



Texas FAIR Plan Association

2025 Budget Presentation to

Governing Committee

November 7, 2024

TFPA Budget – New or Notable Items for 2025

- **Hurricane Beryl** – The ultimate gross Losses and LAE attributable to Hurricane Beryl is estimated at \$95 million as of September 2024.
- **Private Market Contraction** - Strong growth in policy counts, exposures and premiums (Written Premium increase from \$76.9 million in 2022 to projection of \$300 million in 2025)
- **Cloud Migration** – Migration of Guidewire Policy Center, Billing Center and Claims Center to the Cloud is expected to be completed in Q2 of 2025
- **House Bill 998** – No estimates have been included in the 2025 budget for commercial property and liability coverage for Property Owners and Condo Associations due to uncertainty regarding the residual market demand for this coverage
- **Reinsurance** – Preliminary estimate of the cost for the 2025/2026 TFPA reinsurance program based on forecasted exposures is \$130 million. The amount of reinsurance purchased by FAIR Plan is at the full discretion of the FAIR Plan Governing Committee.

TFPA 2025 Budget – Key Assumptions

The 2025 Budget includes the following assumptions:

- Rate level: Includes August 2024 rate increase. Budget does not project future rate increases.
- The number of policies in force is projected to increase from a projected **117,429** policies at December 31, 2024 to **134,504** at year end 2025, an increase of **17,075** policies (**14.5%** increase).
- Employee merit increase is set at **3.5%**
- Operating expenses: Developed using zero-based detailed departmental budgets
- Commissions: Budgeted at \$34.6 million using average rate of **11.5%** for new and renewal policies. Average commission rate has increased due to higher commission percentage on new versus renewal policies.
- Premium taxes, licenses and other fees: **1.83%**
- Assumes receipt of assessment for 2023 deficit (\$17.655 million) in December 2024 and a second assessment to carriers for the projected December 31, 2024 deficit of \$67.6 million in March 2025.

TFPA 2025 Budget – Key Assumptions (cont)

The 2025 Budget includes the following assumptions:

- Assumes the FAIR Plan **\$30 million** line of credit that was effective July 1, 2024 is renewed with identical terms. The line of credit has a commitment fee on unused funds of 30 basis points.
- Loss and loss adjustment expense ratios are based on actuarial rate indications

TFPA 2025 Proposed Budget - Income Statement (In 000s)

	For the twelve months ended December 31,				E B2025 vs B2024	F B2025 vs F2024
	A Forecast FY2024	B Budget FY2024	C Variance 2024	D Budget FY2025		
Premiums Written:						
1 Direct	\$245,465	\$154,099	\$91,366	\$300,587	\$146,488	\$55,122
Premiums Earned:						
2 Direct	\$172,894	\$135,162	\$37,732	\$295,848	\$160,686	\$122,954
3 Ceded	(68,605)	(55,085)	(13,520)	(110,410)	(55,325)	(41,805)
4 Net	104,289	80,077	24,212	185,438	105,361	81,149
Deductions:						
6 Losses and LAE Incurred	129,928	38,279	91,649	77,117	38,838	(52,811)
7 Operating Expenses	17,664	17,122	541	18,912	1,790	1,249
8 Commission Expense	27,851	16,951	10,900	34,568	17,617	6,716
9 Ceding commissions / brokerage	(5,984)	(5,744)	(240)	(9,360)	(3,616)	(3,376)
10 Premium / Maintenance Tax	4,372	2,820	1,552	5,501	2,681	1,128
11 Total Deductions	173,831	69,428	104,402	126,738	57,309	(47,093)
12 Net Underwriting Gain or (Loss)	(69,542)	10,648	(80,190)	58,700	48,052	128,242
Other Income or (Expense):						
14 Gross Investment Income	2,016	1,793	223	4,430	2,637	2,414
15 Line of Credit Fees	(92)	(92)	0	(102)	(11)	(11)
16 Interest Expense on Line of Credit Advance	0	0	0	0	0	0
17 Member Assessment Income	17,655	0	17,655	67,621	67,621	49,966
18 Premium Charge Offs/Write Offs	(570)	(462)	(108)	(751)	(289)	(181)
19 Billing Fees	841	655	186	992	337	151
20 Other Income (Expense)	0	0	0	0	0	0
21 Total Other Income or (Expense)	19,850	1,894	17,956	72,190	70,296	52,340
22 Net Income (Loss)	(\$49,692)	\$12,542	(\$62,235)	\$130,890	\$118,348	\$180,582

Discussion Highlights

Budgeted written premiums are projected to increase as policy counts and exposures continue to rise.

Ceded Written Premiums for July 2025 – June 2026 are estimated at \$130 million based on projected exposures

Losses and Loss Adjustment Expense are budgeted using loss ratios in the most recent rate filing.

Investment income is estimated to increase as cash is received from assessments and increased written premium. Investment yields are budgeted to decline steadily.

Member assessment income in both 2024 and 2025 based on deficit balances.

TFPA 2025 Budgeted Surplus and Key Ratios (In 000s)

	A	B	C	D	E	F	
	For the twelve months ended December 31,						
	Forecast FY2024	Budget FY2024	Variance 2024	Budget FY2025	B2025 vs B2024	B2025 vs F2024	
1 Surplus (Deficit) Account:							1
2 Beginning Surplus (Deficit)	(17,655)	(15,123)	(2,532)	(67,621)	(52,498)	(49,966)	2
3 Net Income (Loss)	(49,692)	12,542	(62,235)	130,890	118,348	180,582	3
4 Change in Provision for Reinsurance	(1,000)	0	(1,000)	0	-	1,000	4
5 Change in Non-Admitted Assets	726	(9)	735	(9)	(0)	(735)	5
6 Statutory Fund Cost	0	0	0	0	-	-	6
7 Ending Surplus (Deficit)	(\$67,621)	(\$2,590)	(\$65,031)	\$63,260	\$65,850	\$130,881	7
8							8
9 Key Operating Ratios:							9
10 Direct:							10
11 Loss & LAE Ratio	102.2%	28.3%	73.9%	26.1%	(2.3%)	(76.2%)	11
12 UW Expense Ratio:							12
13 Acquisition	13.1%	12.8%	0.3%	13.3%	0.5%	0.2%	13
14 Non Acquisition	10.2%	12.7%	(2.5%)	6.4%	(6.3%)	(3.8%)	14
15 UW Expense Ratio	23.3%	25.5%	(2.2%)	19.7%	(5.8%)	(3.6%)	15
16 Direct Combined Ratio	125.6%	53.8%	71.8%	45.8%	(8.0%)	(79.8%)	16
17							17

Note: Forecast reflects January to July 2024 actuals and August to December 2024 forecast.

Proposed 2025 Budget Expense Summary (Gross and Net) In 000s

7

A		B	C	D	E	F	G	
		For the twelve months ended December 31,			Budget FY2025	B2025 vs B2024	B2025 vs F2024	
		Forecast FY2024	Budget FY2024	Variance 2024		Inc (Dec)	Inc (Dec)	
1	Personnel Expenses	17,846	12,489	5,357	19,798	7,308	1,952	1
2	Professional & Consulting Services	5,684	5,272	412	4,653	(618)	(1,030)	2
3	Hardware/Software Purchases & Licensing	1,697	1,676	20	2,523	847	826	3
4	Rental & Maintenance - Office/Equipment	510	570	(59)	486	(83)	(24)	4
5	Travel Expenses	130	162	(33)	181	18	51	5
6	Postage, Telephone and Express	661	556	105	604	48	(57)	6
7	Capital Management Expenses	92	92	0	102	11	11	7
8	Depreciation	0	0	0	0	0	0	8
9	Other Operating Expenses	664	557	107	821	264	157	9
10	Gross Operating Expenses	27,284	21,375	5,910	29,169	7,795	1,885	10
11	Less: Adjustments/Allocations							11
12	Capitalization of Fixed Assets	0	0	0	0	0	0	12
13	Reimbursement of Depopulation Servicing Expense	0	0	0	0	0	0	13
14	Allocation To ULAE	(9,529)	(4,161)	(5,368)	(10,155)	(5,994)	(626)	14
15	Allocation To Investing	(92)	(92)	0	(102)	(11)	(11)	15
16	Total Adjustments/Allocations	(9,621)	(4,252)	(5,368)	(10,257)	(6,004)	(636)	16
17								17
18	Net Operating Expense - UW Operations	17,664	17,122	541	18,912	1,790	1,249	18

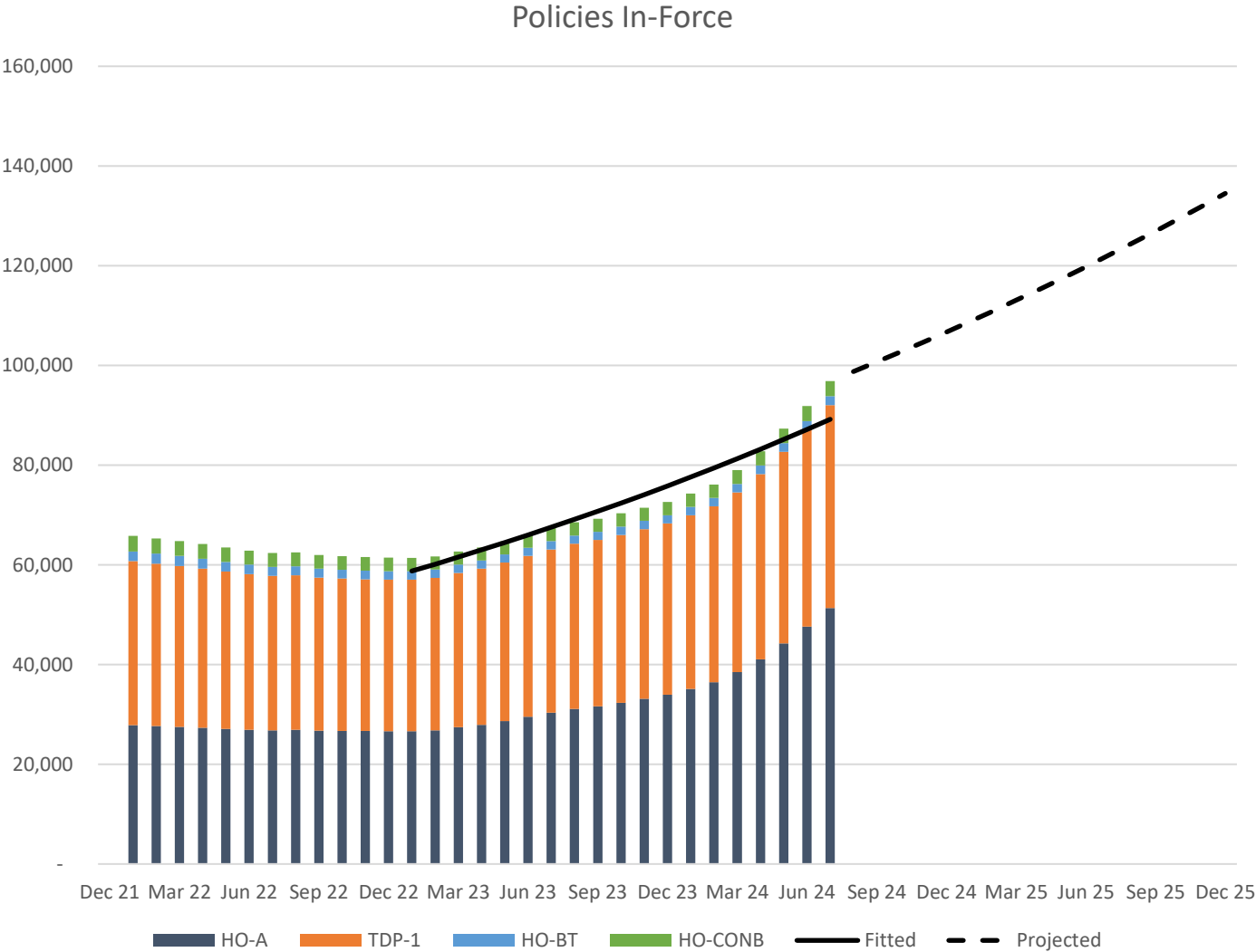
* Increase in personnel expenses in 2024 and 2025 is primarily attributable to Contractors utilized to settle Claims from Hurricane Beryl.

