GAO Highlights

Highlights of GAO-13-607, a report to congressional committees

Why GAO Did This Study

FEMA, which administers NFIP, estimated that in 2012 more than 1 million of its residential flood insurance policies—about 20 percent—were sold at subsidized rates; nearly all were located in high-risk flood areas. Because of their relatively high losses and lower premium rates, subsidized policies have been a financial burden on the program. Due to NFIP's financial instability and operating and management challenges, GAO placed the program on its high-risk list in 2006. The Biggert-Waters Act eliminated subsidized rates on certain properties and mandated GAO to study the remaining subsidized properties. This report examines (1) the number, location, and characteristics of properties that continue to receive subsidized rates compared with full-risk rate properties; (2) the information needed to estimate the historic cost of subsidies and establish rates for previously subsidized policies that reflect the risk of flooding; and (3) options to reduce the financial impact of remaining subsidized policies. GAO analyzed NFIP data on types of policies, premiums, and claims and publicly available home value and household income data. GAO also interviewed representatives from FEMA, insurance industry associations, and floodplain managers.

What GAO Recommends

FEMA should develop and implement a plan to obtain flood risk information needed to determine full-risk rates for properties with previously subsidized rates. FEMA agreed with the recommendation.

View GAO-13-607. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

July 2013

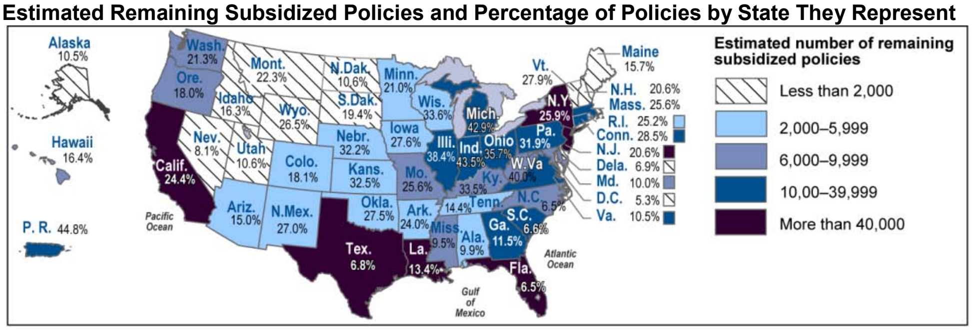
FLOOD INSURANCE

More Information Needed on Subsidized Properties

What GAO Found

The Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) immediately eliminated subsidies for about 438,000 National Flood Insurance Program (NFIP) policies, but subsidies on an estimated 715,000 policies across the nation remain. Depending on factors such as policyholder behavior, the number of subsidized policies will continue to decline over time. For example, as properties are sold and the Federal Emergency Management Agency (FEMA) resolves data limitations and defines key terms, more subsidies will be eliminated. GAO analysis found that remaining subsidized policies would cover properties in every state and territory where NFIP operates, with the highest numbers in Florida, Louisiana, and California. In comparing remaining subsidized and nonsubsidized policies GAO found varying characteristics. For example, counties with the highest and lower home values had a larger percentage of subsidized versus nonsubsidized policies.

Estimated Remaining Subsidized Policies and Percentage of Policies by State They Represent



Sources: GAO analysis of FEMA data; Map Resources (map).

Data constraints limit FEMA's ability to estimate the aggregate cost of subsidies and establish rates reflecting actual flood risks on previously subsidized policies. FEMA does not have sufficient historical program data on the percentage of full-risk rates that subsidized policyholders have paid to estimate the financial impact—in terms of the difference between subsidized and full-risk premium rates—to NFIP of subsidies. Also, because not all policyholders are required to provide documentation about their flood risk, FEMA generally lacks information needed to apply full-risk rates (as required by the Biggert-Waters Act) on previously subsidized policies. FEMA is encouraging these policyholders to voluntarily submit this documentation. Federal internal control standards state that agencies should identify and analyze risks associated with achieving program objectives and develop a plan for obtaining needed data. Without this documentation, the new rates may not accurately reflect a property's full flood risk, and policyholders may be charged rates that are too high or too low relative to their risk of flooding.

Options from GAO's previous and current work for reducing the financial impact of subsidies on NFIP include (1) adjusting the pace of subsidy elimination, (2) targeting assistance or subsidies based on financial need, or (3) increasing mitigation efforts, such as relocation or elevation that reduce a property's flood risk. However, these options have advantages and disadvantages. Moreover, the options are not mutually exclusive, and combining them could help offset some disadvantages.