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Taxpayers Still Helping Pay for FEMA Flood Insurance

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Life on the water is a dream for many homeowners — until their property floods.

After Superstorm Sandy ravaged New Jersey, some homeowners moved away to avoid the risk of severe flooding, but many stayed and rebuilt. And there's been no slowdown in construction in flood-prone areas, even as severe storms and flooding become more common because of climate change.

Flood insurance policies allow people to stay in areas that are at risk of being under water someday.

For decades, taxpayers have been subsidizing flood insurance rates, but new premium calculations by FEMA will adjust rates to better reflect the true risk of flood-prone homes. Costs will be higher for 79% of insured homes in New Jersey, but it will take years before owners of the riskiest properties in the state pay the full premiums.

The average cost of a flood insurance policy in New Jersey is $949 a year, often cheaper than an annual car insurance policy. The low premiums coupled with high payouts have put the National Flood Insurance Program (NFIP), which is run by the Federal Emergency Management Agency (FEMA), more than $20 billion in debt. Another $16 billion of debt was forgiven in 2017.

The program covers some 217,000 properties in New Jersey and 5 million nationwide. Over the past 10 years, it's paid out an average of $47,700 per claim in New Jersey alone.

"It's hard to rationalize taxpayer support for people who live in flood zones," said Peter Van Doren, senior fellow at the Cato Institute.

He said that's not how the program, which started in 1968, was supposed to work.

Van Doren cited a 2015 National Research Council (NRC) report, which said the expectation was that, over time, properties receiving subsidized premiums would eventually be lost to floods and storms.

But that didn't happen. Congress tried to reform flood insurance in 2012, but then Sandy hit.

"FEMA subsequently released new flood maps indicating increased risk and thousands of homeowners were faced with large premium increases," Van Doren said, noting that Congress then retreated from earlier attempts at reform.

A START AT REFORM

Whether a policy covers a multi-million dollar home or a bungalow, the cost has been essentially the same, leaving owners of lower-cost homes to pay similar rates as mansion-owners.

That's slowly changing under the new flood insurance price assessment called Risk Rating 2.0. Rather than only consider what flood zone a property is in and whether a home is elevated, rates will now be based on rebuilding costs and a property's unique flood risk, FEMA said, noting that the change will make pricing more equitable.

"The changes that are being made will make the program more economically rational so that it would not be a burden on the taxpayer," said Jerry Theodorou, director of insurance for the R Street Institute, a nonprofit public policy research group. "We consider it unfair that ordinary taxpayers are subsidizing the cost of flood insurance for people who can well afford it."

He said he recently asked the management of the national flood insurance program how long it will take for expensive and riskier homes to pay the actuarially correct cost given that premiums, by law, can at most be raised 18% a year.

"The answer was 10 years or more," he said.

The way to get to economic soundness would be to have the private market take over, Theodorou said.

"The government doesn't need to be in the business of flood insurance," he said. "The bad news is that this year, they're going to lose more money, but gradually you're going to start to see the rates approach actuarily sound levels, and that's a good thing."

HOW MUCH IS N.J. PAYING?

The new premium calculation went into effect earlier this month for new policies, and it will start in April for current policyholders, who make up about 6% of New Jersey's more than 3.6 million housing units, based on Census data. Some rates will go up while others will go down.

An analysis of FEMA data shows that Camden, Morris and Passaic Counties are in the top 125 counties in the nation that will see the highest rate increases of $1,200 a year or more in just the first year under the new system, said Nick VinZant, senior research analyst for QuoteWizard, a division of online mortgage company Lending Tree.

Here's a look at what percentage of policies, by zip code, will see their premiums rise in New Jersey.

When the new rates kick in, 79% of federal policies in the state will go up. Of the 217,200 New Jersey properties with policies, about two-thirds, or 137,075, will see increases of $120 or less per year. Ten percent, or 22,426, will see hikes of between $120 to $240 per year. Five percent, or 11,364, will see the costs rise by $240 per year or more.

"We're still going to be subsidizing some of these risky homes, but this is the beginning of a new trend in flood insurance," VinZant said. "The beachfront mansions are going to be paying a greater and greater portion going forward. Riskier properties will be paying their fair share. "

Twenty-one percent of properties will actually see their costs decrease.

Salem (47%), Cumberland (42%), Essex (38%) and Union (38%) Counties have the largest number of policies whose costs will go down, according to the FEMA data.

Hudson (87%), Ocean (83%), Hunterdon (83%) and Burlington (81%) Counties will see the largest percentage of premium increases.

It will take many years for some homes to reach what FEMA calls a "full risk rate," or the full amount a policy would cost under the new formula. That's because by law, rates can't go up more than 18% per year.

Sen. Bob Menendez, who said he plans to reintroduce legislation to lower the annual increase to 9%, has said the current increases will compound quickly.

Only 50% of the primary residences will hit their full rate after five years, 40% will take five to 10 years, and 10% will take longer, his office said.

"So it's easy to see how the increases can scale to thousands of dollars," it said. "On a more immediate level, 316 policyholders in New Jersey will see an annual increase of at least $1,200 under Risk Rating 2.0 in the first year, four of which are in Paterson with a median household income of $41,000 a year."

THE EFFECT OF CLIMATE CHANGE

People who stay in flood-prone areas will continue to roll the dice because of climate change, VinZant said.

"Flood insurance used to be about a 100-year flood, but we're seeing these 100 year floods every 10, five or even every year," VinZant said.

He said new research suggests the number of people who should have flood insurance or who are going to need it, in most places, is only going to go up, in part because “some of FEMA’s maps are 40, 50 years old and vastly outdated.”

The First Street Foundation, a non-profit that assesses climate change risks, says some 6 million homes nationwide are at risk of flooding but don’t come up on FEMA’s maps.

It says there are 445,251 properties in New Jersey — or 13% of properties in the state — that have greater than a 26% chance of being severely affected by flooding over the next 30 years. It offers an online tool that gives specific flood risk by municipality.

FEMA is still not be incorporating climate science into its estimation of flood risk, the group said.

“So while they will be bringing risk ratings up to date, the failure to include projected impacts from climate means the program could continue to rest on shaking financial foundations into the future as climate change drives worsening flood risks,” First Street Foundation said.

Part of the solution could be in Blue Acres, a program that buys out owners of at-risk properties, something Gov. Phil Murphy addressed after Hurricane Ida, which caused widespread flooding and killed 30 people.

“There’s no amount of mitigation we can put in place that’s going to keep (at-risk properties) from the reality of the intensity and frequency of storms,” Murphy said.

Shawn LaTourette, the state’s Department of Environmental Protection (DEP) commissioner, said in September that the state has increased funding to the Blue Acres program.

“Now we have that greater ability, and we’ll be making use of that, no question,” he said.

The program has been in place since the 1990s but wasn’t widely used until after Superstorm Sandy. It has offered to buy more than 1,100 homes since 2013, but only 830 homeowners have accepted.

“For a community to come to terms with its risk and effectively say to itself that we have to uproot ourselves and find a new community... that is a big cultural undertaking,” he said.