Easing The Homeowners' Insurance Crisis on the Atlantic and Gulf Coasts

Robert E. Litan[1]
Frank Nutter[2]
Marc Racicot[3]

October, 2007

The record hurricane seasons of 2004-05, which visited extensive damage on millions of residents of the Gulf Coast and Florida, have continued to cast a long shadow on the homeowners' insurance market for many residents in states bordering the Gulf of Mexico and the Atlantic Ocean.

In particular, the intense hurricane activity has triggered a major upward reassessment by insurers and the professional catastrophe forecasters on whom they rely of expected future catastrophe losses. Insurers cannot provide financial protection against those losses without raising premiums, especially on homeowners and commercial establishments in coastal areas facing the greatest risk of future storm damage. Some insurers, confronting not only higher expected future losses but greater uncertainty about their magnitude, have cut back coverage for properties in high-risk locations to minimize their exposure to potentially ruinous claims costs.

Policy makers and private sector experts have considered various ways to enhance homeowner insurance affordability and availability in the wake of these developments. In the past year, a number of private sector studies have offered a range of recommendations to help achieve both objectives, primarily to be considered by federal policy makers. Three themes run through several of the reports:[4]

--If policy makers want privately supplied insurance to be available, they must allow market forces to set premiums so that homeowners in harms' way today pay for the actuarial risks which they have voluntarily assumed without forcing others, now or in the future, who are not similarly situated to pick up any or all of this cost;

--Given the inability to do anything about the weather and thus the incidence (or severity) of hurricanes, the only way to reduce *average* homeowners' insurance premiums in affected states without discouraging private insurers from providing coverage is for policy makers to encourage and perhaps mandate measures to reduce future hurricane losses through cost-effective mitigation; and

---

[1] Senior Fellow, Economic Studies, The Brookings Institution and Vice President, Research and Policy, The Kauffman Foundation. Dr. Litan's views here are his own and not those of the two organizations with which he is affiliated.
[2] President, Reinsurance Association of America.
[3] President, American Insurance Association.
[4] See, e.g. Financial Services Roundtable (2007); Pidot (2007); Sutter (2007); Wharton Risk Management and Decision Processes Center (2007a) and (2007b).

--Risk-based premiums in coastal states have been especially burdensome for low to moderate income homeowners living in coastal areas. Premium and mitigation related assistance should be targeted toward these homeowners.

At this writing, federal policymakers are considering several proposals aimed primarily at enhancing the availability and/or affordability of homeowners' insurance in coastal states and, to a lesser degree, at reducing the federal government's future exposure for disaster relief.[5] One set of proposals would have the federal government act as a financial backstop (as lender or reinsurer) to state catastrophe reinsurance (or insurance) funds. Another approach is to enable the federal flood insurance program, which historically has offered premiums at subsidized rates to qualified homeowners and commercial establishments, to offer wind coverage in addition to its standard flood policy.[6] Although these proposals differ in their details, they each could have the effect, depending on the way they would be eventually implemented, of having federal taxpayers generally subsidize homeowners living in coastal areas.[7] A similar outcome may occur at the state level under certain recently enacted state insurance reform plans.

We believe that if insurance and/or mitigation subsidies are to be extended for equity reasons to any group of homeowners, *efforts should be made to target such subsidies toward those most in need:* to low to moderate income homeowners living in coastal areas where insurance affordability and availability challenges are most severe. Furthermore, we believe that both taxpayers and policy holders deserve to know how much those subsidies cost, to whom they go, and who will pay for them. In other words, any subsidy program should be *transparent*.

Below we lay out the rationale for moving in this direction, for which the federal government already has established a precedent through means-tested and geographically targeted subsidies for home heating oil and telecommunications services. We then describe the basic options for implementing the idea: vouchers or tax credits for insurance purchases, and grants, tax credits, or financing vehicles for mitigation investments. While the details of these various programs (especially defining who should

---

[5] Although, as discussed further below, most federal disaster aid pays for the reconstruction of damaged public infrastructure (such as roads, public buildings and the like), some portion is available for temporary living expenses of displaced individuals and to, a limited degree, to help pay for rebuilding their homes (expenses that otherwise would be covered under a standard homeowner's insurance policy).

