

GAO Highlights

Highlights of [GAO-16-190](#), a report to the Ranking Member, Committee on Financial Services, House of Representatives

Why GAO Did This Study

As of May 30, 2015, FEMA, which administers NFIP, subsidized about 996,000 flood insurance policies. The National Flood Insurance Act of 1968 authorized these highly discounted premiums. To help strengthen NFIP's financial solvency, the Biggert-Waters Flood Insurance Reform Act of 2012 required FEMA to eliminate or phase out almost all subsidized premiums. However, affected policyholders raised concerns about the resulting rate increases. The Homeowner Flood Insurance Affordability Act of 2014 sought to address affordability concerns by repealing or altering some Biggert-Waters Act requirements.

GAO was asked to identify options for policyholders who may face affordability issues if charged full-risk rate premiums. This report describes options to target assistance to policyholders, estimates of eligible policyholders and associated costs of these options, and mechanisms for delivering assistance. GAO reviewed literature on approaches for targeting and delivering assistance, interviewed 18 organizations familiar with flood insurance and officials from FEMA and other agencies, and analyzed NFIP premium data and Census income data for 2009-2013 (most recent).

What GAO Recommends

GAO makes no recommendations in this report. GAO recommended in [GAO-13-607](#) that FEMA obtain information needed to determine full-risk rates for subsidized properties and maintains the importance of implementing the recommendation. FEMA and the Department of Housing and Urban Development provided technical comments.

View [GAO-16-190](#). For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov

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NATIONAL FLOOD INSURANCE PROGRAM

Options for Providing Affordability Assistance

What GAO Found

Options for targeting assistance to subsidized policyholders of primary residences who may experience difficulty paying full-risk rates for their National Flood Insurance Program (NFIP) policies include means testing assistance based on the income level of policyholders or geographic areas, setting premium caps, and basing assistance on the cost of mitigating the risk of damage to their homes. Currently, NFIP subsidies are tied to the property. Implementing a means-tested approach would decouple the subsidy from the property and instead attach it to the policyholder or a group of policyholders on the basis of financial need. All of these options involve trade-offs, and implementing any of them would present challenges because the Federal Emergency Management Agency (FEMA) would have to collect data that it does not currently collect, such as policyholders' income and flood-risk information needed to calculate full-risk rates.

Although data are limited, they suggest that many policyholders who currently receive a subsidy would likely be eligible for assistance under certain targeting options GAO identified. For example, using Census data, under the means-tested approach based on individual policyholders' income and using an eligibility threshold of 80 percent of area median income, about 47 percent of subsidized policyholders, as of September 2013, would likely be eligible to receive assistance. If the eligibility threshold were increased to 140 percent of area median income, 74 percent would likely be eligible to receive assistance. Under this and other targeting options, however, it is not possible to estimate the cost of providing assistance with precision because FEMA lacks the information needed to calculate full-risk rates for currently subsidized properties. GAO recommended in July 2013 that FEMA collect information from all policyholders necessary to determine flood risk. FEMA agreed with the recommendation but has taken limited action to implement it, citing the considerable time and cost involved in obtaining the information. FEMA officials stated that they plan to continue to rely on subsidized policyholders to voluntarily obtain this information. Without proper flood-risk information, the cost of the existing subsidy or other assistance—which would be important for Congress in considering options to address affordability—cannot be determined accurately.

Several mechanisms are available for delivering assistance to eligible policyholders, but each involves trade-offs among four public policy goals. For NFIP, these goals are (1) charging premium rates that fully reflect risk, (2) encouraging private markets to provide flood insurance, (3) encouraging broad program participation, and (4) limiting administrative costs. NFIP currently uses discounted rates to deliver subsidies to certain policyholders but could choose from a variety of delivery mechanisms, including vouchers, tax expenditures, and grants and loans, depending on policy priorities. For example, while tax expenditures do not have the stigma that some individuals may associate with government spending programs, policyholders could face cash flow challenges because they would generally need to pay the full premium before they receive the tax benefit. Finally, alternative mechanisms could increase administrative costs because FEMA would incur additional costs associated with setting up and administering a new assistance program or tax benefit, among other reasons.