Flood Insurance Reforms – Who Is Affected?

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In an effort to restore fiscal soundness to the National Flood Insurance Program, Congress enacted program reforms in July 2012. These changes resulted in dramatically higher flood insurance costs for many policyholders, which led to additional reforms in March 2014. As a result, insurance subsidies are being phased out for older buildings that do not comply with current floodplain development standards. The objective is to move toward "full-risk rate" premiums that reflect the flood risk for each building.

What does this mean for you? The impact of these reforms will be minor for some policyholders, but could result in significantly higher insurance costs for others. The following information can help you assess how the recent changes apply to your particular circumstances.

A surcharge will be added to all policies. In addition to any other rate increase, a new surcharge will be added to all flood insurance policies beginning in 2015. This will be $25 per year for primary residences and $250 for all other policies. A 5% Reserve Fund Assessment is also included in most policies (as a result of the 2012 legislation).

Is the building (or any part of it) in the high-risk flood zone? Flood Insurance Rate Maps are available at municipal offices, county planning departments, and FEMA's online Map Service Center (www.msc.fema.gov). Flood zones that start with A (Zone A, AE, A1-30, etc.), are high-risk zones (which are subject to mandatory flood insurance requirements and floodplain development standards).

- **No (Zone B, C, or X)** – Flood insurance policies outside of the regulated floodplain are relatively inexpensive, particularly if the building qualifies for a Preferred Risk Policy. The price will be "minimally impacted" by flood insurance reforms. A surcharge will be added and costs may increase due to the need to re-pay the program's debt to the U.S. Treasury.
- **Yes** – Read on.

Does the building qualify for a "subsidized" rate? Older buildings that pre-date mapping and regulation of floodplains may qualify for subsidized flood insurance rates. For communities in the Southern Tier Central region of New York, this "pre-FIRM subsidy" applies to buildings constructed before 1977 to 1988 (depending on the municipality), provided that they have not been "substantially damaged" or "substantially improved" since that time. If your current flood insurance policy is subsidized, the policy declaration page will have "999" or "9999" or "null" in the Elevation Field.

- **No (Elevation Certificate used to rate flood insurance policy) –** Elevation-based rating of an insurance policy means that you are already paying the "full-risk rate" and are thus "minimally impacted" by reforms. Rates may still increase and a surcharge will be added.
- **Yes –** About half of the current flood insurance policies in our region are subsidized. The cost of these policies will increase each year until the "full-risk rate" is reached.

Is the building a "non-primary residence" or business? To qualify as a primary residence, the applicant or spouse must live there more than 50% of the year. (This replaces a prior definition that required occupancy 80% of the year.)

Yes – Subsidized flood insurance premiums for secondary or vacation homes, rental properties, and business buildings will increase 25% annually until the "full-risk rate" is reached. In addition to this rate increase, there will be a $250 surcharge.

No – Subsidized flood insurance premiums for primary residences (and some other buildings) will increase 5 to 18% per year until the "full-risk rate" is reached. A surcharge will also be added.

Some policyholders will get refunds. Subsidized rates will be reinstated and refunds issued for some policyholders who paid high flood insurance premiums based on provisions in the 2012 legislation that were repealed in 2014 (primarily for new policies or sale of property).

What should you do if you get (or qualify for) subsidized flood insurance?

- **Get an Elevation Certificate.** The "full-risk rate" is based on the elevation of the building (lowest floor and utilities) relative to the anticipated flood height. These elevations are determined by a surveyor and documented on an Elevation Certificate. Without this information, your insurance company won't know when to stop the annual rate increases.
- **Find out what the "full-risk rate" premium is.** Ask your insurance agent to rate the policy based on the Elevation Certificate. This is what flood insurance would cost without the subsidy. A few lucky folks (with elevated buildings) may discover that this is lower than the subsidized rate. For others, it provides an indication of how long the rate increases will continue and what flood insurance will cost when the subsidy has been phased out.
- **Consider mitigation options.** If the finished space in a building is elevated, it may be possible to reduce the cost of flood insurance with relatively inexpensive measures, such as elevating utilities or installing flood vents in a garage or crawl space. If the only portion of the building that is in the high-risk zone is a deck, consider removing it. Other options to consider include: filling in the basement, converting the lowest level into unfinished space (with flood-resistant building materials, flood vents, and limited use), or even elevating the entire structure. Discuss mitigation with your municipal building official, insurance agent, and other professionals to identify options and evaluate the costs and benefits. Remember that a lower flood insurance premium is only one of the benefits of floodproofing your building.
- **Choose an insurance agent.** Insurance companies charge a uniform price for National Flood Insurance Program policies. Choose an agent who is knowledgeable about the program and thus able to help you identify mitigation options and evaluate the effect on insurance costs. (Local agents are listed in the Agent Locator at www.FloodSmart.gov.)
- **Don't let your flood insurance policy lapse.** The flood insurance legislation includes a provision in which some lapsed policies lose eligibility for a subsidized rate, meaning that the "full-risk rate" would take effect immediately when the policy is re-issued. Talk to your insurance agent about reinstatement costs before canceling a flood insurance policy.

For additional information or assistance, contact your insurance agent or Janet Thigpen (607-737-5271; jthigpen@co.chemung.ny.us).