



February 12, 2013

**An Open Letter to the U.S. House of Representatives:**  
**No Federal Bailouts for Government-Run Property**  
**Insurance Plans!**

Dear Representative,

On behalf of the millions of citizens represented by the undersigned groups, we write in strong opposition to any legislation to establish a so-called “national catastrophe fund.” Misleadingly named bills such as Rep. Frederica Wilson’s (D-FL) forthcoming “Homeowners’ Defense Act” could result in enormous taxpayer bailouts for ill-conceived state government-run insurance schemes. Far from protecting taxpayers or reducing future costs, this type of legislation would burden the federal Treasury with potentially billions of dollars in liabilities and create a massive federal bailout facility for failing state-run plans.

Establishing a pre-packaged federal bailout for failing state systems would put the federal government on the hook for insuring and guaranteeing against losses that are now covered by the private sector. It would discourage fundamental reform in states like Florida, whose ruinous Hurricane Catastrophe Fund has roughly \$17 billion in liabilities and would be unable to pay billions of dollars in claims if a sufficiently large storm were to strike. Perhaps even worse, it could encourage other states to create similar programs that are designed to fail in order to capitalize on easy money from federal taxpayers.

These “beach house bailout” bills are simply not fiscally responsible. For example, they claim to require that state programs charge actuarial rates to participate in the federal program. But if actuarial rates were actually being charged, there wouldn't be any need for a federal backstop; this program would be irrelevant. There is a vibrant, well-capitalized reinsurance market that clearly could bear this risk at market-based, actuarially sound rates. Instead of protecting taxpayers, this bill will subsidize continued bad behavior of states like Florida and encourage more financially responsible states to ease current fiscal controls.

“National catastrophe fund” legislation also runs counter to the most basic principles of insurance, which manages risk by spreading it out as much as possible. By creating a federal government-run reinsurer, the Wilson bill would lead to dramatically higher concentrations of risk within our borders and concentrated risk is always more expensive to insure.

No longer would claims on Florida hurricanes be balanced by premiums paid for, say, earthquake risk in Japan. Instead, the U.S. market would be inundated by claims if any domestic disaster were to occur, putting taxpayers on the hook for huge losses.

The Wilson bill would increase the size and scope of the federal government and would encourage the creation of reckless state-run insurance schemes. This type of legislation is not federal assistance for natural disasters; it is a federal bailout for *state-created financial disasters*. In essence, it would countenance open-ended federal subsidies for "too big to fail" state insurance plans that are wholly incapable of dealing with major catastrophes. These bills would be counterproductive to sound insurance policy and pose unacceptable risks for taxpayers. We urge you to oppose them vigorously.

Sincerely,

Andrew Moylan  
R Street Institute

James Valvo  
Americans for Prosperity

John Berlau  
Competitive Enterprise Institute

Rob Sisson  
ConservAmerica

Tom Schatz  
Council for Citizens Against Government Waste

Seton Motley  
Less Government

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Taxpayers for Common Sense

David Williams  
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