Can FEMA's Flood Insurance Program Afford Another Disaster?

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Floods cause more damage each year in the United States than any other kind of natural disaster — so much more, in fact, that most private insurance companies stopped offering flood insurance decades ago. In 1968, the federal government stepped in, creating the National Flood Insurance Program. The program is run today by the Federal Emergency Management Agency.

90% of all disasters in this country involve flooding.

Government Accountability Office

Over the last 11 years, the program has fallen billions in debt; a 2015 report from the Government Accountability Office said it was unlikely to be able to repay the money it has borrowed from taxpayers. Worse yet, the program has been accused of waste, poor oversight and fraud.

Scientists anticipate that the U.S. will face rising tides and increasingly severe weather as the climate changes — and will therefore be more prone to disastrous floods. But Congress has repealed provisions that would have garnered more funding for the National Flood Insurance Program, and FEMA's projected budgets get smaller, not larger, through 2021.

Can the program afford the next major disaster?

How the National Flood Insurance Program Works

The fundamentals of the program are simple: Homeowners pay premiums, and when disaster strikes, the NFIP provides up to $250,000 for damages to the home and up to $100,000 for damage to its contents.

But there are three unique aspects to the program.

First, not everyone can buy in: A homeowner must live in a community that adopts flood mitigation practices designed to reduce future flood risks. As of May 2013, about 22,000 communities across the country had done so.

Second, some people have no choice but to buy in: If the homeowners are in the highest-risk zones of a participating community, and if they have a federally backed mortgage, they are required to purchase coverage.

Third, the government oversees the program, but it is private insurers who manage policies. Around 80 insurance companies participate in the program; the insurers sell policies and process claims. FEMA, in turn, pays the bills. The premiums from those policies are meant to cover losses, but when a disaster becomes too costly, it's taxpayers, not insurers, who make up the difference. Here's how that works:

Katrina and Sandy Decimate the Budget

The flood insurance program was originally intended to be self sustaining — funded through policyholder premiums, not taxpayer dollars — and for much of its history, it was. But the catastrophic hurricanes Katrina in 2005 and Sandy in 2012 caused so much damage that the program could not pay for it all. After Hurricane Katrina, Congress increased FEMA's borrowing authority from $2 billion to more than $20 billion. They increased it again, to $30 billion, after Hurricane Sandy. The program's debt to the U.S. Treasury is now $23 billion.

In recent years, FEMA has been accused of inadequately supervising that money, as well as the private insurance companies that dispense it. An audit by the Department of Homeland Security said that without better controls, NFIP funds "may be at risk for fraud, waste, abuse, or mismanagement." The GAO reported that FEMA "does not have the information it needs" to know whether it is making reasonable payments to insurance companies.

In *Business of Disaster*, an analysis by FRONTLINE and NPR showed that between 2011 and 2014, total profits for companies in the program averaged around $325 million a year — near a 30 percent profit rate before taxes. Profits were highest after disasters: In the wake of Sandy, the companies made $400 million, the analysis found. Insurance industry representatives have disputed these findings, saying that profits are far lower — between 10 and 15 percent after taxes. The GAO and FEMA have both said they are examining the question.

In the wake of these criticisms, Sen. Chuck Schumer, D-N.Y., wrote that "the only way to change this unacceptable culture is to scrap it," arguing that the private insurers should no longer be involved.Officials at FEMA say they have overhauled the flood insurance program, installing new leadership and adding oversight, and assessing its partnerships with private insurers. "FEMA will not tolerate windfall profits," said Roy Wright, FEMA's deputy associate administrator for insurance and mitigation, in a written statement to FRONTLINE. "We're changing how we lead this program. You will continue to see us transform this program throughout 2016." This week, FEMA published a proposal to overhaul its arrangement with private insurance companies in the program; it also announced changes to its appeals process and to reign in litigation costs, both of which aim to make the program more customer-friendly.

Future Flooding, Future Borrowing

Without reform, experts say, the future solvency of the flood insurance program could be in jeopardy. The GAO has labeled the program "high risk" and says that at its current rate of funding, "it likely will not generate sufficient revenues to repay the billions of dollars borrowed from the Department of the Treasury to cover claims from the 2005 and 2012 hurricanes or potential claims related to future catastrophic losses."

For every dollar FEMA spends on mitigation, $4 are saved in future benefits.

Government Accountability Office

One way to restrain future costs would be to build infrastructure that prevents floods from happening — and FEMA does what it can to encourage communities to do so. FEMA estimates that the community mitigation practices already in place avoid $1.2 billion a year in flood losses. And last year, the White House announced that all buildings constructed with federal funding would be built to standards that should keep them safe from floods.

Despite the benefits of mitigation, FEMA struggles to fully support it: For instance, in 2013 the agency received applications for $304 million in pre-disaster mitigation funding from communities nationwide — but could finance less than half of it.

Global sea level is projected to rise 1 to 4 feet over the next 84 years.

Global Change

Climate change is expected to make matters worse: As sea levels rise and the nation copes with more frequent extreme weather, the finances of both unlucky homeowners and the National Flood Insurance Program are likely to be strained. One way out of NFIP's financial woes would be to charge homeowners more for their coverage, but the program has been limited from doing so by federal statute. A bill signed into law in 2012 took steps to remove these limitations — but much of it was rescinded two years later, when homeowners complained about skyrocketing premiums.

Only 14 percent of U.S. homeowners had flood insurance in 2015.

Insurance Information Institute

Another approach would be to expand the number of homeowners who must buy into the program to truly reflect the homes at risk of flooding. But this would require an overhaul of FEMA's flood hazard maps. As it stands, those maps only consider historic data, and do not consider a future where flooding will become more common. FEMA's own budget is unlikely to fill the financial gap: Its projected budget for the next five years is in steady decline, while floods will almost certainly continue to rise.

Asked how the NFIP would handle another major disaster, Wright said they will pay for as much as they can with the money they have available. If it's not enough, the program may be forced into borrowing more money. Without reform, taxpayers will be on the hook to pay it back.