PLUG FLOOD INSURANCE HOLES

The federal program, deeply in debt, can't keep paying out in a rising-sea world without some serious reforms

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PHOTO BY DOUG KUNTZ

An aerial view of homes in Westhampton on Oct. 30, flooded from the high tide in Shinnecock Bay.

EDITORIAL

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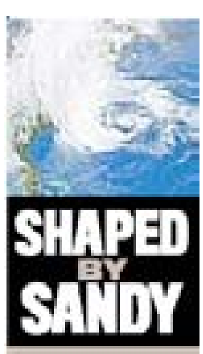
In 1966, two years before the National Flood Insurance Program was introduced, a presidential task force issued a warn-ing that resonates today:

"A flood insurance program is a tool that should be used expertly or not at all. Correctly applied it could promote wise use of flood plains. Incorrectly applied, it could exacerbate the whole problem of flood losses. For the federal govern-ment to subsidize low premium disaster insurance or provide insurance in which premiums are not proportionate to risk would be to invite economic waste of great magnitude."



These are wise words, and they have not been heeded. In the wake of superstorm Sandy, which devastated swaths of coastal Long Island, New York City and New Jersey, it would be irresponsible to ignore that warning any longer.

Now that Sandy has receded, astonishing storm surge numbers are being reported. The highest was 17 feet, in Long Beach, but practically all of the Nassau County and Western Suffolk shore, north and south, saw surges of 10 feet or more. This is even more daunting when we're told the climate is changing, sea levels are rising and violent storms will be more frequent. At its start in 1968, the flood insurance program was an improvement. The private market had never offered property owners much in the way of protection because companies didn't want to bear such unpredictable risk. When insurance companies did try to sell flood policies, customers thought them far too expensive.

So when floods came the federal government provided money to rebuild. The national insurance program had two pur-poses: get those property owners at risk of flooding to pay premiums to create a pool to pay losses, and attach condi-tions to those loss payments that would get people and communities to build smarter. It is supposed to be entirely self-supporting, with rates set high enough to pay out claims.

Municipalities that participate – there are about 22,000 nationwide and 100 on Long Island – are not supposed to permit new construction where there is more than a 1 percent risk of flooding in any given year. Homeowners in such areas must have the flood insurance if there is a federally backed mortgage on the property, which is common.

The average policy in the federal program costs $600 per year, but they can run five times that in the highest risk areas. In Asharoken, policies average over $1,500, while in Lake Grove they average less than $300. There are 5.5 million policies in the nation, just over 80,000 of them in Nassau and Suffolk counties. Residential damage reimbursements are capped at $250,000 per incident, commercial damages at $500,000.

For over 35 years flood insurance worked. The program sometimes had to borrow from the government, and those loans were sometimes forgiven, but the sums were not astronomical.

But in 2005, the finances of flood insurance blew up when claims from Hurricanes Katrina, Rita and Wilma totaled nearly $18 billion, almost none of which has been repaid. Now, interest payments on that debt cost on average $400 million per year, which comes out of the $3.5 billion total paid annually in premiums. That staggering debt service makes it nearly impossible to build up a fund for the next storm.

And now we have Sandy. More than 115,000 flood insurance claims have been filed so far. Estimates put the total pay-out for claims at $7 billion, $4 billion more than the flood insurance program is authorized to borrow.

But even before Sandy, this would be a very troubled program.

At every turn, politics have stymied its goals. Structures have been built and insured where they should not have been allowed. Premiums have been kept artificially low: When policy holders see their premiums skyrocket thanks to new flood maps, they balk – and elected officials step in, and low prices are maintained. This happened as recently as 2010 in several places on Long Island. Properties in some areas flood repeatedly. One property in Mississippi valued at $183,000 flooded 15 times in 10 years, and the owner received almost $1.5 million in reimbursements. Another Texas property has garnered more than $2 million in payouts. It is valued at $116,000. Thousands of properties have received multiple payouts and used them to repair the same waterlogged structures.

And the waters are rising.

Some experts, in the face of rising waters and rising flood insurance program debt, want the program to end. Our na-tion's population is concentrated near its oceans and rivers, however, so pulling the plug on insurance for more than 5 million property owners isn't politically possible.

But premiums, rising significantly through a multiyear schedule of increases imposed last summer, need to go up even more. New construction in areas most prone to flooding must be designed to be flood-proof, or coverage should be de-nied, on Long Island and across the nation. An existing program designed to identify properties too risky to insure again must be pursued more aggressively, and better risk maps are needed. It's possible that high premiums, hardened construction and a limit on repeated claims can restore the National Flood Insurance Program to stability.

And the rising waters need to be monitored. Because there may come a day when beachside building and riverfront views can't be insured, when the waters creep too high or the storms become too frequent. If that day comes, people will still have a right to build where they choose, but they won't have a right to expect other taxpayers to cover their losses.