Community leaders:**
  - Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
  - Talk to your state about grants. FEMA issues grants to states which can distribute the funds to communities to help with mitigation and rebuilding.

COMMUNITY ACTIONS TO TAKE

PARTICIPATE IN CRS PROGRAM

- ADD HIGHER REGULATORY STANDARDS TO ORDINANCE; DEVELOP MORE COMPREHENSIVE FLOODPLAIN MANAGEMENT PLAN, ESTABLISHING MORE GREEN SPACE, NO DEVELOPMENT IN FLOODWAY, OUTREACH AND ENFORCEMENT TO BUILD CORRECTLY , ETC.
- CHECK ON FEDERAL OR STATE MITIGATION GRANTS
- PERMIT CORRECTLY-EMPHASIZE NEED FOR EC TO EVERYONE
- FEMA CAN OFFER TECHNICAL BUILDING AND REBUILDING ADVICE TO EFFECTIVELY LOWER PREMIUMS OVER TIME

WHAT TO ADVISE PEOPLE

- ADVISE ANY PREFIRM OWNER NOT TO LET THEIR POLICY LAPSE
- ADVISE PREFIRM BUSINESSES, GOVERNMENT BUILDINGS THAT IF THEIR POLICY'S COME UP FOR RENEWAL BEFORE OCTOBER 1 ,2013 THEY WILL GET ONE MORE YEAR AT LOWER RATE. THEN EXPECT INCREASES OF 25% YEARLY UNTIL FULL RISK RATE ACHIEVED
- SUBSTANTIAL IMPROVEMENT OF 30% OR MORE OF MARKET VALUE WILL TRIGGER FULL RATES
- IF REPETITIVELY FLOOD DAMAGED, EITHER MITIGATE OR ACCEPT BUYOUT OFFER, IF MADE
- ADVISE STRONGLY TO HAVE FINISHED ELEVATION CERTIFICATE DONE BY A QUALIFIED SURVEYOR. IT CAN BE A PIECE OF GOLD, LITERALLY SAVING THOUSANDS AND THOUSANDS OVER A PERIOD OF TIME

BENEFITS OF B-W ACT 2012

Extends program 5 years

- More fairly distributes risk from a premium standpoint`
- Allows for premium payments in installments rather than one lump sum annually
- Limits banks force placement of Insurance-must cancel policy and refund premium upon owners proof of WYO Insurance
- Establishes process to allocate storm and hurricane damages between wind and water damage
- If a higher premium rate is forced upon a policyholder due to a map change, rates will be phased in over a five year period at 20% per
- Authorizes 2 billion to be spent on floodplain mapping for 2013-17. This could lead to such projects as LIDAR mapping of whole sections of approximate A Zones, more technical studies, better topography, etc.

DRAWBACKS TO B-W

- PLACE UNDUE HARDSHIP ON PREFIRM RESIDENTIAL OWNERS, BUSINESSES AND GOVERNMENT INSTITUTIONS TO AFFORD STIFF INCREASES
- EVERYONE GETS AUTOMATIC 5% INCREASE FOR RESERVE FUND
- MANY MAY SIMPLY DROP OR ELECT NOT TO PURCHASE INSURANCE IF NOT REQUIRED TO HAVE.

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NEW MAPS- NOW BELOW BFE.

- EXAMPLE- BUILDING WAS BUILT POST FIRM ACCORDING TO REGULATIONS -NEW MAPS COME OUT, SAYING YOU ARE NOW 4 FEET BELOW BFE VIA NEW FLOODPLAIN STUDIES. YOU WILL BE PHASED IN TO THE NEW HIGHER INSURANCE RATE AT 20 % A YEAR OVER FIVE YEARS

What Do I Need to Remember?

- **Many changes are coming to the Flood Insurance program**
  - Congress acted to make program stronger financially.
- **On many more policies, flood insurance rates will reflect full risk.**
  - Insurance rates will rise on some policies; and
  - There are specific actions which will trigger rate changes.
- **Talk to your insurance agent about how changes may affect your property and flood insurance policy.**
- **Building or rebuilding higher can lower your flood risk and could save you money.**
- **FEMA can help communities lower flood risk and flood insurance premiums through:**
  - CRS program;
  - Various mitigation grants; and
  - Technical advice on building and rebuilding to mitigate future flood damage.

THINGS TO REMEMBER, CON'T

- BUILT PRIOR 1975, OR WHEN GOT FIRST FIRM, THESE ARE INSURED AT PRE-FIRM RATES
- BUILT POST-FIRM, IN COMPLIANCE AT THE TIME; NEWER FIRM SAYS MORE RISK OF FLOODING;ARE PHASED INTO NEW RATE 20% A YEAR OVER FIVE YEAR PERIOD
- PRE-FIRM PRIMARY RESIDENCES WILL CONTINUE TO RECEIVE DISCOUNTED RATES SO LONG THEY DON'T LET POLICY LAPSE, SELL HOUSE, SUBSTANTIALLY IMPROVE, ETC.. OPINION, THESE WILL BE NEXT ROUND OF INCREASES
- LONG TERM, ALL GRANDFATHERING ,PREFIRM, DISCOUNTS, SUBSIDIES WILL BE FAZED OUT.

GET REAL CONSIDERATIONS

- WITH ANNOUNCED PREMIUM INCREASES, NFIP IS TO GENERATE 3.7 BILLION OVER 10 YEARS. PRESENTLY IN DEBT 24-27 BILLION. ADD IN SANDY AT 7 BILLION MORE. MAJOR STORMS -CLAIMS COSTING MORE AND MORE. AT THIS RATE, THEY'LL NEVER CATCH UP
- LAW RAISED CEILING OF HOW MUCH NFIP COULD INCREASE PREMIUMS ON ANY STRUCTURE ANNUALLY FROM 10% TO 20%, VIRTUALLY ASSURING ALL PREMIUMS WILL GO UP CONSIDERABLY
- MONEY HAS TO COME FROM SOMEPLACE TO MAKE PROGRAM MORE STABLE FINANCIALLY.
- THOSE IN FLOODPLAIN WILL HAVE TO BEAR THE TRUE RISK EXPENSE ,MITIGATE, OR MOVE OUT.
- BOTTOM LINE-MORE BIG CHANGES COMING. LOOK HARD AT PREFERRED RISK POLICIES. 25% OF ALL POLICIES, AND GROWING. IF NEWLY MAPPED INTO A SFHA, CAN NO LONGER EXPECT TO BE GRANDFATHERED IN AT OLD PRP RATES

THE END

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