Rising flood insurance costs growing burden to communities and homeowners in New York City

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Flood insurance is already difficult to afford for many homeowners in New York City, and the situation will only worsen as flood maps are revised to reflect current risk and if the federal government continues to move toward risk-based rates, according to a first-of-its-kind study by the RAND Corporation.

RAND researchers found that flood insurance is currently difficult to afford for 25 percent of the households in owner-occupied one- to four-family residences in New York City's flood-prone areas. That percentage is projected to rise to 33 percent if proposed updates to the Flood Insurance Rate Map (FIRM) are adopted, special rates for older homes are eliminated, and grandfathering provisions allowing rates to be based on the old rather than the updated FIRM are dropped.

The primary source of residential flood insurance is the National Flood Insurance Program run by the Federal Emergency Management Agency (FEMA). The FIRM for New York City is being significantly updated by FEMA for the first time since it was adopted in 1983 and adjusts the flood elevations to reflect today's risks.

The portion of people purchasing flood-insurance (the take-up rate) in the study area is about 43 percent - higher than when Hurricane Sandy struck in 2012 - but even those property owners with insurance are not fully covered for flood-related losses. Yet as the cost of flood insurance climbs, take-up rates will likely fall, which will reduce the resilience of households and communities to rebound from flood events.

Congress has asked FEMA to examine options that could help individuals afford risk-based premiums. For the RAND study, requested and funded by the New York City Mayor's Office of Recovery and Resiliency, researchers developed five different designs for a flood insurance affordability program for the city.

Solutions considered for New York City include means-tested financial assistance to households that need it most, as well as grants and low-interest loans to low and middle-income households to make their homes less vulnerable to flood risk and thus less costly to insure. Program outcomes were projected under different assumptions about the benefit structure, the participation rate and flood insurance premiums. The results should help policymakers weigh the advantages and disadvantages of different approaches, and are of particular relevance as Congress debates reauthorization of the National Flood Insurance Program.

"Risk-based premiums provide appropriate incentives for homeowners and property developers to mitigate or avoid risk and provide financial stability for the National Flood Insurance Program," said Lloyd Dixon, lead author of the report and director of the RAND Center for Catastrophic Risk Management and Compensation. "The flood insurance affordability programs examined in this study provide means-tested assistance to households that need it rather than continuing with generally subsidized rates."

"A key initiative under New York City's resiliency program is to ensure that residents in the floodplain are prepared for coastal storms and rising seas, which requires that the right tools, like flood insurance, remain available and affordable," said Daniel Zarrilli, Senior Director, Climate Policy and Programs and Chief Resilience Officer at the New York City

Mayor's Office. "The findings by RAND provide important options for consideration during the National Flood Insurance Program reauthorization in order to better serve our coastal communities as we seek to build a more resilient city."

More information:
www.rand.org/pubs/research_reports/RR1776.html

Provided by RAND Corporation

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