[6] The legislation creating the program explicitly subsidizes rates for structures in place before local communities published their flood hazard maps (generally before the flood insurance program was in place). Other structures are implicitly subsidized to the extent that the program understates the probabilities of catastrophic floods in setting the premiums. That federal taxpayers have picked up roughly $20 billion of the program's claims costs following Hurricane Katrina indicates that such understatements have occurred in the past and, given the widespread expectation of more catastrophic storms in the future, are still present.

[7] Significantly, none of the proposals furthers the first two principles set forth above. For example, given the reluctance of the federal government at least so far to intrude on state governance of insurance, no proposal would require homeowners' insurance to be sold at market-determined rates. While the federal government continues to make available pre-event mitigation assistance for states under the Stafford Act, no federal proposal would mandate cost-effective mitigation (or guide state and/or local zoning decisions which clearly affect how much property is exposed to damage from future catastrophes).

be eligible for them and how generous they should be) are appropriately resolved at the state level, the federal government has an interest and could play a constructive role in encouraging the states to target any insurance and mitigation subsidies that may be provided.

The concepts outlined here could be implemented on a stand-alone basis or incorporated into a broader legislative framework. Although policymakers currently are wrestling with a range of insurance issues that extend beyond the affordability of coastal insurance, addressing affordability for those homeowners most in need is important to many individuals and communities. Successfully resolving this politically volatile issue also could allow public policymakers to maintain a rational and consistent approach toward insurance regulation, which is critical to the health of insurance markets.

The Case for Targeting Insurance and Mitigation Subsidies

A fundamental principle of insurance pricing is that premiums should be set according to risk. This ensures fairness, since otherwise, policy holders whose activities or location entail greater risks would likely be subsidized by lower-risk policy holders. Risk based pricing also promotes efficiency by encouraging policy holders either to locate in lower-risk locations or to invest in mitigation, either of which would reduce their catastrophe exposures and address larger safety concerns as more of the nation's population lives closer to the coasts.

In the case of catastrophe risks covered by homeowners' insurance, risk based pricing also ensures inter-generational fairness and efficiency. It is unfair and inefficient, for example, to ask taxpayers living in inland locations, now or in the future, to pay for the catastrophe losses of those living on the coasts whom are financially capable now of purchasing insurance at market rates. Simply put, those who are currently exposed to risk now should bear the costs of that risk now.

Market-based pricing can impose significant financial burdens on those with limited financial means, however, especially when sudden changes in external conditions force a significant upward pricing of risk. Such has been the case for residents of coastal states with low to moderate incomes in the aftermath of the 2004-05 hurricane seasons, which caused record insured damages of approximately $90 billion. Insurers, actuaries, catastrophe modeling firms and regulators all have since significantly raised their estimates of future catastrophe damage, and accordingly insurers have substantially increased premiums (and in some cases curtailed coverage). The residents of coastal areas, which are exposed to the greatest damage from hurricanes, have been especially hard hit with the largest premium increases. Residents of these areas who have limited incomes and who have limited ability to move -- either because of their age or because they have jobs with coastal business establishments -- suffer the greatest financial hardship.

Policy makers at both the federal and state levels have debated how to respond to developments affecting the homeowners' insurance market. At the federal level, Congress is currently considering a proposal to extend coverage under the historically subsidized flood program to cover wind damage of residents in designated flood zones, as well as ideas for having the federal government serve as either or both a lender-of-last-resort or reinsurer-of-last-resort to state catastrophe insurance plans. None of these proposals, however, has attracted a consensus among the various stakeholders concerned about these issues -- the insurance industry, consumer advocates, environmentalists, or taxpayer groups.

