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Breaking Point:

NFIP Rate Shortfalls Amid Escalating
Construction Costs

Study Conducted by the Poulton Associates Data
Science Group

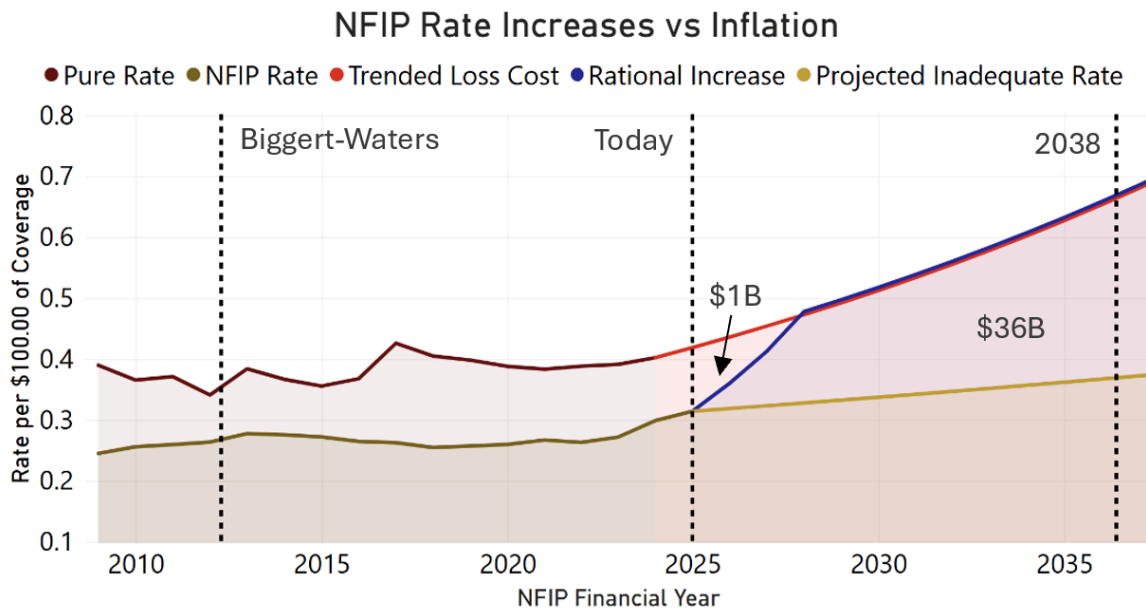
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NFIP RATE INCREASE VS. INFLATION

This graph illustrates five key metrics related to the National Flood Insurance Program (NFIP) rate inadequacy (rates are expressed per \$100 of total insured values):

Key Metrics and Definitions

1. **Pure Rate:** The rate required to fully fund NFIP claim payments based on historical data.
2. **NFIP Rate:** The average rate charged by the NFIP historically.
3. **Trended Loss Cost:** The future rate required to capture losses, considering only projected increases in construction costs without any attempt to project weather patterns.
4. **Rational Increase:** This is the rate of increase needed to achieve the Trended Loss Cost within 3 years. It requires a 15% annual increase.
5. **Projected Inadequate Rate:** An estimate of the future average rate the NFIP will likely charge based on long-term historical trends, assuming no intervention by the Executive Branch or Congress.



METHODOLOGY

This methodology details our approach to evaluating the inadequacy of National Flood Insurance Program (NFIP) premiums. Rates are analyzed in relation to historical loss patterns, anticipated future costs, and the program's financial sustainability, in relation to increasing construction expenses. The findings and projections presented aim to provide enhanced context and clarity to the dialogue surrounding the continuance of the NFIP.

PURE RATE

The pure rate is derived from Department of Homeland Security Financial Reports (2003-2024), representing the rate required for NFIP to fully cover claim payments. This rate is calculated by dividing the Gross Program Claims Payments by the cumulative total coverage per \$100 of total insured values, providing the necessary rate to cover average annual losses.

NFIP RATE

The rate is calculated using FEMA's NFIP Redacted Policies database (2009-2025). It represents total insurance premiums (excluding fees and surcharges) per \$100 of total insured values, measured from October 1st to September 30th annually. 2025 is calculated using the data available as of February 3rd, 2025.