Premium Projections

Premium Budget - Policies In Force

Total Policies in Force	
Dec 2022 (Actual)	61,452
Dec 2023 (Actual)	71,749
Dec 2024 (Budget)	81,448
Dec 2024 (Projection)	117,429
Dec 2025 (Budget)	134,504

2025 Budget – PIF as of 12/31/2025	
<u>Class of Business</u>	<u>Count</u>
Homeowners	79,982
Dwelling	49,086
Condominium	3,683
Tenant	1,752
TOTAL	134,504
% Annual Growth	14.5%



Graphical view of month-end policies in force from 2022 through 2025 budget.

TFPA Historical and Projected Policies In Force

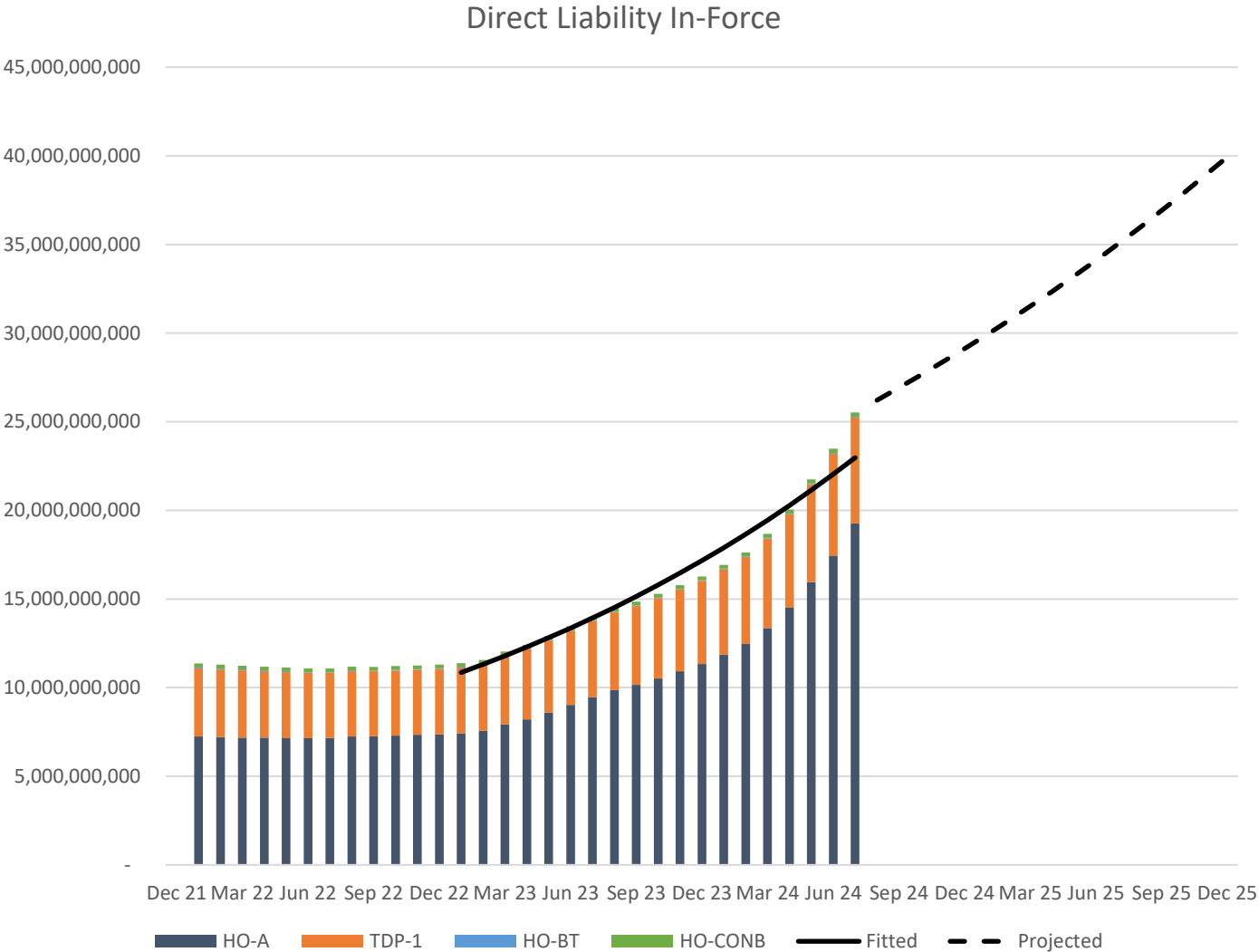
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	A	B	C	D	E	F	G	H	I	J	
	Policies in Force at December 31,										
								Forecast		% Change	
1	Class of Business	2018	2019	2020	2021	2022	2023	2024	Budget 2025	B2025 vs F2024	1
2	Homeowners - HO3	41,555	34,253	30,865	28,153	26,611	33,974	66,614	79,982	20.1%	2
3	Dwelling - DP2	46,475	40,379	37,174	33,205	30,414	34,316	45,466	49,086	8.0%	3
4	Condominium - HO6	4,059	3,670	3,463	3,130	2,713	2,670	3,466	3,683	6.3%	4
5	Tenant - HO4	3,549	2,621	2,211	2,024	1,714	1,666	1,883	1,752	-7.0%	5
6	Total	95,638	80,923	73,713	66,512	61,452	72,626	117,429	134,504	14.5%	6
7	% Change	-10.9%	-15.4%	-8.9%	-9.8%	-7.6%	18.2%	61.7%	14.5%		7

Premium Budget – Direct Liability in Force (Exposures)

Total Direct Liability in Force (In 000s)	
Dec 2022 (Actual)	\$ 11,301,744
Dec 2023 (Actual)	\$ 16,067,869
Dec 2024 (Budget)	\$ 20,070,552
Dec 2024 (Forecast)	\$33,047,135
Dec 2025 (Budget)	\$39,930,260

2025 Budget – Exposures as of 12/31/2025 (In 000s)	
Class of Business	Amount
Homeowners	\$ 31,851,047
Dwelling	7,703,757
Condominium	328,535
Tenant	46,922
TOTAL	\$ 39,930,260
% Annual Growth	20.8%



Graphical view of month-end exposures in force from 2022 through 2025 budget.

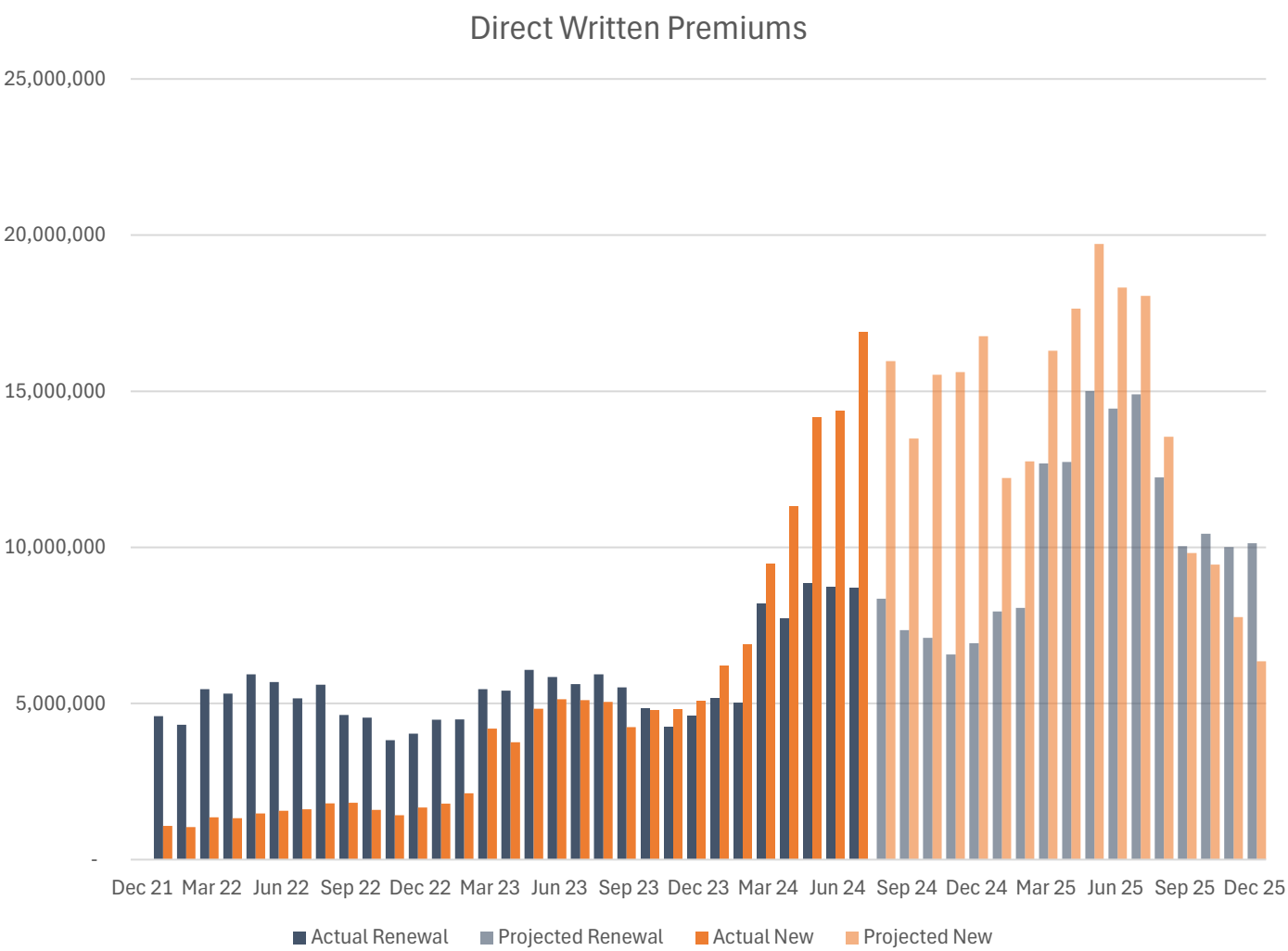
TFPA Historical and Projected Exposures in Force

	A	B	C	D	E	F	G	H	I	J	
	Exposures in Force at December 31, (In 000s)										
1	Class of Business	2018	2019	2020	2021	2022	2023	Forecast 2024	Budget 2025	% Change B2025 vs F2024	1
2	Homeowners - HO3	9,837,297	8,522,822	7,960,202	7,318,776	7,365,929	11,334,275	25,776,054	31,851,047	23.6%	2
3	Dwelling - DP2	5,082,484	4,601,376	4,361,752	3,879,984	3,686,824	4,685,713	6,928,877	7,703,757	11.2%	3
4	Condominium - HO6	280,244	251,509	236,557	221,575	207,151	213,628	293,229	328,535	12.0%	4
5	Tenant - HO4	85,483	65,816	57,608	50,866	41,840	42,168	48,975	46,922	-4.2%	5
6	Total	15,285,508	13,441,524	12,616,119	11,471,201	11,301,744	16,275,783	33,047,135	39,930,260	20.8%	6
7	% Change	-10.9%	-12.1%	-6.1%	-9.1%	-1.5%	44.0%	103.0%	20.8%		7

Premium Budget – Written Premium

Total Annual Direct Written Premiums	
2022	\$ 76,880,876
2023 (Actual)	\$ 113,460,197
2024 (Budget)	\$ 154,099,457
2024 (Projection)	\$245,465,228
2025 (Budget)	\$300,587,419

2025 Budget – Direct Written Premiums	
Class of Business	Amount
Homeowners	\$ 228,179,858
Dwelling	69,760,334
Condominium	2,250,703
Tenant	396,524
TOTAL	\$ 300,587,419
% Annual Growth	22.5%



Graphical view of monthly direct written premium from 2022 through 2025 budget.