At the state level, there have been a number of measures designed to "punish" insurers for the high cost of hurricane insurance, including the suppression of rates, restrictions on the ability to manage exposures, and claims processing requirements. Likewise, some jurisdictions change their regulatory requirements following every major catastrophe, creating a climate of legal and economic uncertainty.

More positively, certain state actions to this point also have been designed to assist homeowners generally throughout these states or more narrowly in coastal areas, either directly or by giving incentives for insurers to provide coverage. For example, Mississippi gives insurers in its state a credit (not to exceed $100,000) against their premium taxes for underwriting new property-casualty policies in coastal areas (while providing grants to the state's residual insurer to help defray its expenses and costs of reinsurance). Louisiana has moved not only to deregulate its insurance market but also has extended grants (of $2-10 million) to insurers willing to underwrite policies in the state. Unlike the Mississippi insurer tax credit, the Louisiana grants do not solely target coastal areas.[8] South Carolina has targeted its aid in a means-tested fashion by providing tax credits – up to $1,250 for premiums in excess of 5 percent of income -- to offset some of the cost of homeowners' insurance purchased by residents with low to moderate incomes. The state also gives insurers a 25 percent credit against their state premium tax for homeowners' policies (to any buyer, regardless of income) that provide full coverage (including wind and hail damage).

Florida has moved in a different direction, supplanting the private market with various state insurance mechanisms: broadening the policy coverage offered by the state's "residual markets" insurer (Citizens Insurance), putting in place an assessment system to backstop that insurer and the state's reinsurance plan ("the Florida CAT Fund") should either have insufficient resources to pay claims, and raising the coverage ceiling for reinsurance provided by the Florida CAT Fund. Florida also provides mitigation grants to low-to-moderate income individuals and families.

Other ways of providing more general relief to homeowners without regard to means or geographic location have undesirable drawbacks. Thus, suppressing insurance premiums below their market-determined levels clearly is a poor way to address the affordability problem. If insurers cannot charge premiums commensurate with the risks they take on when writing policies, they will pull back from providing coverage – something that already has happened in some areas of some coastal states. Further, such a

[8] Louisiana limits the grants to insurers that satisfy minimum capital requirements and requires that the grants not exceed 20 percent of any insurer's capital and surplus.

broad-based remedy, even if it had no significant downsides, would be akin to hitting a fly with a sledgehammer. The main problem – potentially unaffordable premiums for coastal residents of limited means – is a narrow one, and so should be the remedy.

On the surface, enabling these residents to purchase insurance from a state-created "residual markets" insurer would appear to represent such a tailored solution. But, in fact, residual insurers are typically open to many state residents, with relatively loose eligibility requirements. As a result, homeowners who can afford privately supplied insurance nonetheless may be able to purchase coverage (at subsidized rates) from the residual insurer. Thus, residual plans, too, tend to be broader than necessary to deal with the narrowly focused insurance needs of specific parties.

If attempts are made to ease the financial burden of both insurance costs and investments in mitigation designed to reduce them, special efforts should be made for several reasons to target the assistance. For one thing, given limited resources or the willingness of others to finance this aid, it makes financial sense to concentrate assistance. Equity considerations dictate the same result: aid, where it is provided, should be provided to those most in need. And targeting assistance makes sense for efficiency reasons as well. Homeowners who have taken mitigation measures and purchased insurance are much more financially resilient following a catastrophe losses, and so it is in the interest of government and taxpayers to ensure that those with limited financial means have the ability to purchase it.

There are several precedents for providing in-kind subsidies for other services or products to individuals based on economic need and geographic location (which are to be distinguished from purely means-tested programs, such as those aimed at reducing the costs of food, housing and medical care for low income individuals, families or children).[9] One such geographically and income based program, the Low Income Home Energy Assistance Program (LIHEAP), was established after the run-up in oil prices in the 1970s in order to reduce the costs of home heating oil for eligible low-income and elderly residents. LIHEAP aid (which has since been extended to cover summer cooling bills) is funded at the federal level, but administered by the states through grants. In most states, because the aid is distributed on a first-come, first-served basis, the assistance pool often does not cover all who might otherwise qualify. For this reason, some states add monies of their own to what is provided by the federal government.

