

## FEMA REGION I / Changes in the Flood Insurance Program: Preliminary Considerations for Rebuilding - 12/2012

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**Question:** *How has the flood insurance program changed and what does it mean to me?*

**Answer:** On July 6<sup>th</sup>, 2012, a law took effect that made significant reforms to the National Flood Insurance Program (NFIP). Among other things, this law requires FEMA to take immediate steps to eliminate or phase-out a variety of existing flood insurance subsidies.

Under the new law, flood insurance premium rates on many properties in Special Flood Hazard Areas (SFHAs) that are high-risk flood zones identified on FEMA flood maps as beginning with the letters A or V, will increase.

The new rates, for almost all insured buildings that are or will be in the SFHA, will reflect the full flood risk and require insurance subsidies to be phased-out and eventually eliminated. Based on various conditions set forth in the law, subsidies and grandfathered rates will be eliminated for most properties.

This change will affect pre-FIRM properties, buildings that were constructed prior to when the community's first Flood Insurance Rate Map (FIRM) became effective, of the following types: non-primary residences, severe repetitive loss properties, business properties, and properties that have incurred flood-related damages where claims payments exceed the fair market value of the property. Policy rates will also increase based on one or all of the following circumstances:

- The Sale of a Property;
- A lapse in insurance coverage;
- A new or revised FIRM is issued; or
- A building is substantially damaged or improved.

**Question:** *How are flood insurance premiums changing under the new law and who will it impact?*

**Answer:** *Starting January 1<sup>st</sup>, 2013*, premium rates for subsidized non-primary residences will begin increasing. The rates will increase each year by 25% until full-risk rate adequacy is achieved.

**Later in 2013**, there will be premium rate increases for additional categories of subsidized properties, including

business properties, substantially damaged or improved properties that are not rebuilt or built to compliance, severe repetitive loss properties, and any property that has incurred flood-related damages where claim payments exceed the fair market value of the property. Rates for these additional categories of properties will be phased in for each year until full-risk rate adequacy is achieved.

**Additionally, in late 2013**, FEMA will begin to apply full risk rates to new policies written on newly purchased property.

**Beginning in 2014**, premium rates for other properties, including non-subsidized properties, will increase significantly as new or revised FIRMs become effective and the full risk rates are phased-in for properties newly mapped into a high hazard flood zone. These premium rate increases will include properties in areas that have received new or revised FIRMs since July 6, 2012 (the date the new law was enacted). *Additionally, even if you build to minimum standards today, you will be subject to significant rate increases upon remapping if your flood risk changes in the future.*

**Question:** *What is a subsidized policy?*

**Answer:** A subsidized policy is one that does not pay the full actuarial rate and is not reflective of the true risk of flood to that property. Homes located in a high-risk flood zone that are pre-FIRM, and that have not been substantially damaged or improved, may currently be receiving subsidized flood insurance premium rates. Talk to your insurance agent for help determining your specific situation, or for more information check the FEMA Map Service Center to view a Map showing which zones your property may be located in at [www.msc.fema.gov](http://www.msc.fema.gov).

**Question:** *What determines my flood risk?*

**Answer:** Flood risk is unique to each structure and depends upon factors such as the elevation of the property relative to predicted flood levels, the construction style of the building, and the flood zone. FEMA publishes flood hazard maps that show predicted flood levels and flood zones based on historical climate information and the best available science. Some common examples of SFHAs include coastal floodplains,

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floodplains along major rivers, and areas subject to flooding from ponding in low lying areas.

FEMA provides flood risk information to communities to adopt their ordinances. Your community permitting official will help inform you of your community's current building standard. However, risk changes over time and ***building higher than your community's minimum requirements could result in lower flood insurance premiums and reduced risk of flooding.***

**Question: *How might my flood risk change or how has it already changed?***

**Answer:** Risk changes over time as conditions in the community change. Physical changes can affect how much water reaches flooding sources, how far the water spreads when floods occur, or the manner in which buildings and infrastructure are exposed to a flooding source. Much of the risk analysis depends on historical data and on the potential severity of flooding over time. As newer data are collected (particularly when severe, rare events occur), the expected chance or severity of flooding will be derived by analyzing these data. The scientific methods and technology used to analyze and map flood risk also continue to improve and may affect predicted flood hazard levels and floodplain boundaries.

Over the past few years, FEMA has been restudying areas of the New England coastline in order to update the currently effective FIRMs to reflect changes to the physical, climatological, and scientific baseline that have occurred since the prior map updates. These updates are set to be delivered at various times during 2013 and 2014. In many instances, the preliminary mapping data has already been delivered to the communities for their review. That information is intended to help communities and property owners make informed decisions about rebuilding. Ultimately, the new preliminary maps and data will be finalized and adopted by communities and will impact the rates charged for flood insurance.