REINSURANCE

Reinsurance

- 2024 reinsurance projected premiums: **\$92.1 million**
- Estimated 2025 reinsurance deposit premiums: **\$130.0 million**

The above estimate is based on the projected increase in exposures for 2025. Actual reinsurance costs will depend on:

- the modeled impact of exposure growth
- the amount of reinsurance coverage purchased (The Governing Committee is not required to purchase to a specific loss amount)
- which additional coverages are purchased if any (drop down and Reinstatement Premium Protection (RPP))
- selected retention level
- changes in underlying reinsurance market conditions for the 2025 season

Expenses

Expense Categories

TFPA budgets and tracks expenses in four primary categories:

Personnel Expenses

- Salary & Wages
- Contractors/Temp Help
- Payroll Taxes
- Employee Benefits
- Recruiting/Training/Other

EDP Equipment & Software

- Hardware
- Software Purchases and Licensing

Professional Services

- Legal
- Accounting & Auditing
- Information Technology
- Actuarial
- Surveys & Inspections
- Other Services

Other Operating Expenses

- Rent
- Maintenance
- Office Equipment
- Postage
- Telephone
- Shipping
- Bureaus and Associations (ISO, PIPSO, etc.)
- Printing and Supplies
- Dues and Subscriptions
- Insurance
- Media and Advertising
- Service Charges (Bank Fees)

Reconciliation of Expenses

2025 Budget vs. 2024 Forecast Comparisons

(000's)

		<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	
			Total Operating Expenses			
			Budget 2025	Forecast 2024	B2025 vs F2024	
1	Total Operating Expenses - Both Associations		109,989	106,094	3,895	1
2	Less: Allocation to TWIA (1)		80,819	78,810	2,010	2
3	TFPA Gross Operating Expenses		29,169	27,284	1,885	3
4	Depopulation Expense		0	0	0	4
5	Claims Expenses - ULAE (2)		(10,155)	(9,529)	(626)	5
6	Investment Expenses		(102)	(92)	(11)	6
7	TFPA Gross Underwriting Expenses Before Capitalization		18,912	17,664	1,249	7
8	Capitalized Expenses		0	0	0	8
9	TFPA Net Underwriting Expenses (3)		18,912	17,664	1,249	9

(1) Reflects allocated expenses incurred by TWIA

(2) Claim handling expenses, referred to as Unallocated Loss Adjustment Expenses (ULAE) which are provided for in loss reserves, consists of Claims Dept. expenses and a portion of IT, Legal, Operations & Corporate.

(3) Underwriting Expense, net of allocations to ULAE, investment expense and net of any capitalized expenses. Reported as Operating Expenses on the income statement.

Reconciliation of Expenses

2025 Budget vs. 2024 Budget Comparisons

(000's)

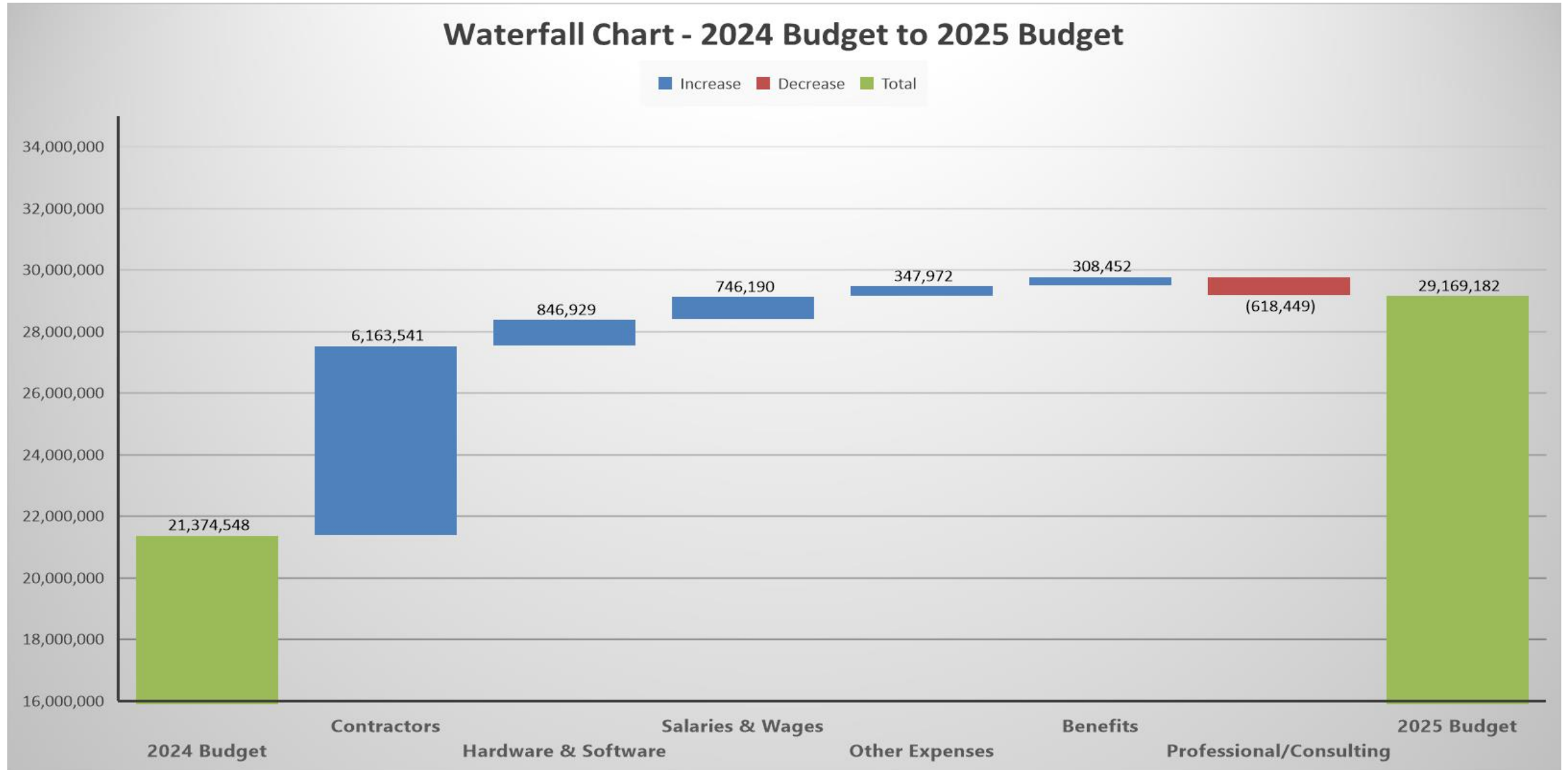
		Total Operating Expenses				
		B	C	D		
		Budget 2025	Budget 2024	B2025 vs B2024		
1	Total Operating Expenses - Both Associations	109,989	73,318	36,671	1	
2	Less: Allocation to TWIA (1)	80,819	51,943	28,876	2	
3	TFPA Gross Operating Expenses	29,169	21,375	7,795	3	
4	Depopulation Expense	0	0	0	4	
5	Claims Expenses - ULAE (2)	(10,155)	(4,161)	(5,994)	5	
6	Investment Expenses	(102)	(92)	(11)	6	
7	TFPA Gross Underwriting Expenses Before Capitalization	18,912	17,122	1,790	7	
8	Capitalized Expenses	0	0	0	8	
9	TFPA Net Underwriting Expenses (3)	18,912	17,122	1,790	9	

(1) Reflects allocated expenses incurred by TWIA

(2) Claim handling expenses, referred to as Unallocated Loss Adjustment Expenses (ULAE) which are provided for in loss reserves, consists of Claims Dept. expenses and a portion of IT, Legal, Operations & Corporate.

(3) Underwriting Expense, net of allocations to ULAE, investment expense and net of any capitalized expenses. Reported as Operating Expenses on the income statement.

TFPA Gross Expenses



TFPA All Expenses Summary (In 000s)

	A	B	C	D	E	F	G	H	I
	For the twelve months ended December 31,					B2025 vs B2024		B2025 vs F2024	
	Forecast 2024	Budget FY2024	Variance 2024	Budget FY2025		\$	%	\$	%
	Personnel Expenses								
1	Salaries & Wages - Permanent	7,672	8,160	(487)	8,906	746	9%	1,234	16%
2	Contractor & Temporary Help	7,249	1,148	6,101	7,312	6,164	537%	62	1%
3	Payroll Taxes	561	591	(30)	637	46	8%	76	13%
4	Employee Benefits	2,199	2,378	(179)	2,687	308	13%	487	22%
5	Recruiting, Training & Other	164	213	(49)	257	44	21%	93	57%
6	Subtotal	17,846	12,489	5,357	19,798	7,308	59%	1,952	11%
7									
8	Professional & Consulting Services								
9	Legal	176	121	55	122	2	1%	(54)	-31%
10	Accounting & Auditing	124	134	(9)	144	10	8%	19	16%
11	Information Technology	2,436	3,027	(590)	1,554	(1,472)	-49%	(882)	-36%
12	Actuarial Services	18	24	(6)	22	(2)	-8%	4	22%
13	Ombudsman Program	0	0	0	0	0	0%	0	0%
14	Surveys & Inspections	1,201	595	606	1,157	562	94%	(44)	-4%
15	Disaster Recovery Services	0	4	(4)	4	(1)	-17%	4	0%
16	Other Services	1,728	1,368	360	1,651	283	21%	(77)	-4%
17	Subtotal	5,684	5,272	412	4,653	(618)	-12%	(1,030)	-18%
18									
19	Hardware/Software Purchases & Licensing	1,697	1,676	20	2,523	847	51%	826	49%
20	Rental & Maintenance - Office/Equipment	510	570	(59)	486	(83)	-15%	(24)	-5%
21	Travel Expenses	130	162	(33)	181	18	11%	51	39%
22	Postage, Telephone and Express	661	556	105	604	48	9%	(57)	-9%
23	Capital Management Expenses	92	92	0	102	11	11%	11	11%
24	Depreciation	0	0	0	0	0	0%	0	0%
25	Other Operating Expenses	664	557	107	821	264	47%	157	24%
26									
27	Total Operating Expenses	27,284	21,375	5,910	29,169	7,795	36%	1,885	7%
28									
29	Capitalization of Fixed Assets	0	0	0	0	0	0%	0	0%
30	Reimbursement of Depopulation Servicing Expenses	0	0	0	0	0	0%	0	0%
31	Allocation To ULAE	(9,529)	(4,161)	(5,368)	(10,155)	(5,994)	144%	(626)	7%
32	Allocation To Investing	(92)	(92)	0	(102)	(11)	11%	(11)	11%
33	Net Operating Expense - UW Operations	17,664	17,122	541	18,912	1,790	10%	1,249	7%

Fiscal year 2025 increase in Salaries and Wages is attributable to the additional full-time employees in the Accounting, Underwriting and Claims departments and proposed merit increase of 3.5% or \$256K. Variance is explained in detail in the Personnel section of the discussion.

Contractor & temporary help increase is attributable primarily to claims examiners needed to handle claims related to Hurricane Beryl workload.

The decrease in IT Consulting is caused by the projected completion of the Guidewire Migration project in 2Q 2025.

The increase in Hardware and Software is attributable to Guidewire Licensing fees.

The higher unallocated loss adjustment expenses primarily reflects the contractor costs related to Hurricane Beryl.