Another subsidy program targeted in a similar fashion is the "Universal Service Fund" (USF) that assists low income and rural residents, among others, in bearing the costs of telephone service. Under the Telecommunications Act of 1996, all providers of telecommunications services are required to contribute to the USF (prior to 1996, only

[9] Economists generally prefer general income support rather than in-kind (or targeted) subsidies to address issues of equity, since income support (through grants or the tax system) permits recipients to decide how to spend the aid. See, e.g. Wharton Risk Management and Decision Processes Center, 2007b. Yet for this reason, federal policy makers have provided in-kind aid tied to certain necessities – food, housing, and medical care -- precisely in order to assure that the recipients actually purchase these goods and services. This objective would be no different for a program aimed at cushioning the financial burden of purchasing homeowners' insurance or investing in mitigation.

long-distance telephone companies were subject to this requirement). USF monies are allocated by state public utilities commissions and are paid to eligible telecommunications carriers to help defray the costs of telecommunications services purchased by residents in high-cost (rural) areas, by rural health care providers, by low income households, and schools and libraries in low to moderate income neighborhoods. At this writing, the Federal Communications Commission is considering a proposal to allocate USF monies to eligible carriers based on reverse auctions (the bidders asking for the least money to serve the designated beneficiary groups would win rights to the subsidy).

Designing a Targeted Aid Program for Homeowners' Insurance and Mitigation

The targeted program suggested here would support low to moderate income coastal homeowners with their purchase of homeowners' insurance and for making qualified investments in catastrophe mitigation (such as securing roofs to the underlying structure and installing high impact windows or shutters, non-sliding patio doors, or high wind-resistant garage door and track systems). Below we group the options for delivering the two types of assistance in several broad categories. Each of the options would be transparent – in the sense that the costs of the program(s), the beneficiaries, and who will pay for the program, all would be identified, debated, and decided in advance. We conclude by addressing which levels of government are most appropriate to make what decisions, especially who should get the aid and how much.

Insurance Options: There are two fundamental methods for assisting eligible homeowners with the purchase of insurance: through the tax system or vouchers (or their functional equivalent).

As noted earlier, South Carolina targets premium support by giving qualified tax credits up to $1,250 per year. For tax rate structures that are progressive (under which the rates rise with income), tax credits are more progressive than allowing deductions.[10] Because state income tax liabilities for low to moderate income individuals are likely to be lower than their federal income tax liabilities, however, premium support provided by tax credits will be more limited under state initiatives, unless the credits (in excess of any tax liability) are refundable.

Alternatively, means-tested premium support for the purchase of insurance could be provided through grants or a voucher system. In effect, this is how both LIHEAP and USF subsidy systems work. Federal rental support for low-income housing is provided, in part, in this way (and also through project-based, or "supply side" subsidies).

Vouchers either can be handed out to eligible recipients, or by directing insurers to credit eligible purchasers with the amount of the voucher. The latter method would economize on distribution costs, since there are far fewer insurers than homeowner-

[10] South Carolina also has established an income tax deduction for new "Catastrophe Savings Accounts", which homeowners may establish to pay for insurance deductibles and other out-of-pocket recovery costs due to various catastrophes. There are annual and lifetime contribution limits to such accounts.

policyholders. To be sure, insurers would bear some administrative costs if the vouchers were channeled through them, since they would need to compile and submit data to the assistance authority to document the number of eligible beneficiaries and amounts to which each would be entitled. However, insurers would pass on these modest costs, in part or in whole, to policyholders.

Who should pay for insurance subsidies however they may be delivered: taxpayers, other property-casualty insurance policy holders, or purchasers of various kinds of insurance (not restricted to property-casualty), and which ones in either category?[11] To help answer this difficult question, it is useful to turn to fundamental principles of public finance.

