

CHANGES TO FLOOD INSURANCE RATES >>

WHAT THEY ARE AND HOW TO EXPLAIN THEM



FEMA



The National Flood Insurance Program is changing. The Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) reauthorized the National Flood Insurance Program (NFIP) and outlined reforms to make the program more sustainable, including the removal of long-standing subsidies. The first phase of rate increases (Section 100205) affects many policyholders who own homes built before the community adopted its first Flood Insurance Rate Map (FIRM). Many of these policyholders historically have paid subsidized rates that do not reflect the property's true risk.

WHO PAYS SUBSIDIZED RATES?

Roughly 20 percent of all NFIP policies are calculated using subsidized rates. Most of those policies are pre-FIRM properties—buildings constructed before the community adopted its first FIRM—in high-risk areas (Zones A and V) and undetermined-risk areas (Zone D). Certain pre-FIRM subsidies are being phased out and eliminated by BW-12.

HOW AND WHEN WILL INCREASES TAKE PLACE?

Beginning October 1, 2013, pre-FIRM subsidized rates change as outlined below.

Premiums are increasing 25 percent each year until reaching full-risk rates for:

- Severe Repetitive Loss properties
- Properties with cumulative paid flood losses exceeding fair market value
- Non-primary residences (increase began January 1, 2013)
- Businesses/non-residential buildings

Policies are written or renewed at full-risk rates for:

- Property purchased on or after July 6, 2012
- New policies effective on or after July 6, 2012
- Lapsed policies reinstated on or after October 4, 2012

Owners of primary residences that do not fit any of the categories above can keep their subsidized rates as long as they own the property, but full-risk rates will apply for the next owner.

FROM SUBSIDIZED RATES TO ELEVATION RATING

As subsidies are removed, Elevation Certificates (ECs) ultimately will be necessary for all pre-FIRM property owners in high-risk areas. Policyholders should get one as soon as they can to know their full risk rate and consider mitigation options. In some cases, the full-risk rates calculated using the EC could be lower than the pre-FIRM subsidized rates. If so, the policy can be adjusted to reflect the lower price. If the full-risk rate is higher, you can continue to use the subsidized rates. The required timing for obtaining an EC will vary.

- **Required for next purchase/renewal:** Policyholders moving directly to full-risk rates as listed above.
- **Recommended for next renewal:** Policyholders beginning 25 percent annual increases. The EC is necessary to determine when the increases will reach the full-risk rate.
- **Recommended in the future:** Policyholders keeping their subsidy. The EC is necessary to calculate the full-risk rate the current policyholder will pay if losing a subsidy or the rate a new owner will pay if the building is sold.

WHAT TO KNOW, WHAT TO SAY

The chart below shows some of the scenarios people will face. The suggested talking points can serve as guidelines for working with clients to help them understand BW-12 changes. **Note: Scenarios assume the policyholder lives in a high-risk area and pays a subsidized rate unless otherwise stated.**

If Your Client Says...	What to Know	What to Say
My primary residence was built in 1961. I've had a flood insurance policy since 1998, and the home has never flooded. Will my premium change?	<p>Because it is a primary residence and no other triggers have been hit, the subsidy remains in place.</p> <p>An EC is not required, but it would help the client think about—and plan for—mitigation measures, such as elevating the home.</p> <p>If the full-risk rate is lower than the subsidized rate, you should adjust the premium. If it is higher than the subsidized rate, you can continue using the subsidized rate.</p>	<p>You can keep your subsidized rate as long as your situation does not change.</p> <p>Do not let your policy lapse. If you do, you will lose your subsidy, and the new premium could be significantly higher.</p> <p>An EC is not required, but it would allow me to calculate the rate you would pay if the subsidy were removed.</p>
I own a small shop built in 1960. I've had a flood insurance policy since I bought it in 2003, and I've never made a claim. Will my premium change?	<p>Subsidies are being removed for all business/non-residential properties. The policyholder's premium will increase 25 percent each year until it reaches the full-risk rate.</p> <p>The policy can be renewed without an EC, but getting one is recommended. It will be needed to determine the full-risk rate.</p>	<p>Your premium will increase 25 percent each year at renewal until it reaches the full-risk rate for your property.</p> <p>Look into getting an EC. The document will allow me to calculate your full-risk rate and estimate when you will reach it. If the full-risk rate is less than you currently pay, you can begin paying the lower rate right away.</p>
We closed on a home in July 2013. It was built in 1962. Our lender required flood insurance, and the previous owners transferred their policy to us. Will our rates change?	<p>The property was purchased after the July 6, 2012, enactment of BW-12 and before the new rates took effect on October 1, 2013. The policyholders will have to pay the full-risk rate when they renew the policy in July 2014.</p> <p>An EC is required to renew the policy. Tentative rates can be used for one year while the policyholder obtains an EC. If a loss occurs, the policy must be re-rated using an EC to determine the coverage based on the paid premium.</p>	<p>You will pay a new rate when you renew your policy in July 2014. This new premium will reflect the full-risk rate for your property instead of the subsidized rate you currently pay.</p> <p>You must get an EC. Your community officials might have elevation information on file. If they don't, you will need to hire a surveyor to complete an EC for you.</p>
I don't have a mortgage, so I'm not required to have flood insurance for my home that was built in 1953. But I bought a policy in November 2012, just to be safe. Will my rates change when I renew my policy in 2013?	<p>Policies with effective dates on or after July 6, 2012, move directly to full-risk rates at renewal on or after October 1, 2013.</p> <p>An EC is required to renew the policy. Tentative rates can be used for one year while the policyholder obtains an EC. If a loss occurs, the policy must be re-rated using an EC to determine the coverage based on the paid premium.</p>	<p>You will pay a new rate when you renew your policy this fall. The new rate will reflect your true flood risk instead of the subsidized rate you currently pay.</p> <p>You must get an EC. Your community officials might have elevation information on file. If they don't, you will need to hire a surveyor to complete an EC for you.</p>
My home was built in 1959 and was mapped into a Zone A in 2007. You had me buy a policy rated using Zone X before the maps became effective, and I was grandfathered into that rate. I want to sell the house. Will the new buyers keep the grandfathered rate?	<p>Currently, as long as coverage is maintained, the policy and rating can be assigned to the new owner because the Zone X rate is not subsidized.</p> <p>FEMA has not implemented Section 100207 of BW-12 that will affect grandfathering. Implementation could mean a change in rates if there is a map change.</p>	<p>For now, you can assign the policy to the new owners, and they will keep the grandfathered rate as long as they maintain coverage.</p> <p>In the future, FEMA will implement a provision that will affect how rates change when flood maps are updated. An Elevation Certificate is not required, but it would allow me to calculate the rate you would pay if you no longer had a grandfathered policy.</p>

RESOURCES:

For additional information about flood insurance and new rate changes, use the resources listed below.

- Flood Insurance Rate Maps: [MSC.FEMA.gov](https://www.fema.gov/mapping)
- Biggert-Waters Flood Insurance Reform Act of 2012: [FEMA.gov/BW12](https://www.fema.gov/BW12)
- Homeowner's Guide to Elevation Certificates: [FEMA.gov/library/viewRecord.do?id=7408](https://www.fema.gov/library/viewRecord.do?id=7408)
- Talking to Customers About Flood Insurance: [Agents.FloodSmart.gov](https://www.agents.floodsmart.gov)
- WYO Bulletins: [NFIPiService.com](https://www.nfipiservice.com)