Historical Operating Expenses by Category

		A	B	C	D	E	G	F	H	I	
		2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2024 Budget	2025 Budget	
1	TOTAL ALL DEPTS										1
2	Personnel Costs	\$15,105,525	\$11,350,250	\$11,065,152	\$10,076,419	\$10,218,143	\$10,868,945	\$17,846,066	\$12,489,425	\$19,797,898	2
3	Professional Services	7,519,066	4,938,527	3,975,824	2,293,651	2,275,448	3,056,706	5,683,626	5,271,815	4,653,366	3
4	Hardware & Software Licensing	1,177,267	1,305,467	1,304,142	1,286,390	1,418,291	1,417,429	1,696,960	1,676,500	2,523,429	4
5	Rental & Maintenance - Office/Equipment	748,160	684,883	678,653	670,781	737,988	525,789	510,499	569,517	486,175	5
6	Travel Expenses	73,599	63,988	10,184	12,302	68,288	114,119	129,875	162,496	180,980	6
7	Postage, Telephone and Express	423,073	412,485	348,767	452,930	343,499	414,306	661,296	555,857	604,216	7
8	Capital Management Expenses	84,056	121,667	150,501	164,160	91,250	91,472	91,500	91,500	102,000	8
9	Other Operating Expenses	551,225	509,274	477,148	435,640	334,825	383,402	664,395	557,439	821,119	9
10											10
11	GROSS OPERATING EXPENSES	25,681,969	19,386,542	18,010,370	15,392,273	15,487,733	16,872,168	27,284,217	21,374,548	29,169,182	11
12											12
13	Capitalization of Fixed Assets	0	0	0	0	0	0	0	0	0	13
14	Reimbursement of Depop Servicing Exp	0	0	0	0	0	0	0	0	0	14
15	Allocation To ULAE	(6,845,841)	(3,691,030)	(4,616,029)	(4,757,745)	(3,590,053)	(3,775,983)	(9,529,203)	(4,160,996)	(10,154,707)	15
16	Allocation To Investing & Other Exp	(84,056)	(121,667)	(150,501)	(164,160)	(91,250)	(91,472)	(91,500)	(91,500)	(102,000)	16
17	Net Operating Expense	\$18,752,073	\$15,573,845	\$13,243,840	\$10,470,369	\$11,806,430	\$13,004,713	\$17,663,514	\$17,122,052	\$18,912,475	17
18											18
19	Direct Earned Premium	104,488,425	90,423,217	82,158,825	77,565,541	75,432,120	92,200,633	172,894,100	135,161,626	295,847,959	19
20	Direct Non Acquisition Expense Ratio	17.9%	17.2%	16.1%	13.5%	15.7%	14.1%	10.2%	12.7%	6.4%	20

Comparative Personnel Costs – 2025 Budget to 2024 Budget

(000's)

		<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	
			Personnel Costs			
			Budget 2025	Budget 2024	B2025 vs B2024	
1						1
2	Salaries & Wages - Permanent		8,906	8,160	746	2
3	Contractor & Temporary Help		7,312	1,148	6,164	3
4	Sub-total		16,217	9,308	6,910	4
5	Payroll Taxes		637	591	46	5
6	Employee Benefits		2,687	2,378	308	6
7	Recruiting, Training & Other		257	213	44	7
8	Personnel Costs, Gross		19,798	12,489	7,308	8
9	<i>Less:</i>					9
10	Capitalized Amount		0	0	0	10
11	ULAE Allocation		(8,870)	(2,857)	(6,013)	11
12	Investment Expense Allocation		0	0	0	12
13	Personnel Costs, Net		10,928	9,633	1,295	13

- Increase in salaries and wages includes 2 additional underwriters fully allocated to FAIR Plan and 1 Quality Analyst allocated 50% to TFPA. Positions added to help absorb impact of growth in both core underwriting and policy support functions.
- Increase in gross salaries includes 1 additional FAIR Plan claims supervisor and allocated portions of 2 additional claims examiner trainees and 2 field staff claims adjusters.
- Other increase in salaries also includes total TFPA merit increase of \$256K and allocated portion of budgeted new hires from other departments.

Employee Benefits – TFPA

Description	A	B	C	D	E	F
	for the 12 months ended December 31,					
	Forecast FY2024	Budget FY2024	Variance-24	Budget FY2025	Budget 2025 vs Forecast 2024	Budget 2025 vs Budget 2024
1 Total Salary & Wages	7,672,268	8,159,672	(487,404)	8,905,862	1,233,594	746,190
2						
3 Pension Plan	567,175	601,969	(34,794)	726,021	158,846	124,052
4 401 K Plan	420,086	440,433	(20,347)	479,219	59,133	38,786
5 Insurance & Related:						0
6 Medical	1,084,866	1,199,139	(114,273)	1,321,853	236,987	122,714
7 Dental	58,672	66,290	(7,618)	80,858	22,186	14,568
8 Life, LTD, STD & AD&D	53,734	55,240	(1,506)	61,927	8,192	6,686
9 All Other (1)	14,927	15,200	(272)	16,846	1,918	1,646
10 Total Insurance & Related	1,212,200	1,335,869	(123,669)	1,481,483	269,283	145,613
11						
12 Total All Benefit Costs	2,199,461	2,378,271	(178,810)	2,686,723	487,262	308,452

(1) All Other Benefits include Vision, LTD, EAP, HSA fees, FSA fees, Extended Leave Admin fees

Benefits % to Salaries

29.1%

30.2%

Increase in Employee Benefits resulted from slightly higher contracted rates for Medical Insurance (3%) and a small budgeted increase in participants.

Slight increase in pension expense is attributable to lower interest rates used to value liabilities and annual expense. Estimates provided by Towers Watson actuaries.

The increase in other Employee Benefits expense is primarily due to the anticipated increase in the number of enrolled employees.

Consolidated Headcount Summary – TWIA/TFPA

	A	B	C	D	E	F	
	Actual 7/31/2024	Forecast 12/31/2024	Authorized Budget 12/31/2024	Proposed Budget 12/31/2025	B2025 vs F2024	B2025 vs B2024	
1 FTE	230	246	257	265	19	8	1
2 Contractors	420	263	16	99	(164)	83	2
3 Total	650	509	273	364	(145)	91	3

Note: Headcount is as of end of the period

Professional & Consulting Services

2025 Budget vs. 2024 Forecast vs. 2024 Budget Comparisons

(In 000's)

	A	B	C	D	E	F	
	Budget FY2025				Variance	Variance	
	Forecast 2024	Budget FY2024	Budget FY2025	Budget FY2025	B25 vs F24	B25 vs B24	
1 Professional & Consulting Services							1
2 Legal	176	121	55	122	(54)	2	2
3 Accounting & Auditing	124	134	(9)	144	19	10	3
4 Information Technology	2,436	3,027	(590)	1,554	(882)	(1,472)	4
5 Actuarial Services	18	24	(6)	22	4	(2)	5
6 Ombudsman Program	0	0	0	0	0	0	6
7 Surveys & Inspections	1,201	595	606	1,157	(44)	562	7
8 Disaster Recovery Services	0	4	(4)	4	4	(1)	8
9 Other Services	1,728	1,368	360	1,651	(77)	283	9
10 Total Gross	5,684	5,272	412	4,653	(1,030)	(618)	10
11 Less:							11
12 Capitalized Amount	0	0	0	0	0	0	12
13 ULAE Allocation	(729)	(857)	128	(681)	48	176	13
14 Investment Expense Allocation	0	0	0	0	0	0	14
15 Professional Services, Net	4,954	4,414	540	3,972	(982)	(442)	15

The decrease in IT Consulting expense in the 2025 budget is attributed to the planned completion of the Guidewire migration to the cloud and reduction of consulting services provided by Zensar Technologies and Guidewire in Q2 2025.

The increase in Surveys and Inspections is due to the increase in new policies issued and the corresponding increase in inspections

Other Services increased primarily due to higher Call Center expenses in UW . Both are a result of the increase in the number of policies.

TFPA Professional Services Top 10 Vendors

Department/s		Vendor	2024 Forecast	2024 Budget	Variance 2024	2025 Budget	Variance B2025 vs F2024	Variance B2025 vs B2024	
1	Underwriting	Reliable Reports, Inc.	\$ 954,474	462,000	492,474	939,913	\$ (14,561)	477,913	1
2	Information Technology	Cynosure, Inc. dba Zensar Technologies	1,861,456	2,069,900	(208,444)	708,834	(1,152,622)	(1,361,066)	2
3	Underwriting	Clear Point Claims, LLC.	614,988	417,300	197,688	479,186	(135,802)	61,886	3
4	Underwriting	Marshall & Swift/Boeckh, LLC. (CoreLogic)	272,183	164,250	107,933	341,635	69,452	177,385	4
5	Information Technology	Guidewire Software, Inc.	165,183	533,235	(368,051)	218,524	53,340	(314,711)	5
6	Information Technology	Stratus Technology Services, LLC.	185,010	147,000	38,010	206,885	21,875	59,885	6
7	Underwriting	Insurance Services Office, Inc. (Verisk)	248,042	166,802	81,240	201,152	(46,890)	34,350	7
8	Claims	Xactware Solutions, Inc.	178,343	154,567	23,776	186,336	7,993	31,769	8
9	Claims	Aerial Imagery - Nearmap	0	0	0	135,300	135,300	135,300	9
10	Information Technology	Transferpath, LLC.	93,594	131,250	(37,657)	131,250	37,657	0	10
11	Various departments	Other Vendors	1,110,353	1,025,512	84,841	1,104,351	(6,002)	78,839	11
12	Total Other Professional Services		\$ 5,683,626	\$ 5,271,815	\$ 411,811	\$ 4,653,366	\$ (1,030,260)	\$ (618,449)	12

- Reduction in IT Consulting services for Cynosure/Zensar Technologies and Guidewire Software Inc. are primarily related to the completion of the Guidewire cloud migration project in 2025.
- Surveys and Inspection expenses for Reliable Reports, Inc. refers to property inspections.
- Nearmap Aerial Imagery \$135K is replacing Eagleview vendor.

Hardware and Software

2025 Budget vs. 2024 Forecast vs. 2024 Budget Comparisons (In 000's)

	A	B	C	D	E	F	
	Forecast 2024	Budget FY2024	Variance 2024	Budget FY2025	Variance B25 vs F24	Variance B25 vs B24	
1 Hardware and Software							1
2 Hardware	106	96	10	115	9	19	2
3 Software Licensing Fees	1,591	1,581	10	2,409	818	828	3
4 Total Gross	1,697	1,676	20	2,523	826	847	4
5 Less:							5
6 Capitalized Amount	0	0	0	0	0	0	6
7 ULAE Allocation	(29)	(137)	109	(231)	(203)	(94)	7
8 Investment Expense Allocation	0	0	0	0	0	0	8
9 Hardware & Software, Net	1,668	1,539	129	2,292	624	753	9

Software: Software Licensing Fees reflect the move to the Guidewire Cloud platform approved in the 2024 budget.

All Other Expenses Summary (In 000s)

	A	B	C	D	E	F	
	Forecast 2024	Budget 2024	Variance 2024	Budget 2025	Variance B25 vs F24	Variance B25 vs B24	
1 All Other Operating Expenses							1
2 Rental & Maintenance - Office/Equipment	510	570	(59)	486	(24)	(83)	2
3 Travel Expenses	130	162	(33)	181	51	18	3
4 Postage, Telephone and Express	661	556	105	604	(57)	48	4
5 Capital Management Expenses	92	92	0	102	11	11	5
6 Printing & Supplies	250	223	27	304	53	81	6
7 Depreciation	0	0	0	0	0	0	7
8 Bank Charges	104	0	104	117	13	117	8
9 Others	310	334	(24)	401	91	67	9
10 Total Gross	2,058	1,937	121	2,194	137	258	10
11 Less:							11
12 Capitalized Amount	0	0	0	0	0	0	12
13 Reimbursement of Depopulation Servicing Fees	0	0	0	0	0	0	13
14 ULAE Allocation	(337)	(309)	(28)	(372)	(35)	(63)	14
15 Investment Expense Allocation	(92)	(92)	0	(102)	0	(11)	15
16 All Other Operating Expenses, Net	1,629	1,536	93	1,720	102	185	16

Postage/Courier & Printing:

Expenses are budgeted to increase due to the actual and projected growth in policy counts.

