



Reforming federal flood insurance policies

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By what measure of fairness should a citizen living in Iowa be forced to subsidize the weekend shorefront home of a wealthy New Jerseyite? Or a resident of Flatbush underwrite beachfront homes in Louisiana?

Congress is now grappling with this question, because the National Flood Insurance Program, which many homeowners in flood-prone areas rely on for coverage, is as under water as some of the homes the program is supposed to protect. The NFIP, which is supposed to be self-sustaining, is today \$24 billion in debt after being overwhelmed by storms from Katrina to Sandy.

Congress has rightly recognized that the program cannot go on as is. The main problem is the perverse incentive that results when the people who take the risk (building or buying in a flood-prone area) do not assume the cost of that risk. The Biggert-Waters Flood Insurance Reform Act, passed before Sandy, was meant to fix the problem by placing the costs of these risks back where they belong: with the owners.

That's a sound principle, but it's now hit a snag because of Sandy. The people who lost their homes to Sandy bought their properties under the old arrangement with the old assumptions. The change in rules and flood maps may make their properties less valuable, as the real risks becomes factored into the price of insurance.

As a result, there is now legislation that would essentially delay these reforms for several years. Mark Calabria, a former Senate staffer who is now director of financial regulation studies at the Cato Institute, says there is a better way to take care of people in need without gutting the reform.

“Rather than just kick the can down the road,” he says, “any delays in rates should be targeted to those with a hardship. Ultimately, a better solution for the taxpayer would be to allow those who cannot afford federal flood insurance to choose reduced coverage or leave the program altogether.”

This is a better way forward, because it would give those with special hardships relief while gradually ending the subsidies that make the program unsustainable. If we are to build and rebuild wisely, Congress needs to stop giving people tax dollars to build in high-risk areas.