The "benefit" principle teaches that government programs should be paid for by those most likely to benefit from them. Another financing principle is that programs should be financed according to ability to pay.

Clearly, because any insurance subsidy program would transfer resources to a targeted group of beneficiaries, those individuals or households cannot be expected to finance the initiative. Putting aside the issue of whether to finance the program through taxes or policyholder assessments, financing can be sought from other non-subsidized residents of coastal areas (or any other geographic region used to determine homeowners' eligibility for insurance premium support); residents of coastal states generally; all U.S. residents; or through savings in expenditures on other state and/or federal programs.

To be faithful to the "benefit principle," the most logical revenue sources come from other coastal area residents, since they benefit from having low-to-moderate income workers living near coastal business establishments as well as from the presence of retirees, even those of limited means, who frequent those establishments and thus enhance the general commercial environment. On this principle, then, it would be appropriate to finance the subsidies either by adding a special assessment to their homeowners' insurance policies (much like the universal service fee that is part of the USF) or by a modest increase in their property taxes.

Another class of beneficiaries includes visitors to coastal areas, whether from inside or out of state, who visit the hotels, restaurants and other commercial establishments that are able to draw on a larger local labor pool if low to moderate income individuals are not driven away by costly insurance premiums. These beneficiaries could be assessed through some kind of visitors' tax.

The broader the geographic area from which financing of any subsidy program is sought, the further away one departs from the benefit principle of financing. However, as this area is broadened, the financing requirement per person also will fall. In addition, given that the premium subsidy suggested here would be targeted, the total amount

---

[11] In theory, holders of other types of insurance policies – such as life, health, worker's compensation, and so on -- could be assessed, but this would burden those policyholders who may own no property in coastal areas.

required would be less than if the subsidy were broadly available. Any such modest amount could be financed either by offsets from other government programs or through an increase in any one of the taxes (income, sales, gasoline, and so on) that currently support government at the state and/or federal levels.

Whatever financing mechanism is chosen, the virtue of an explicit subsidy is that its costs would be transparent and would be weighed against other government spending priorities in the legislative process. This contrasts with the hidden subsidies that exist when insurance is provided through residual plans or if insurance premiums are suppressed. If residents and their elected representatives at any particular level of government decide that some residents' homeowners' premiums and/or mitigation expenses should be subsidized, this decision should be made in the open and its consequences available for all to see and debate.[12]

Mitigation Options: All homeowners, including coastal residents, can also reduce their catastrophe losses by investing in various measures that insulate homes against storm damage. Mitigation can also lead to lower insurance premiums, but only if premiums are set by market forces in the first place. Otherwise, if rates are initially suppressed, insurers would have no incentive to offer discounts for mitigation. This is yet another reason why it is important that insurance premiums be risk based. In addition, because it is always cheaper to build mitigation measures into residences when they are constructed than to retrofit them, it is important that states and localities adopt and enforce state-of-the-art building codes that help protect structures against damage from hurricanes (and other catastrophes).

The federal government already provides hazard mitigation grants to the states which may use the funds to assist any class of homeowners. Certain states have provided such assistance on a means-tested basis. Florida has a grant-based mitigation program, while South Carolina uses both grants and tax credits to promote mitigation.[13] Likewise, both grants and tax credits have been used to support certain expenditures by low to moderate income households in other contexts. For example, LIHEAP aid is provided through grants, whereas energy conservation is promoted largely through tax credits (and

[12] In contrast, efforts to subsidize particular residents through the insurance rate structure are not transparent. Thus, while it is noteworthy that in passing a major flood insurance reform bill, H.R. 3121, the House of Representatives recently phased-in actuarially priced premiums for homeowners of modestly priced homes (those less than 75 percent of the statewide median), this approach targets aid in a non-transparent manner. Other flood insurance policy holders, or for that matter all federal taxpayers (who stand behind the flood insurance program), would have no idea how much this subsidy would cost and how the cost of it would be borne.