Bank Charges: Zero amount for Bank Charges in 2024 budget was due to higher earnings credits associated with elevated interest rates. Bank charges have increased due to higher transaction volumes from Hurricane Beryl and higher policy counts.

All Other Expenses Details (In 000s)

Description	A	B	C	D	Variance	
	for the 12 months ended December 31,				B25 vs F24	B25 vs B24
	Forecast 2024	Budget FY2024	Variance 2024	Budget FY2025		
Office Rent	456	516	(60)	427	(29)	(89)
Utilities expense	0	0	0	0	0	0
Equipment/Storage Rental	7	9	(2)	6	(1)	(3)
Office Relocation Expense	0	0	0	0	0	0
Repair & Maintenance	47	44	3	53	6	9
Other Office & Equip Expense	0	0	0	0	0	0
Total Rental & Maintenance	510	570	(59)	486	(24)	(83)
Board meetings	84	89	(5)	105	21	16
Storm Related	0	0	0	0	0	0
Workshops	0	1	(1)	0	0	(1)
Other Travel	46	72	(27)	75	30	3
Total Travel Expenses	130	162	(33)	181	51	18
Postage/Courier	373	370	3	419	45	48
Telephone	288	186	102	186	(102)	0
Total Postage, Tele & Express	661	556	105	604	(57)	48
Line of Credit Fees	92	92	0	102	11	11
Investment Expense - TTSTC Fees	0	0	0	0	0	0
Total Capital Mgt Expenses	92	92	0	102	11	11
Boards, Bureaus & Assoc	123	146	(24)	172	50	26
Printing & Supplies	250	223	27	304	53	81
Dues & Subscriptions	52	74	(22)	101	49	27
Insurance	95	92	4	95	0	4
Media and Advertising	29	15	14	20	(9)	5
Depreciation & Amortization	0	0	0	0	0	0
Write-offs	0	0	0	0	0	0
Bank Charges	104	0	104	117	13	117
Other Expenses	11	8	3	12	1	4
Total Other Operating Exp	664	557	107	821	157	264
Total All Other Expenses	2,058	1,937	121	2,194	137	258

Note: Amounts budgeted in other expenses for 2025 are generally consistent with the 2024 Forecast and 2024 Budget (See columns E & F)

Increase in Printing and Bank Charges is attributable to higher policy counts and corresponding higher transaction volumes.

TFPA 2025 Proposed Budget - Income Statement (In 000s)

	For the twelve months ended December 31,			Budget FY2025	B2025 vs B2024	B2025 vs F2024	
	Forecast FY2024	Budget FY2024	Variance 2024				
Premiums Written:							
1 Direct	\$245,465	\$154,099	\$91,366	\$300,587	\$146,488	\$55,122	1
Premiums Earned:							
2 Direct	\$172,894	\$135,162	\$37,732	\$295,848	\$160,686	\$122,954	2
3 Ceded	(68,605)	(55,085)	(13,520)	(110,410)	(55,325)	(41,805)	3
4 Net	104,289	80,077	24,212	185,438	105,361	81,149	4
Deductions:							
5 Losses and LAE Incurred	129,928	38,279	91,649	77,117	38,838	(52,811)	5
6 Operating Expenses	17,664	17,122	541	18,912	1,790	1,249	6
7 Commission Expense	27,851	16,951	10,900	34,568	17,617	6,716	7
8 Ceding commissions / brokerage	(5,984)	(5,744)	(240)	(9,360)	(3,616)	(3,376)	8
9 Premium / Maintenance Tax	4,372	2,820	1,552	5,501	2,681	1,128	9
10 Total Deductions	173,831	69,428	104,402	126,738	57,309	(47,093)	10
11 Net Underwriting Gain or (Loss)	(69,542)	10,648	(80,190)	58,700	48,052	128,242	11
Other Income or (Expense):							
12 Gross Investment Income	2,016	1,793	223	4,430	2,637	2,414	12
13 Line of Credit Fees	(92)	(92)	0	(102)	(11)	(11)	13
14 Interest Expense on Line of Credit Advance	0	0	0	0	0	0	14
15 Member Assessment Income	17,655	0	17,655	67,621	67,621	49,966	15
16 Premium Charge Offs/Write Offs	(570)	(462)	(108)	(751)	(289)	(181)	16
17 Billing Fees	841	655	186	992	337	151	17
18 Other Income (Expense)	0	0	0	0	0	0	18
19 Total Other Income or (Expense)	19,850	1,894	17,956	72,190	70,296	52,340	19
Net Income (Loss)	(\$49,692)	\$12,542	(\$62,235)	\$130,890	\$118,348	\$180,582	20

WRAP UP: QUESTIONS?



TFPA Governing Committee

2024 Rate Indications

TFPA Actuarial Department

November 7, 2024

Contents

- **Actuarial Principles**
- **Statutory Language**
- **Actuarial Methodology**
- **Rate Adequacy Analysis**
- **Reconciliation of Changes in Rate Indications**
- **Financial Impact**
- **Additional Topics**

Actuarial Principles

Casualty Actuarial Society Statement of Principles

1. A rate is an estimate of the expected value of future costs
2. A rate provides for all costs associated with the transfer of risk
3. A rate provides for the costs associated with an individual risk transfer
4. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer

Statutory Language

Texas Insurance Code Sec 2211.056(b) requires the FAIR Plan to set rates in an amount sufficient to (1) carry all claims to maturity, and (2) meet the expenses incurred in the writing and servicing of the business.

Sec. 2211.056 requires the FAIR Plan to file with the commissioner of insurance proposed rates to be used in connection with the issuance of insurance policies or endorsements. Under this statute, the commissioner is required to approve or disapprove, in whole or in part, the proposed rates within 60 days of filing, with an additional 30-day extension upon written notice by the Texas Department of Insurance (TDI) to the FAIR Plan.

Actuarial Methodology

TFPA employs the “Loss Ratio Method” to determine rate level indications.

- This approach compares the estimated percentage of each premium dollar needed to cover future losses, loss adjustment expense (LAE) and other fixed expenses for a prospective accident year to the amount of each premium dollar that is available to pay for such costs (referred to as the permissible loss ratio).
- This relationship is defined as:

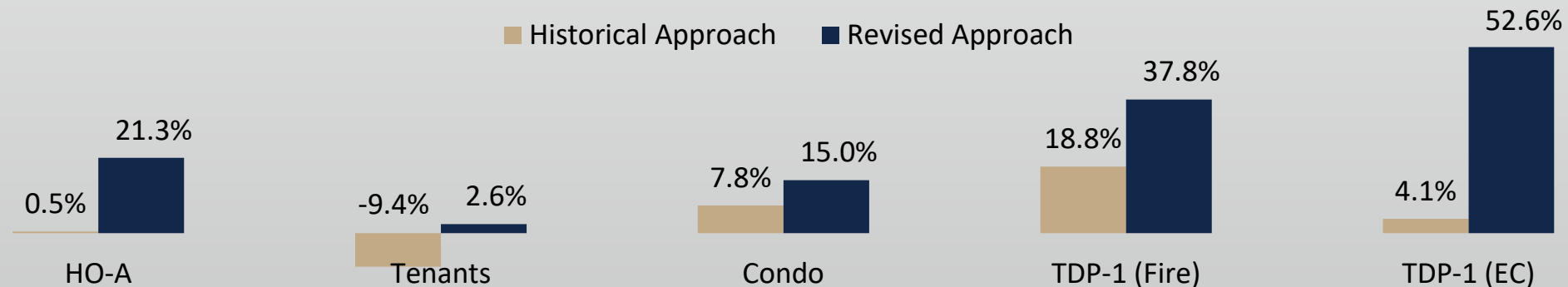
$$\text{Indicated Rate Change Factor} = \frac{(\text{Loss \& LAE Ratio} + \text{Fixed Expense Ratio})}{(1 - \text{Variable Expense Ratio})}$$

Actuarial Methodology

- The Loss and LAE Ratio includes provisions for:
 - Wind (hurricane) losses and loss adjustment expenses
 - Non-wind (non-hurricane) losses and loss adjustment expenses
- The Fixed Expense Ratio includes:
 - General operating expenses
 - Net cost of reinsurance (total premiums less expected average annual recoveries)
- The Variable Expense Ratio includes:
 - Commissions, taxes, licenses and fees
 - Stabilization fund

Update to Provision for Wind Losses

- Historically TFPA has utilized a wind loss provision that relied solely on catastrophe modeling for estimating both hurricane and other non-hurricane wind-related losses, such as hail, tornado, and straight-line wind events
- Recent experience has indicated that the modeled provision for non-hurricane wind losses may be understating the actual risk related to these events
- The actuarial methodology in this analysis has been updated to include actual non-hurricane experience over the last five years and a modeled hurricane provision
- This update significantly increases the indicated rate need as follows:



2024 Rate Adequacy Analysis

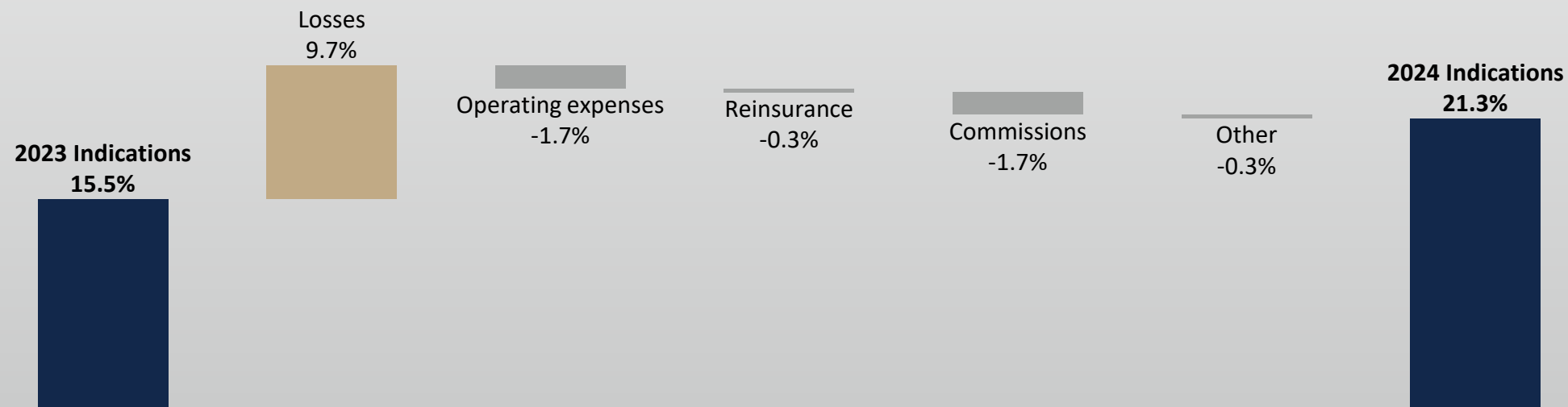
Rate Element	HO-A			Tenants			Condo		
	2023 Review	2024 Review	2024 vs. 2023	2023 Review	2024 Review	2024 vs. 2023	2023 Review	2024 Review	2024 vs. 2023
Non-Wind Loss Provision	20.9%	39.4%	18.5%	44.5%	37.5%	-7.0%	62.0%	44.7%	-17.2%
Wind Loss Provision									
Experience	31.1%	17.2%	-13.8%	5.2%	4.7%	-0.5%	7.8%	6.1%	-1.7%
Modeled	25.4%	16.7%	-8.7%	22.0%	6.3%	-15.7%	25.2%	10.3%	-14.9%
Combined	28.2%	17.0%	-11.3%	9.4%	5.1%	-4.3%	12.1%	7.2%	-5.0%
Total Loss Provision	49.1%	56.4%	7.2%	53.9%	42.6%	-11.3%	74.1%	51.9%	-22.2%
Fixed Expenses									
Operating	12.1%	10.8%	-1.2%	12.1%	10.8%	-1.2%	12.1%	10.8%	-1.2%
Reinsurance	23.6%	23.4%	-0.2%	23.6%	23.4%	-0.2%	23.6%	23.4%	-0.2%
Total	35.7%	34.2%	-1.4%	35.7%	34.2%	-1.4%	35.7%	34.2%	-1.4%
Total Loss Provision plus Fixed Expenses	84.8%	90.6%	5.8%	89.6%	76.8%	-12.7%	109.8%	86.1%	-23.7%
Variable Expenses									
Commissions	9.7%	8.5%	-1.2%	9.7%	8.5%	-1.2%	9.7%	8.5%	-1.2%
Taxes and Fees	1.8%	1.8%	0.0%	1.8%	1.8%	0.0%	1.8%	1.8%	0.0%
Stabilization Fund	15.0%	15.0%	0.0%	15.0%	15.0%	0.0%	15.0%	15.0%	0.0%
Total Variable Expenses	26.5%	25.3%	-1.2%	26.5%	25.3%	-1.2%	26.5%	25.3%	-1.2%
Permissible Loss Ratio	73.5%	74.7%	1.2%	73.5%	74.7%	1.2%	73.5%	74.7%	1.2%
Rate Indication	15.5%	21.3%	5.8%	21.9%	2.6%	-19.3%	49.5%	15.0%	-34.5%

