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

October 16, 2012

Dear Representative,

On behalf of the millions of citizens represented by the undersigned groups, we write in strong opposition to H.R. 6477, the so-called "Taxpayer Protection Act." Introduced by Representative Albio Sires (D-NJ), this egregiously misnamed piece of legislation could result in enormous taxpayer bailouts for ill-conceived state-based insurance schemes. Far from protecting them, this bill could potentially burden taxpayers with billions of dollars in liabilities by creating a massive federal government-run reinsurance plan and establishing a loan program to facilitate state bailouts.

The reinsurance and bailout provisions in H.R. 6477 represent a tremendous expansion of the federal government's role in insuring and guaranteeing against losses that are now covered by the private sector. In establishing such programs, this legislation would discourage fundamental reform in states like Florida, whose ruinous Hurricane Catastrophe Fund has upwards of $18 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.

The bill is simply not fiscally responsible. For example, it claims to require that state programs charge actuarial rates to participate in the federal reinsurance program. Similarly, it requires states to charge actuarial rates for federal reinsurance – going so far as to initially charge five percent greater than the actuarial rate to build up cash reserves in the 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 could clearly 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.

The claim of fiscal responsibility is further undermined by the "liquidity loan" facility the bill creates. It requires the Treasury Department to cover any capital shortfalls faced by eligible state programs and even allows them to make loans to non-eligible plans if "the Secretary determines that...the loan is necessary." This loan program constitutes a blanket bailout for any state program that can't pay its bills, no matter how poorly structured it may be.

H.R. 6477 would increase the size and scope of the federal government and would encourage the maintenance and creation of reckless state-run insurance schemes. This 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 a major catastrophe. Despite its name, the "Taxpayer Protection Act" would be counterproductive to sound insurance policy and pose unacceptable risks for taxpayers.

Sincerely,

Andrew Moylan
R Street Institute

Ryan Alexander
Taxpayers for Common Sense

James Valvo
Americans for Prosperity

Slade O'Brien
Americans for Prosperity - Florida

David Williams
Taxpayer Protection Alliance

Duane Parde
National Taxpayers Union

Tom Schatz
Council for Citizens Against Government Waste

Tim Lee
Center for Individual Freedom

John Berlau
Competitive Enterprise Institute