

National Flood Insurance Program Reform 101

Drowning in Rising Sea Levels and Debt

Extreme weather events are putting more and more properties at risk of flooding due to seasonal weather and the changing climate. The nonpartisan Congressional Budget Office (CBO) estimates the annual [economic impact](#) of hurricane and storm related flooding is \$54 billion and growing. In America's coastal communities, where population and wealth are increasing, the costs of such extreme weather events [are also expected to rise](#).

The federal government must reform its coastal resilience efforts and natural disaster policies to better adapt. One of the largest policies in need of reform is the National Flood Insurance Program (NFIP). The NFIP, operated by the Federal Emergency Management Agency (FEMA), is poorly structured and places undue burdens on taxpayers because it subsidizes second homes and allows owners to pay below-market rates for insurance. The program is already some [\\$20 billion in debt](#), with several more tens of billions having been "forgiven" by Congress. The NFIP must be reformed to better protect people's property most at risk without burdening taxpayers who are not at risk.

Fact vs. Myth

- **FACT:** The NFIP puts a [significant strain](#) on the federal budget and taxpayers.
- **MYTH:** Reforming the NFIP and allowing private insurers to compete would disproportionately harm low-income households.
 - The Government Accountability Office (GAO) [finds](#) that a majority of NFIP premiums were in high-income areas and for second homes.
- **FACT:** Poor policies under the NFIP put more citizens in harm's way, because they do not adequately take financial account of the risk of flooding to homes in certain areas.

The Problems of the National Flood Insurance Program

- The Congressional Research Service (CRS), in its January 2021 [report](#), found that ***the NFIP is over \$20 billion in debt.***
 - Taxpayers are on the hook to [pay this debt](#), as federal insurance programs begin to fail amid increased flooding and the effects of climate change.
 - A 2017 Congressional Budget Office (CBO) [report](#) found the NFIP had a \$1.4 billion shortfall in 2016. Much of that is due to poorly priced premiums in coastal communities. Rates in those regions do not accurately reflect risk.
- ***FEMA's flood mapping methodology fails to protect homeowners.***
 - Flood maps only [reflect](#) past flooding and fail to take into account how future rises in sea level and the effects of climate change may impact flooding.
 - The First Street Foundation [found](#) that flawed mapping missed 6 million properties at risk of flooding, leading to inaccurate insurance rates & unprotected households.
- ***The NFIP encourages bad building practices.***
 - The NFIP [covers](#) new constructions in high-hazard areas, offering below market rates on flood insurance, further incentivizing bad building practices.

- Allowing rates of a particular area to remain the same even as the risk increases, a practice known as “[grandfathering](#),” puts homeowners at risk and weakens the incentive for structures to be built for resilience.
 - The Congressional Budget Office (CBO) [found](#) that 56% of policy holders in Zone V, the highest-risk zone for NFIP coverage, have grandfathered rates.

Markets vs Mandates

- Past [federal intervention](#) has made the problems of the NFIP worse.
 - The [Homeowner Flood Insurance Affordability Act of 2014](#) capped subsidized and grandfathered rates, ensuring that NFIP rates would fail to accurately reflect risk.
 - It also repealed sections of the Biggert-Waters Act that [eliminated](#) subsidies for 438,000 policies, 345,000 of which were for second homes.
- [Unlocking barriers](#) for private insurers should result in more accurate rates, smarter building practices, and less coastal damage.

How to Reform the NFIP to better Protect Americans

- The government should [stop covering](#) new construction in high-flood areas.
- Improve pricing and mapping transparency in the NFIP and end the practice of [grandfathering](#). This means rates will accurately reflect risk, and no longer encourage Americans to move into harm's way.
- Wherever possible, transfer rates to private insurance markets that are better equipped to mitigate risk.
 - Doing this will lessen the financial burden that the NFIP has on the federal budget, freeing up resources for other investments in climate-related solutions such as infrastructure improvements or energy innovation.
- Invest in natural solutions to help mitigate flood damage.
 - Smart investments in natural mitigation resources, such as wetlands, mangrove forests, or grasslands, could reduce the severity of flooding.
 - The CBO [found](#) that for every \$1 spent on such pre-disaster mitigation efforts, \$3 in future losses were avoided.

Summary

- The NFIP is more than \$20 billion in debt, fails to protect citizens, and must be reformed.
- In order to fix the NFIP’s current problems, the government should end the practice of grandfathering in rates, which encourages bad building practices.
- The government should unlock barriers to allow private insurers into the market. This would result in more accurate rates and less economic damage.
- It should also invest in natural, cost-effective solutions to help mitigate flooding risks.

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