2024 Rate Adequacy Analysis (continued)

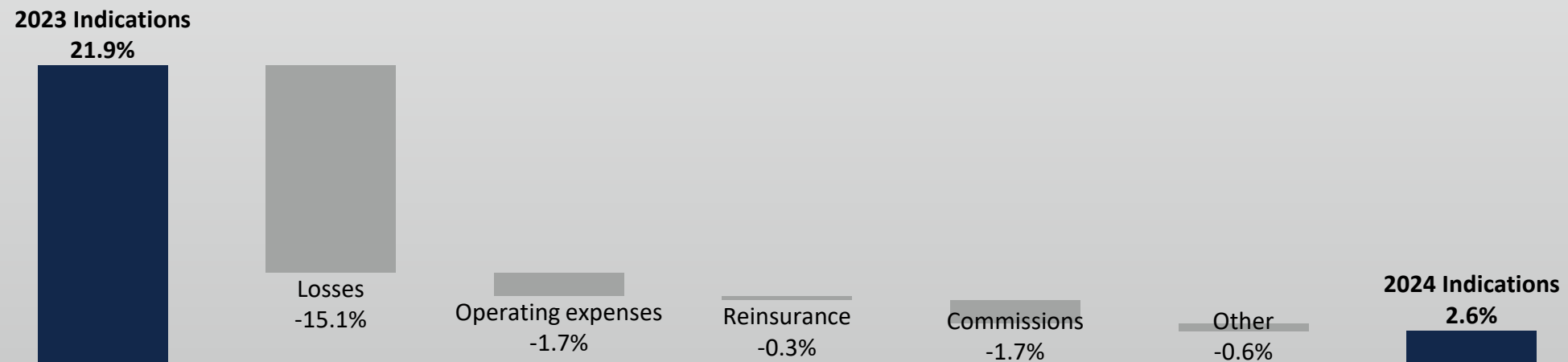
Rate Element	Dwelling (Fire)			Dwelling (EC)		
	2023 Review	2024 Review	2024 vs. 2023	2023 Review	2024 Review	2024 vs. 2023
Non-Wind Loss Provision				3.4%	59.2%	55.9%
Wind Loss Provision						
Experience				39.0%	13.4%	-25.6%
Modeled				47.4%	29.5%	-17.9%
Combined				43.2%	21.5%	-21.8%
Total Loss Provision	66.1%	68.9%	2.8%	46.6%	80.7%	34.1%
Fixed Expenses						
Operating	12.1%	10.8%	-1.2%	12.1%	10.8%	-1.2%
Reinsurance	23.6%	23.4%	-0.2%	23.6%	23.4%	-0.2%
Total	35.7%	34.2%	-1.4%	35.7%	34.2%	-1.4%
Total Loss Provision plus Fixed Expenses	101.8%	103.1%	1.4%	82.2%	114.9%	32.6%
Variable Expenses						
Commissions	9.7%	8.5%	-1.2%	9.7%	8.5%	-1.2%
Taxes and Fees	1.8%	1.8%	0.0%	1.8%	1.8%	0.0%
Stabilization Fund	15.0%	15.0%	0.0%	15.0%	15.0%	0.0%
Total Variable Expenses	26.5%	25.3%	-1.2%	26.5%	25.3%	-1.2%
Permissible Loss Ratio	73.5%	74.7%	1.2%	73.5%	74.7%	1.2%
Rate Indication	38.5%	37.8%	-0.7%	12.0%	52.6%	40.6%