[13] Florida's program pays for inspections and recommendations for upgrading to any homeowner who requests them, and also for retrofitting of structures owned by low-to-moderate individuals or families. In South Carolina, matching retrofitting grants up to $10,000 are available for all homeowners, while low income homeowners may receive such grants up to $5000 without a match. In addition, South Carolina provides tax credits for mitigation investments by any homeowner (with no income test). A number of states specifically require insurers to give discounts in their rates reflecting homeowners' investments in mitigation (although market forces also encourage insurers to do the same).

some regulatory mandates, as is the case with building codes to reduce property damage from various catastrophes).

All states exposed to catastrophe losses, not just those that already have taken measures to support mitigation investment, have an interest in encouraging their citizens to prevent catastrophe losses. The more effective mitigation is, the more lives are saved, more injuries are avoided, and the more rapidly state and local economies can recover after a catastrophe. Likewise, the federal government clearly has an interest in encouraging mitigation, especially among low to moderate households, who are likely to be less financially resilient than more affluent households and thus more likely to turn to the federal government for (limited) disaster assistance after a catastrophe strikes.[14]

Looking ahead, targeted tax credits for mitigation (whether made available at the federal and/or state levels) should be simpler to administer and more convenient to policyholders than any grant program. It is likely to be much less time consuming for homeowners to fill out one or more lines in a tax return (and for the tax authorities to review this) than to fill out a grant application (and for some governmental entity to review and make a decision on that application). The issues relating to who should finance any such mitigation assistance are comparable to those already reviewed in connection with insurance subsidies. However, because states and/or the federal government may wish to encourage mitigation by all homeowners throughout the country who may be exposed to various kinds of catastrophes, not just those living in coastal areas, it may be more appropriate to spread the cost of financing mitigation aid more widely than in the case of narrowly targeted insurance subsidies.

Further, the federal government in particular may want to borrow a page from its efforts to promote home ownership generally through its support of mortgage market development in facilitating investments in mitigation. One problem low and moderate income households have is finding the cash to pay for various investment measures. This “liquidity constraint” could be relaxed if “mitigation financing” were widely available at reasonable costs (so that, for example, such households would not need to borrow at much higher rates charged on consumer loans, such as credit card debt, whose interest is not deductible for income tax purposes and thus more expensive in any event than mortgage borrowing).

One suggested way for the federal government to do this would be to authorize and/or direct the three major “government-sponsored enterprises” – Fannie Mae, Freddie Mac, and Ginnie Mae – to buy such mitigation loans or guarantee securities backed by them, much as these GSEs now do for housing loans generally (which are made in amounts under certain designated ceilings). These loans would have maturities comparable to the underlying residential mortgages (which would help keep their payments affordable) and would be made explicitly to finance qualified mitigation investments, as determined by the insurance offerings available in each state. If insurance

[14] Limited cash grants are available for temporary housing expenses and reconstruction. Disaster victims may also apply to the Small Business Administration for loans to aid reconstruction. All such expenses, with a deductible, are routinely covered by the standard homeowners’ insurance policy.

premiums are set by the market, and thus are risk based, then as noted earlier, homeowners who make mitigation investments should be able to realize savings in their insurance premiums. One study has calculated that the monthly payments on such mitigation loans could be closely if not entirely offset by the potential savings in homeowners' insurance premiums.[15]

Should Premium/Mitigation Support Be A Federal or State Program (or Both)?

We have already broached, to a limited degree, the issue of which level of government – federal or state, or both – is most appropriate for implementing any targeted insurance/mitigation subsidy program. In other cases in which the federal government has provided targeted subsidies – for home heating oil and for telecommunications services – it has done so in cooperation with the states. For example, under both the LIHEAP and USF programs, the federal government foots the bill out of general revenues (in the case of LIHEAP) or imposes a special assessment (in the case of the USF), but hands over money to the states for distribution. Similarly, the federal government already provides funds to states for hazard mitigation under the Stafford Act, but leaves design and implementation to the states. We have just suggested that both the federal and state governments could have a role in any enhanced mitigation support program that might be pursued in the future.

