

October 16, 2012

Dear Representative :

As a coalition of leading taxpayer advocates, environmental groups, insurers, reinsurers and others, we urge you to oppose H.R. 6477. Recently introduced by Rep. Albio Sires (D-NJ), H.R. 6477 would put your constituents on the hook for billions of dollars in losses and encourage risky development.

This bill, which has been cleverly named “the Taxpayer Protection Act” actually does just the opposite. The bill would create a federal backstop in the form of a federal reinsurance program and federal loan guarantees for insured losses now covered in the private sector. Such a program is ill advised and unnecessary: (1) it would add billions of dollars to the federal deficit; (2) it masks risk, providing no incentive to undertake life and property saving mitigation efforts; and (3) it encourages development in environmentally sensitive and risky areas.

According to a study by economist Robert Schapiro of a similar backstop, such a scheme could cost \$200 billion. Asking the taxpayers to pick this tab when the private market place is already insuring the risk would be ill-advised at any time but it is even more egregious during this difficult fiscal environment. Under this bill, homeowner insurance in risky areas would be nationalized through a government backstop akin to Fannie Mae and Freddie Mac. Fannie and Freddie have now cost American taxpayers \$180 billion and are not a model the federal government should consider replicating in this way.

Though the bill has been branded as helping the federal government pay for disaster costs, in fact it merely adds to taxpayer costs. Currently, the federal government pays for immediate needs, clean up, and infrastructure after a disaster through disaster assistance. Most property rebuilding, however, is paid for by private insurance. Under HR 6477, taxpayers would continue to pay for immediate needs and infrastructure reconstruction and on top of that would potentially pay for tens of billions of dollars in property rebuilding costs - costs now covered by private insurance. This contradicts Congressional efforts to cut the deficit and federal spending. This also displaces a robust private market and replaces it with federal government insurance.

H.R. 6477 is also designed to provide a federal backstop for state programs. Florida is one of only a handful of states with a state-run system. Under H.R. 6477, other coastal states would be incentivized to create programs like Florida’s—a dangerous proposition. Florida officials acknowledge that their system is under-capitalized and that in the event of a large hurricane the state system cannot pay claims. This is because the program provides state-backed insurance at highly subsidized rates, regardless of need. Subsidizing insurance coverage not only burdens taxpayers, but incentivizes people to live in dangerous areas and discourages life-saving mitigation. Underpriced insurance does not provide accurate information about risk, creating a subsidy to develop in risky areas—areas that also provide natural protection from storms. This development directly harms this nation’s residents and communities by eroding our natural barriers to storms and their impact.

H.R. 6477 unnecessarily shifts resources from taxpayers in all 50 states to pay for the mistakes made in one state like Florida. Florida officials are already working to shift policies to the private sector, and to slowly phase-in actuarial sound rates. They are taking the steps to move back to a private insurance system based on risk—one that collects enough premiums to pay claims without relying on American taxpayers. Such actions should be encouraged.

SmarterSafer strongly opposes H.R. 6477 because it is the wrong way to address the problems we confront with natural disasters. It does nothing to protect people in the event of a disaster. In fact, it actually incentivizes people to live in harm's way. We look forward to working with you on these important issues.

Sincerely,

SmarterSafer.org

MEMBERS

Environmental Organizations

American Rivers

Ceres

Clean Air-Cool Planet

ConservAmerica

Defenders of Wildlife

Environmental Defense Fund

National Wildlife Federation

Sierra Club

Consumer and Taxpayer Advocates

American Conservative Union

Competitive Enterprise Institute

R Street

Less Government

National Taxpayers Union

Taxpayers for Common Sense

Insurer Interests

Allianz of America

Association of Bermuda Insurers and Reinsurers

The Chubb Corporation

Liberty Mutual Group

National Association of Mutual Insurance Companies (NAMIC)

National Flood Determination Association

Reinsurance Association of America

SwissRe

USAA

Housing

National Low Income Housing Coalition

National Leased Housing Association

ALLIED ORGANIZATIONS

American Consumer Institute

Friends of the Earth

Institute for Liberty

National Fire Protection Association

Zurich