Reconciliation of Change in Rate Indications

HO-A 2024 vs 2023

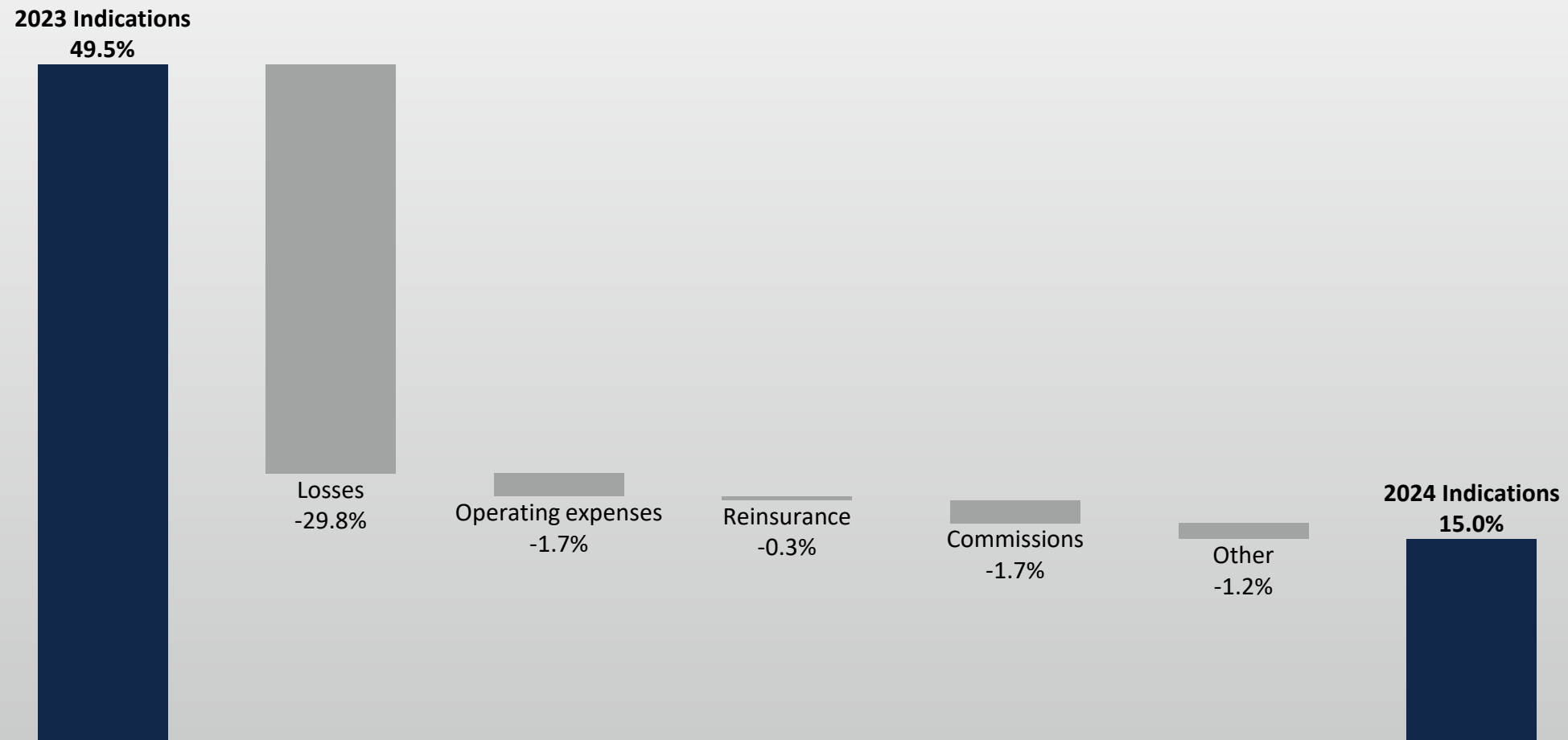


Reconciliation of Change in Rate Indications Tenants 2024 vs 2023

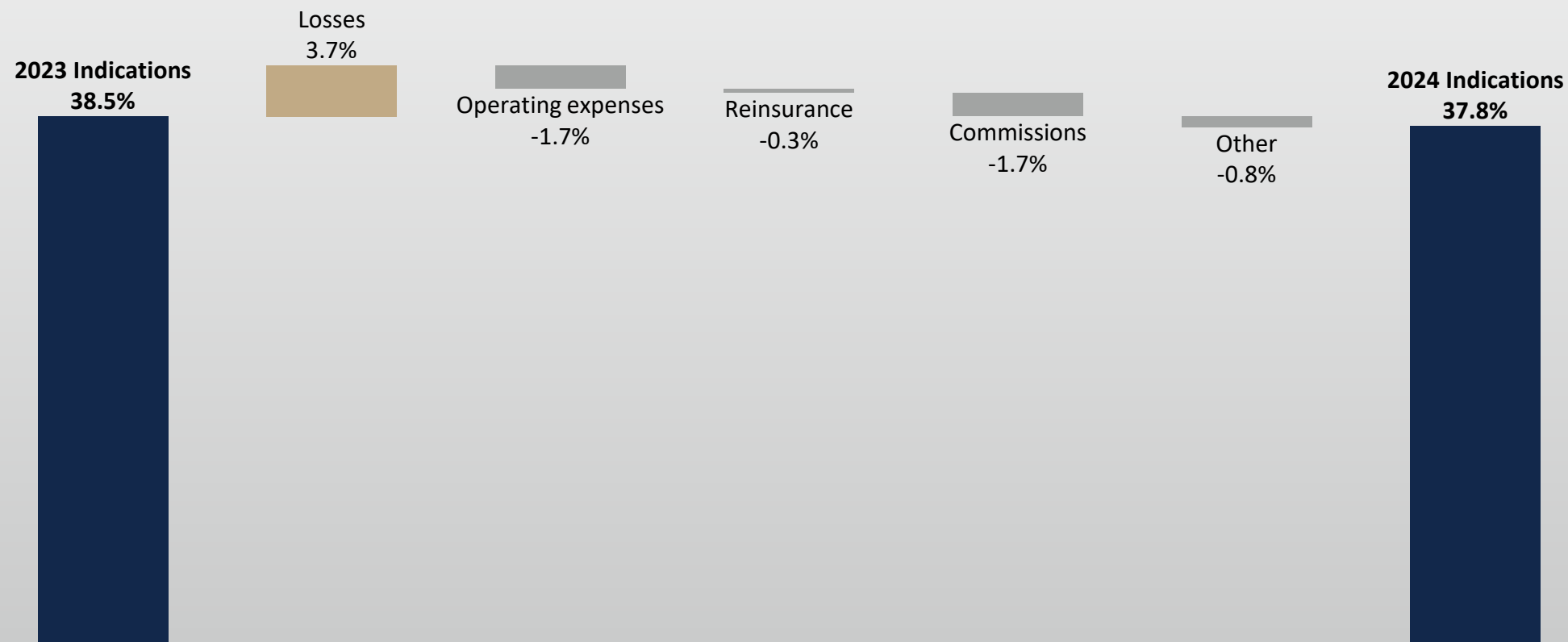


Reconciliation of Change in Rate Indications

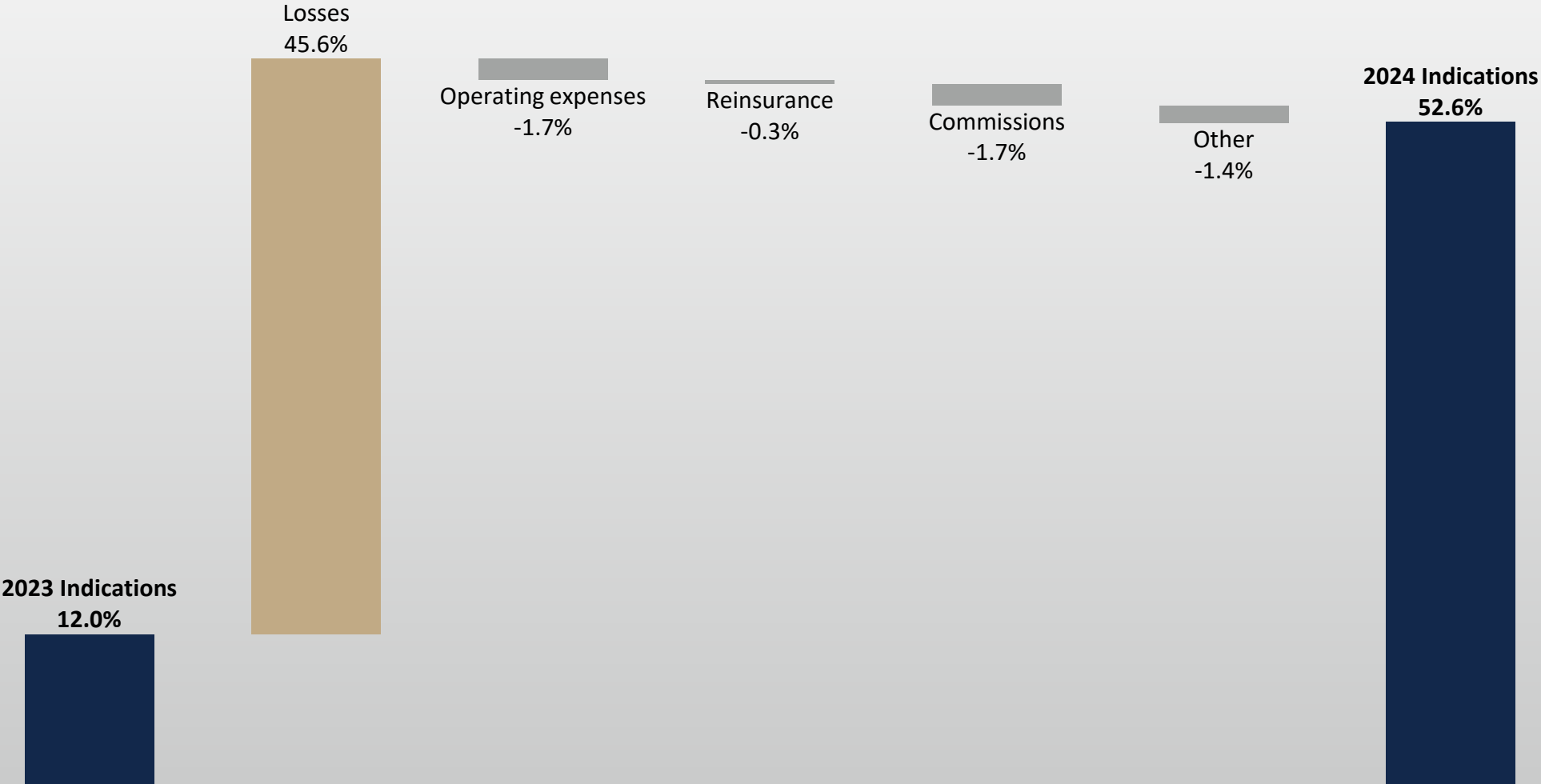
Condo 2024 vs 2023



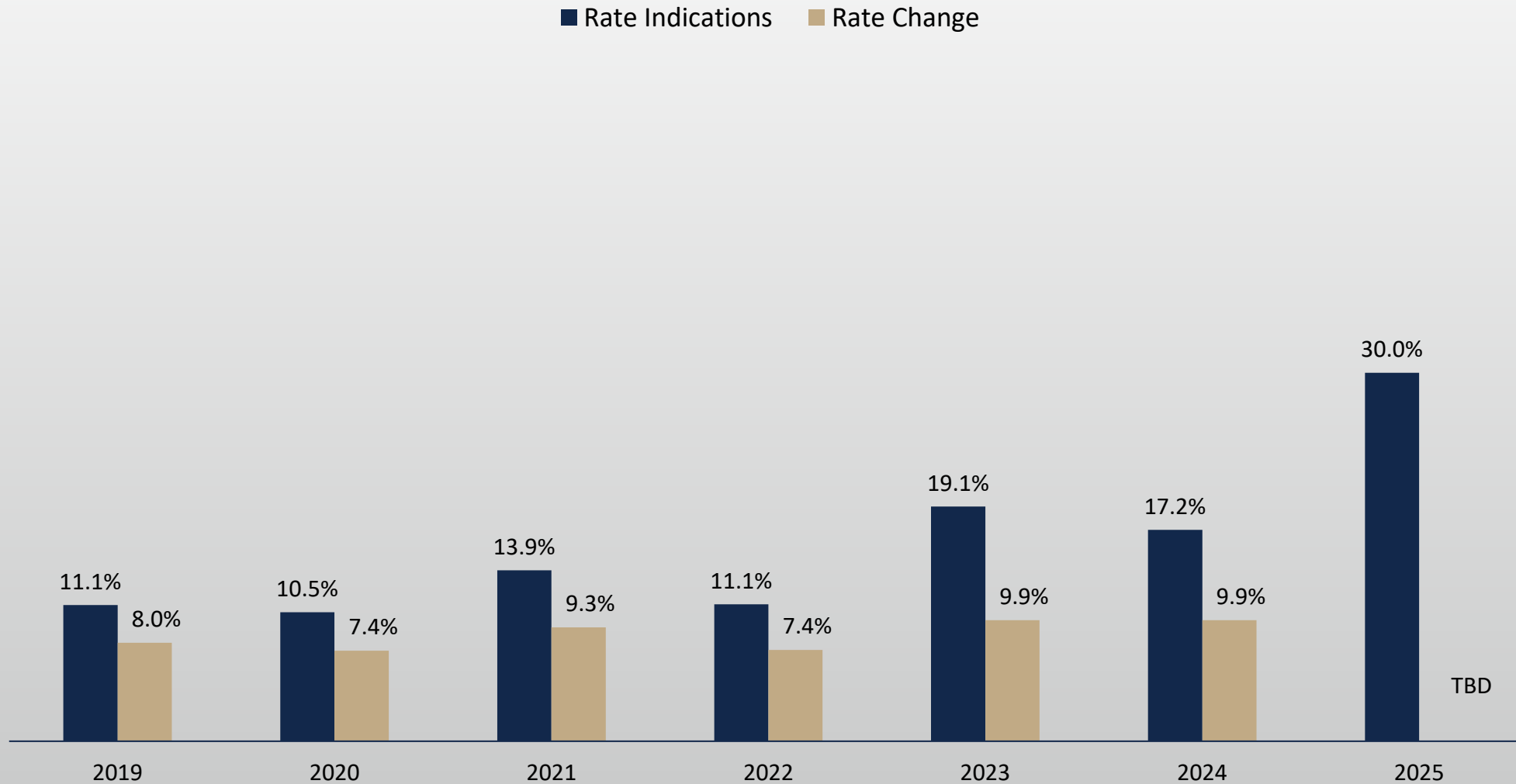
Reconciliation of Change in Rate Indications Dwelling (Fire) 2024 vs 2023



Reconciliation of Change in Rate Indications Dwelling (EC) 2024 vs 2023



Rate Indications vs Rate Changes



Financial Impact of Rate Changes

- TFPA is currently projecting approximately \$300 million in earned premiums for 2025
- Every 1% of increased rate would result in an additional \$3 million in annual income
- Assuming an August 1 effective date, approximately 15% of the annual impact would be realized in 2025 (\$441,000 per 1%)

Capped and Uncapped Indications by Territory

Homeowners

	<u>Indications Capped at Various Amounts</u>			
	Uncapped	20%	15%	10%
Central North - Greater DFW	56.9%	20.0%	15.0%	10.0%
Central North - Remainder	9.9%	9.9%	9.9%	9.9%
Central South	51.1%	20.0%	15.0%	10.0%
North/Northwest	7.7%	7.7%	7.7%	7.7%
Seacoast - Tier 1	1.1%	1.1%	1.1%	1.1%
Seacoast - Tier 2	16.5%	16.5%	15.0%	10.0%
Overall Statewide	21.3%	15.6%	13.7%	9.2%

Tenants

	Uncapped	20%	15%	10%
Central North - Greater DFW	-0.9%	-0.9%	-0.9%	-0.9%
Central North – Remainder	-8.0%	-8.0%	-8.0%	-8.0%
Central South	-9.0%	-9.0%	-9.0%	-9.0%
North/Northwest	-7.4%	-7.4%	-7.4%	-7.4%
Seacoast - Tier 1	-8.5%	-8.5%	-8.5%	-8.5%
Seacoast - Tier 2	8.3%	8.3%	8.3%	8.3%
Overall Statewide	2.6%	2.6%	2.6%	2.6%

Condos

	<u>Indications Capped at Various Amounts</u>			
	Uncapped	20%	15%	10%
Central North - Greater DFW	17.6%	17.6%	15.0%	10.0%
Central North – Remainder	4.8%	4.8%	4.8%	4.8%
Central South	27.7%	20.0%	15.0%	10.0%
North/Northwest	8.1%	8.1%	8.1%	8.1%
Seacoast - Tier 1	12.6%	12.6%	12.6%	10.0%
Seacoast - Tier 2	14.6%	14.6%	14.6%	10.0%
Overall Statewide	15.0%	14.7%	14.4%	10.0%

Capped and Uncapped Indications by Territory

Dwelling (Fire)

Indications Capped at Various Amounts

	Uncapped	20%	15%	10%
Overall Statewide	37.8%	20.0%	15.0%	10.0%

Dwelling (EC)

	Uncapped	20%	15%	10%
Central North - Greater DFW	180.8%	20.0%	15.0%	10.0%
Central North – Remainder	70.9%	20.0%	15.0%	10.0%
Central South	100.9%	20.0%	15.0%	10.0%
North/Northwest	40.7%	20.0%	15.0%	10.0%
Seacoast - Tier 1	-12.4%	-12.4%	-12.4%	-10.0%
Seacoast - Tier 2	46.3%	20.0%	15.0%	10.0%
Overall Statewide	52.6%	19.8%	14.9%	9.9%