For more information on flood mapping, visit [www.msc.fema.gov](http://www.msc.fema.gov).

**Question: *How can I save money on flood insurance?***

**Answer:** Flood insurance premiums are based on the risk of flooding. Therefore, as flood risk increases, flood insurance premiums also increase. However, by reducing that risk, one can save money on flood insurance.

Property owners whose buildings have been flooded must make important decisions about repairing, rebuilding, or relocating their property. One choice would be to repair or rebuild to current standards. However, if preliminary base flood elevations indicate that elevations have changed, or if other factors in the future cause the flood elevations to rise, property owners would be missing out on a significant opportunity to mitigate their future flood risk now and start saving on their flood insurance premium.

One specific way to reduce future losses and premium is to **raise your building above the minimum required elevation standards or to floodproof your non-residential building.** Flood insurance premiums are lower for buildings in high-risk areas that are elevated above minimum requirements, so rebuilding higher provides immediate flood insurance premium benefits. Generally, the higher a building is elevated above flood levels, the lower the cost of flood insurance. Additionally, depending on where you live, other ways to reduce premiums could include adding flood-vents to enclosures and crawlspaces, installing breakaway walls, or removing an enclosure entirely, if possible.

Flood zone designations can also change as flood risk changes. The flood zone that is designated for a structure can dictate the construction methods required to receive reduced flood insurance rates. For example, newly-constructed or substantially improved structures in V-Zones must be elevated on post, piers, or pilings. Because zone designations can change, FEMA recommends that those living near existing V-Zones (areas referred to as "coastal A-Zones") consider rebuilding using posts, piers, or pilings.

As new maps are developed, it is possible that structures not previously located within an SFHA will be designated as such, and a property owner will be required to purchase flood insurance. Under the new law, upon implementation, buildings will no longer be

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grandfathered into the prior flood zones and/or BFE and the owner will pay full risk rates.

Property owners and community leaders should take a close look at their current flood risks and consider how those risks might change in the future. Because insurance costs will increase with rising flood risk and hazards, keeping insurance costs in check will mean being more proactive in reducing flood risk and going beyond mere compliance with federal minimum floodplain management requirements. Adopting higher standards and building back stronger and safer are key strategies for reducing the cost of flood insurance. To learn how to build safer and stronger and potentially decrease your flood insurance premiums, visit: [www.fema.gov/building-science/hurricane-sandy-building-science-activities-resource](http://www.fema.gov/building-science/hurricane-sandy-building-science-activities-resource). You might consider asking your flood insurance agent to get a premium quote based on your rebuilding plans before the construction project is started. They may be able to explain how further modifying the rebuilding plan, such as rebuilding to an even higher elevation, can result in even lower flood insurance premiums on current and future policy terms.

**Question: Does FEMA have any programs that can help me reduce my risk and save money on flood insurance?**

**Answer:** Yes. There are three FEMA programs that may directly or indirectly result in flood insurance discounts to policyholders:

- **FEMA provides hazard mitigation grants** to states for activities such as structure elevation, property acquisition, and floodproofing. The grant process takes time, but, when completed, these activities can reduce or eliminate risk which may result in lower flood insurance rates. To learn more about Hazard Mitigation grants visit: [www.fema.gov/hazard-mitigation-assistance](http://www.fema.gov/hazard-mitigation-assistance).
- **The Community rating System (CRS) offers insurance premium discounts** (up to 45%) for individuals in communities implementing floodplain management practices that exceed the minimum requirements of the NFIP. By implementing CRS floodplain management

best practices, flood losses are reduced, public safety is enhanced, and the cost of flood insurance is decreased. To learn more about the CRS program visit:

[www.fema.gov/national-flood-insurance-program/community-rating-system](http://www.fema.gov/national-flood-insurance-program/community-rating-system).

- **Current NFIP flood insurance policyholders in high-risk areas may receive up to \$30,000** in Increased Cost of Compliance (ICC) coverage to help pay the costs to bring their building into compliance with their community's floodplain ordinance. When a community official determines a building to be substantially or repetitively flood-damaged, a policyholder may be eligible to file an ICC claim.. The coverage availability and payment limits will be subject to the terms of the Standard Flood Insurance Policy (SFIP) and maximum coverage limits, including all applicable NFIP rules and regulations. If eligible, a partial payment may be received by the insurer, to take the necessary steps to floodproof, relocate, elevate, or demolish.. In some cases, ICC funds can be used as a non-federal cost share for other FEMA grants.

Each of these options can reduce risk and result in lower flood insurance rates.