Flood Insurance – Affordability and Availability

November 2015
Overview

Tensions Between:

- Risk Based Rates
- Affordability
- Participation
- Resiliency
Prior to recent legislation, premiums were capped but did not reflect structure’s actual risk

- **Pre-FIRM Subsidies**
  
  *Provide reasonable rates for structures built before risk was identified by simply charging less*

- **Grandfathering**

  *Retain rating classification when maps change by cross subsidizing with other policyholders*

Recent legislation removed and reinstated subsidies

- **Pre-FIRM Subsidies**

  *25% Increases for non-primary, severe repetitive loss, business, substantial damage in 2012 upheld in 2014; sale to new owner immediate full risk in 2012, removed in 2014, replaced by 5-15% increases for all other than 25% groups.*

- **Grandfathering**

  *Eliminated in 2012, reinstated fully in 2014*
Risk Based Rates – PWC Study

- 45% at 0 and above,
- 30% at -1 and -2,
- 12% at -3, -4 and -5, and
- 13% at -6 and below.

https://www.fema.gov/media-library/assets/documents/9432?id=2555
National Academy of Sciences Affordability Study

- Legislation requires FEMA to:
  1) work with the NAS to complete an affordability study, and
  2) deliver an affordability framework to congress after completion of the affordability study

- The first report was released in March 2015 and covered definitions and policy decisions for an affordability program
- The second report will be released late 2015 and will only cover the design of a nationwide evaluation of an affordability program
- The second report will not deliver the results of a nationwide evaluation due to data gaps
- These reports will inform FEMA’s affordability framework, due 18 months after completion of the affordability study
Affordability Study Phase I

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http://www.nap.edu/catalog.php?record_id=21709
Other Resources

https://www.fema.gov/media-library/assets/documents/9606?id=2599
https://www.fema.gov/national-flood-insurance-program-evaluation