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BASIC FACTS

AS BATTLES RAGE OVER HEALTH INSURANCE, CONGRESS EAGERLY RESTORES COSTLY INSURANCE SUBSIDIES FOR OCEANSIDE HOMES

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In the U.S. Congress, partisan disputes about subsidizing health insurance for low and middle-income Americans continue. But legislators from both parties seem to have little trouble agreeing on generous federal insurance subsidies for oceanside homes. On March 21, 2014, President Obama signed into law the Homeowner Flood Insurance Affordability Act recently passed by a large bipartisan Congressional majority. This measure reinstated costly flood insurance subsidies and reversed many 2012 reforms that had been intended to raise flood insurance rates to reflect actual flood risk. Restored subsidies ensure artificially low insurance rates and disproportionately help the highest-risk properties. When big storms hit, taxpayers are on the tab for what amounts to big bailouts of private owners regardless of their incomes. Because of these costs, the National Flood Insurance Program is $24 billion in debt to the Treasury Department.

A close look at the political dynamics behind flood insurance is in order, because many of the same legislators who oppose federal support for health insurance seem not to realize that analogous arguments undermine the case for flood insurance subsidies.

The Development of Federal Flood Insurance

Floods are the most costly form of natural disaster in the United States, and the federal flood insurance program was enacted in 1968 as part of the Great Society burst of legislation. At the time, the private market offered little insurance against flood risks, disaster relief costs were rising, and proponents thought that a federal insurance program would reduce relief costs. Subsidies for insurance policyholders were introduced from the beginning by Congress and subsequently enlarged for administrative and political reasons by the National Flood Insurance Program. Originally, most flood policies covered properties located along rivers, but now they center on coastal areas. Some 70% of flood insurance policies cover properties located in just five states: Florida, Texas, California, Louisiana and New Jersey. Indeed, policies in Florida comprise 40% of the total.

Subsidies were intended to be short-lived but have lasted almost fifty years. About one in five flood insurance policies were subsidized when the 2012 reforms were passed, with rates reduced to those homeowners by up to 50%. In the regular home insurance market, people buy insurance from one of many competing private companies and the rates they pay reflect the risk of loss. But for flood insurance, the federal government dominates the market and charges prices that do not reflect the risk of loss.

Federally subsidized flood insurance mainly helps middle-class and wealthy Americans. Poor people rarely own their own homes or have renters insurance for flood losses. Precise data on income or assets of those receiving subsidies is not available, but as of July 2013, the

Government Accounting Office reports that about 80% of the 725,000 subsidized policies are in counties that rank in the top 30% for home values.

Why Do Federal Flood Insurance Subsidies Persist?

No other industrialized nation underwrites flood risk as generously as the United States. Further, even though the federal government funds insurance subsidies and disaster relief, it has little control over whether localities enforce building codes that might protect property against floods. As more and more construction happens in risky zones, federal flood insurance and disaster relief repeatedly come to the rescue. Now climate change further increases the risk of bigger, more frequent, and more expensive floods.

For decades, critics and budget hawks have pointed out that subsidized federal flood insurance encourages building in flood-prone areas, undercuts private competition, and wastes public resources on people who are far from economically needy. Gradually moving to market rates was a reform that made good sense when Congress acted in 2012; it meant that private insurers could compete with the government's flood insurance and that homeowners in flood-prone areas would start to pay for the actual risks of living there.

Although the 2012 reforms were uncontroversial when passed, constituents and real estate lobbyists started to complain vociferously when rates began to rise as expected starting in 2013. In response, Congress back-pedaled – even liberal representatives who say they want to use public funds on the less privileged, and even ideological conservatives who say they favor a smaller federal government not involved in issues best left to states and localities.

The most glaring contradictions are found among conservative politicians who loudly oppose the Affordable Care Act on the grounds that the federal government should not intervene in private insurance markets, displace state and local responsibility, or get involved in issues of personal health and well-being. Individuals, they say, should choose to buy health insurance, or not, with their own resources. These opponents claim to be concerned about the federal deficit and fret that offering below-cost health care to the poor and elderly will create incentives to use more health care, leading to rising costs. Yet all these considerations go out the window when it comes to showering federal largesse on coastal homeowners to cut their flood insurance costs.

Flood insurance supporters do not seem to worry that below-cost flood insurance creates incentives to build in dangerous areas, puts more property at risk, keeps the private market at bay, expands the federal government, and adds to the deficit. The same concerns that drive their opposition to federal health insurance subsidies should logically also compel opposition to federal flood insurance subsidies – but they clearly do not. Only the economic privilege and clout of the citizens affected seems to set apart the two cases.

For humanitarian, public health, and economic reasons, there is a compelling case for the federal government to subsidize health insurance for the elderly, disabled, and citizens of modest means. Every American faces health risks, and the nation benefits from healthier citizens free from fear of financial ruin due to illness or accidents. But the logical or principled case for general federal flood insurance subsidies is much weaker. The privileged benefit disproportionately and all taxpayers are put at much greater unnecessary risk for the future. That so many in Congress cannot see or act on these differences is discouraging indeed.