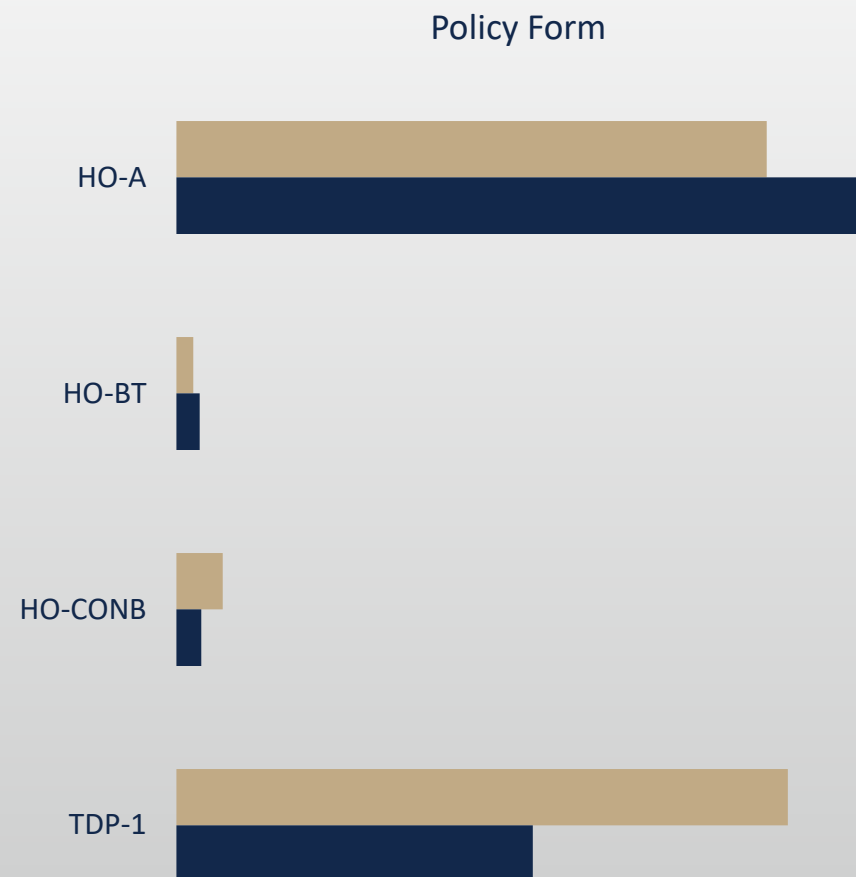
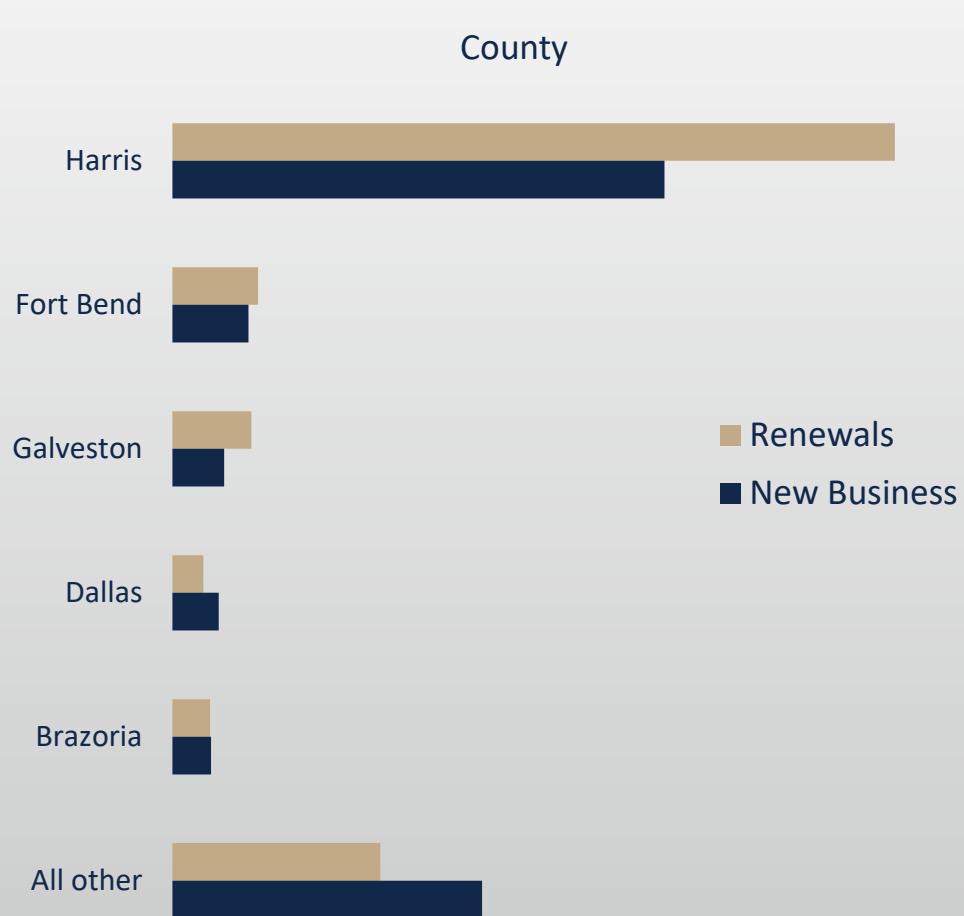
Additional Topics

- **Private Market Practices**
- **Impact of Recent Growth**
- **Rating Factor Analysis**
 - Deductible Options
 - New Home Discount

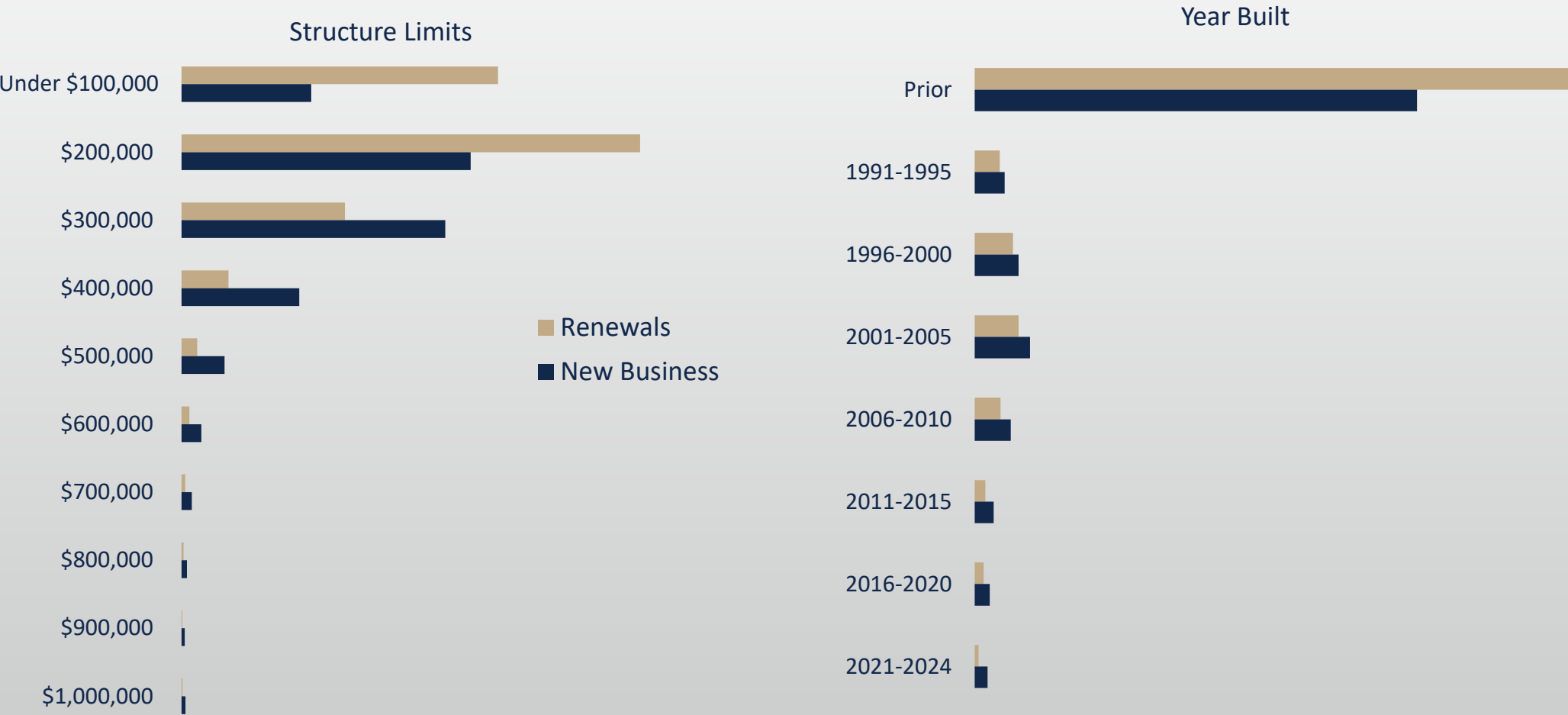
Private Market Practices

- Restricting Business in Higher Risk Locations
- Mandating Higher Deductibles
- Restricting Availability of Replacement Cost Coverage

Impact of Recent Growth



Impact of Recent Growth



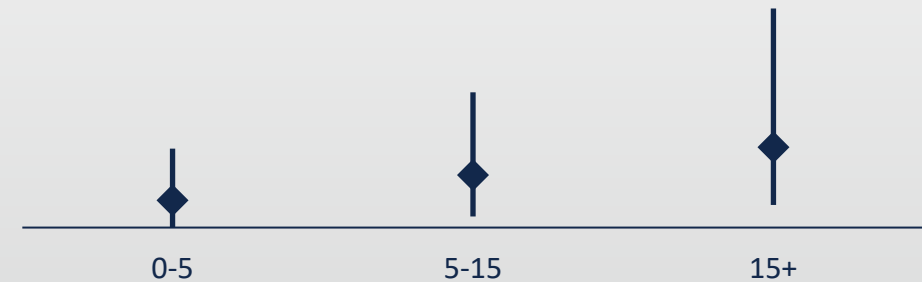
Deductible Options

- **Adjust the default deductible**
 - The TFPA application currently defaults to a 1% deductible
 - A majority of TFPA policyholders voluntarily choose the higher 2% deductible option
 - Considering moving the default deductible from 1% to 2% to encourage even higher adoption
- **Offer optional higher deductibles**
 - The voluntary market routinely offers deductibles up to 5%
 - TFPA could file additional higher deductibles to be more consistent
 - This would have no direct impact to rate adequacy
- **Update existing deductible credit factors**
 - Existing deductible credit factors have been in place for many years
 - Factors could be reviewed and updated to reflect the latest claims information
 - No *overall* impact to rate adequacy

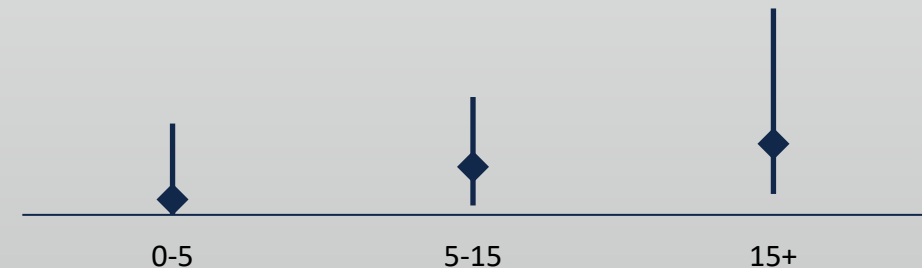
New Home Discount

- Many private market insurers offer credits for newer homes
- TFPA claim frequency would support a similar credit
- This would have no overall rate adequacy impact but would improve equity among policyholders and would better align with private market practices
 - The net impact of the discount would be offset by an increased rate for structures not receiving a discount

2019-2023 HO-A Claim Frequency



2019-2023 TDP-1 Claim Frequency



Questions
