

Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction

Flood Insurance

The President's Plan for Economic Growth and Deficit Reduction lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper – from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. It follows a balanced approach: asking everyone to do their part, so no one has to bear all the burden. And it says that everyone – including millionaires and billionaires – has to pay their fair share. Pursuing a balanced approach to deficit reduction is critical to being able to keep our promises made to all Americans.

That is why the Administration is proposing reform the National Flood Insurance Program (NFIP) to charge actuarially sound premiums to support NFIP for years to come and to contribute to deficit reduction. Currently there are 1.2 million NFIP properties (20 percent) that are charged premiums well below the actuarial value of the insured liability. On average (including subsidized and unsubsidized policies) NFIP premium collections cover approximately 70 percent of the actuarial value of the insured liability. The reforms endorsed by the Administration, as passed by the House in H.R. 1309, would impact approximately 375,000 of the 1.2 million (30 percent) subsidized policies.

To reduce the deficit and strengthen the NFIP for the future, the Administration proposes to:

- Increase premiums over five years for a subset of subsidized properties: non-residential or non-primary residences, residences sold to new owners, and severe repetitive loss properties.
- Re-define severe repetitive loss properties as residences with at least four paid claims greater than \$5,000 or with two paid claims that cumulatively exceed the market value of the house.
- One year after enactment, increase premiums for all policy holders fitting the above named categories (non-residential or non-primary residences, residences sold to new owners, and severe repetitive loss properties) by no more than 20 percent per year until the amount collected covers the full expected cost of the insurance.
- New policies that fit this category of subsidized properties one year after enactment would immediately pay the full cost actuarial premium.

The Administration also supports other measures in H.R. 1309 that would increase the maximum policy coverage for structure and contents and authorize studies and pilots to test alternative approaches to flood insurance that are sustainable and cost-effective. The NFIP would collect about \$700 million in additional premium revenue over five years and approximately \$4.2 billion over 10 years. These increased revenues could be deposited in either the National Flood Insurance Fund or into the General Fund.

Pursue balanced deficit reduction to prevent drastic cuts. We have little doubt that some of these proposals will not be popular with those who benefit from these affected programs. These are tough choices that we had to make -- and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing. If we all don't pitch in, we know what happens if we try to do this much deficit reduction without a balanced approach -- because the congressional Republicans have proposed to do that. Millionaires and big corporations keep all their special tax breaks and tax cuts while there are severe cuts in programs we need to grow and prosper on which many Americans rely.

We believe the President's plan is the most fair and effective way to keep the promises made to all Americans while achieving the deficit reduction needed to win the future.