With respect to any program for homeowners' insurance premium support, the states clearly also should have a major role, whether or not the federal government helps to provide (or mandate) any of the financing. Issues such as who should be eligible for the aid (both in what geographic areas and how any means test should be defined),[16] how much subsidy should be provided (on a per household basis and in the aggregate), and what form the subsidy should take (not just voucher or tax credit, but whether it should be a flat amount or a percentage of premium) are the kinds of local decisions that states are in the best position to make. So, too, is the important question of whether any premium support should be limited only to current residents, for existing properties, or opened up to new residents and/or new properties.[17] Different states and their citizens are likely to have different views on these subjects. Moreover, since catastrophe risks vary by state, even across coastal areas, the important implementation issues just listed should not be decided in a one-size-fits-all fashion by the federal government.

At the same time, for reasons already given, the federal government also has an interest in promoting the take-up of private insurance by households of limited means since higher coverage rates should reduce future disaster relief costs.

[15] Kunreuther (2006).

[16] In particular, state policymakers need to decide whether the means test should be based on income, home values, or both, and at what levels or percentages. Should homeowners who are "house rich, but cash poor" (with moderately to highly valued homes but living on fixed incomes) qualify? The same question applies to the opposite situation: those with rising incomes but homes of moderate or declining value.

[17] The prospect that such subsidies might be available for future residents or properties constructed in the future might induce more people to move to exposed areas, which would raise overall catastrophe costs and potentially costs for disaster relief. However, this "magnet" effect would be diminished to the extent such aid were to become capitalized into home values.

Accordingly, in our view, the ideal course would be for premium support to be implemented and financed to the extent possible at the state level, with appropriate federal supplemental incentives or support. The federal government could provide this support much as it now does for hazard mitigation grants provided to states: states would apply to FEMA for such assistance by demonstrating the worthiness of their assistance programs. Federal legislation could outline broadly what criteria the federal government would use to provide such grants, and what funding limits might apply.

Conclusion

The increase in homeowners' insurance premiums in the wake of the 2004-05 hurricane seasons poses especially significant hardships for coastal residents of limited financial means. After the financial hardships caused by the run-up in oil prices in the 1970s, Congress established a program to assist adversely affected low income residents. An analogous program to ensure affordable telephone service for low income Americans and those who live in high-cost areas also has been in place for some time. In this essay, we outline a proposal to apply these notions to the purchase of homeowners' insurance and investments in mitigation by low-to-moderate income residents of coastal areas exposed to hurricane risks.

The concept proposed here can be implemented by the federal and/or affected state governments. We have addressed this and other issues that would require resolution in these pages. We believe, however, that all of the key issues are tractable. It is time for the policymakers and the public to consider how to resolve them, for the "hurricane clock" is ticking.

Bibliography and References

Financial Services Roundtable, 2007. “Blue Ribbon Commission on Mega-Catastrophes: A Call to Action” (May).

Kunreuther, Howard, 2006. “Disaster Mitigation and Insurance: Learning from Katrina,” *The Annals of the American Academy of Political and Social Science*, 604: 208-227.

Pidot, Justin R., 2007. “Coastal Disaster Insurance In The Era Of Global Warming: The Case for Relying on the Private Market (Georgetown University Law Center).

Sutter, Daniel, 2007. “Ensuring Disaster: State Insurance Regulation, Coastal Development, and Hurricanes,” Mercatus on Policy, No. 5 (Mercatus Center, George Mason University, August).

Wharton Risk Management and Decision Processes Center, 2007a. “Managing Large-Scale Risks In A New Era of Catastrophes, Phase I Report” (Wharton Risk Management and Decision Processes Center, Georgia State University and the Insurance Information Institute, February).

Wharton Risk Management and Decision Processes Center, 2007b. “Managing Large-Scale Risks in a New Era of Catastrophes, Phase II Report” (Wharton Risk Management and Decision Processes Center, Georgia State University and the Insurance Information Institute, October).