TRENDED LOSS COST

This projection shows future break-even rates based solely on average historical claims payments plus construction cost inflation and makes no adjustment for expected claims acceleration due to climate change. The 16-year average construction cost inflation rate of 4.0% was used (2009-2024 derived from U.S. Census Bureau construction cost data).

PROJECTED INADEQUATE RATE

This estimate shows future NFIP rates based on the NFIP historical trend line, using the average annual increase of 1.15% observed by the NFIP Rate from 2012-2025.

ANALYSIS

Also highlighted by the graph are historical data demonstrating that the NFIP has consistently undercharged policyholders, resulting in significant taxpayer-funded losses of over \$38.5 billion, including debt. Assuming long-term rate increase patterns hold, the NFIP could accumulate an additional \$36 billion in debt by 2038.

While the NFIP's Risk Rating 2.0 aims to align premiums with actual risk by 2033, the Homeowner Flood Insurance Affordability Act of 2014 caps rate increases at what may be unrealistic levels. While the NFIP has never undertaken overall rate increases that have come even close to the maximums allowed by Congress, this limitation, combined with rising construction costs and the NFIP's tendency to favor subsidized rather than predictive rates, is projected to create perpetually widening taxpayer funding of NFIP claims. For example, considering only the next 12 years, claims are estimated to reach \$96 billion. This is estimated to be covered by \$60 billion in premiums and \$36 billion in debt from the NFIP. These

projections will likely vary depending on weather patterns and the NFIP's commitment to rate adequacy over time.

POLICY IMPLICATIONS

Achieving financial stability within the NFIP requires:

1. Removing or adjusting legislative caps on rate increases.
2. Aligning rates with predictive, risk-based models rather than massively subsidizing flood insurance rates.
3. Implementing sustained, actuarially sound rate increases over a period of far less than the ten-year Risk Rating 2.0 target. Since the NFIP is already two years into its ten-year "glide path," an additional three years to achieve rate adequacy will realize a five-year glide path. This 3-year plan in the graphic is called the Rational Increase and requires the NFIP to increase rates by 15% on average each year.

SUPPORTING DATA SOURCES

1. Department of Homeland Security Financial Reports (2003-2024)
2. FEMA NFIP Redacted Policies Database (2009-2025)
3. U.S. Census Bureau Construction Cost Data (2009-2024)

CONCLUSION

The NFIP's current rate structure is insufficient to cover historical and projected losses, particularly given rising construction costs. While Risk Rating 2.0 aims to address these inadequacies, both historical and legislative constraints suggest that the Risk Rating 2.0 ten-year glide path will extend much farther into the future. To avoid future taxpayer burdens and enhance program sustainability, comprehensive rate reform over a much shorter period of time, such as 3 years, is essential. This publication underscores the necessity for data-driven adjustments in NFIP rates that align with actual financial exposures and economic realities.



CRAIG K. POULTON

Craig Poulton is the chief executive officer of Salt Lake City-based Poulton Associates, LLC, which administers the country's largest private flood insurance program, the Natural Catastrophe Insurance Program available at www.CATcoverage.com.

As CEO of Poulton Associates, Craig is responsible for creating and moving his organization to the electronic distribution of catastrophe-related insurance products and developing the Natural Catastrophe Insurance Program as the first private market online alternative to the National Flood Insurance Program. It is now used by more than 10,000 insurance sales organizations and more than 25,000 insurance sales professionals across the country and insures billions of dollars of property against the peril of flood.

An insurance broker for more than 40 years, he holds the professional designation of Certified Insurance Counselor and holds insurance licenses in all 50 states. As a member of the Independent Insurance Agents of America, he has represented the state of Utah on the Acord Standards Committee and has been widely cited and quoted in national media and insurance industry trade publications. He recently served as a member of the Editorial Advisory Board for National Underwriter/PC360.

Poulton Associates was featured six times in the 2016, 2017, 2018 and 2019, 2020, and 2021 Inc. magazine lists of the 5,000 fastest growing companies in America – a rare accomplishment according to the magazine. Craig has a Bachelor of Science degree in communications with an emphasis in finance from the University of Utah.

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Poulton Associates, LLC is a Utah-based managing general agent and insurance brokerage with expertise in property and casualty insurance. As administrator of the Natural Catastrophe Insurance Program, they make the program available to insurance professionals in all 50 states at www.CATcoverage.com.