



Texas FAIR Plan Association

2022 Budget Presentation to

Governing Committee

October 27, 2021



TFPA 2022 Budget – Key Assumptions

The 2022 Budget includes the following assumptions:

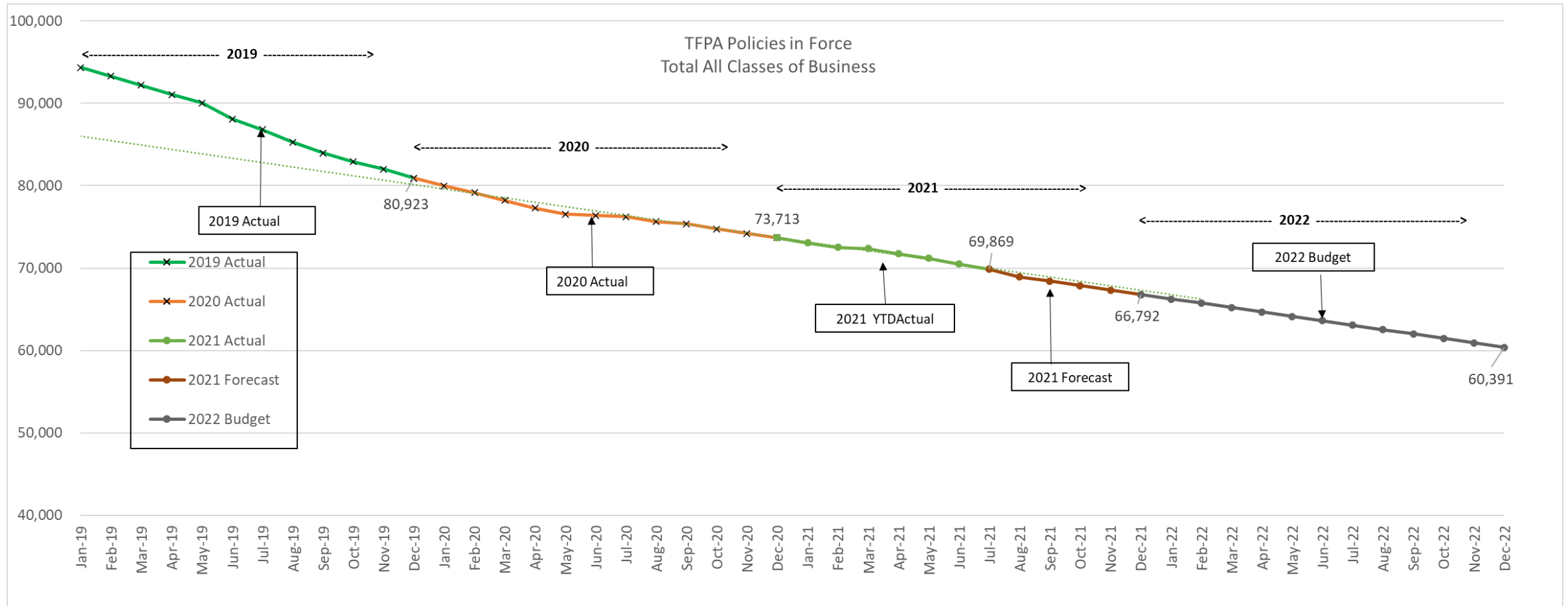
- Rate changes: The 10% rate increase approved in 2020 is included at a blended rate of **9.58%** for August 2021 – July 2022. The increase is offset by the continued decline in policy count.
- The number of policies in force is projected to decrease from a projected 66,792 policies at December 31, 2021 to **60,391** at year end 2022, a decrease of 6,401 policies (a **9.6%** decrease).
- Average limit per policy: increases by **1.4%**
- Employee merit increases: **2.5%**.
- Operating expenses: based on detailed departmental budgets.
- Commissions: Budgeted at \$7.9 million using average rate of **10.45% for new and renewal policies.**
- Premium taxes, licenses and other fees: **1.86%**
- **\$30 million** line of credit implemented in late August 2021 is in effect for two-year contracted duration. (Fee decrease from 50 BPS in 2020 to 30 BPS in 2021/2022)

TFPA Historical and Projected Policy Counts

	A	B	C	D	E	F	G	
	Policies in Force as of December 31,							
1	Class of Business	2017	2018	2019	2020	2021 Forecast	2022 Budget	1
2	Homeowners - HO3	50,159	41,555	34,253	30,865	28,344	26,021	2
3	Dwelling - DP2	52,453	46,475	40,379	37,174	33,114	29,332	3
4	Condominium - HO6	4,206	4,059	3,670	3,463	3,137	2,817	4
5	Tenant - HO4	4,171	3,549	2,621	2,211	2,197	2,220	5
6	Total	110,989	95,638	80,923	73,713	66,792	60,391	6
7	% Change	-8.6%	-13.8%	-15.4%	-8.9%	-9.4%	-9.6%	7

This slide depicts the continued and consistent decline in policy counts .

TFPA Policy Counts – Graphical



Graphical view of month-end policies in force from 2019 through 2022 budget.

TFPA 2022 Budget - Comparative Income Statement

A		B		C		D	E	F
		For the twelve months ended December 31,				B2022 vs B2021	B2022 vs F2021	
		Forecast - 2021	Budget - 2021	Budget - 2022				
1	Premiums Written:							
2	Direct	\$ 76,617	\$ 68,437	\$ 73,899	\$ 5,462	\$ (2,718)		
3	Ceded	(28,464)	(28,789)	(27,640)	1,150	824		
4	Net	48,152	39,648	46,259	6,612	(1,893)		
5	Premiums Earned:							
6	Direct	\$ 77,908	\$ 72,995	\$ 76,150	\$ 3,155	\$ (1,758)		
7	Ceded	(28,697)	(28,789)	(28,052)	737	645		
8	Net	49,211	44,206	48,098	3,892	(1,113)		
9	Deductions:							
10	Losses and LAE Incurred	34,622	25,983	27,069	1,087	(7,553)		
11	Operating Expenses	11,277	11,097	11,860	763	583		
12	Commission Expense	7,997	7,323	7,722	400	(274)		
13	Ceding commissions / brokerage	(673)	(689)	(632)	57	41		
14	Premium / Maintenance Tax	1,426	1,273	1,375	102	(52)		
15	Total Deductions	54,649	44,986	47,395	2,409	(7,255)		
16	Net Underwriting Gain or (Loss)	(5,438)	(780)	703	1,484	6,141		
17	Other Income or (Expense):							
18	Investment Income	3	19	4	(15)	1		
19	Investment Expenses (LOC Fees)	(165)	(120)	(91)	29	74		
20	Sales Tax Refund and Other Income (Expense)	0	0	0	0	0		
21	Member Assessment Income	0	0	0	0	0		
22	Charge off's /Write off	(368)	(309)	(334)	(25)	34		
23	Billing Fees	298	182	369	187	71		
24	Total Other Income or (Expense)	(233)	(228)	(53)	175	181		
25	Net Income (Loss)	\$ (5,671)	\$ (1,008)	\$ 651	\$ 1,659	\$ 6,322		

Discussion Highlights

Budgeted premiums written and earned in 2022 decline due to continued reductions in policy counts. Ceded premiums for reinsurance decrease in conjunction with decline in exposures.

Losses and LAE are budgeted at levels consistent with historical amounts. The budgeted loss & LAE ratio is 35.5% matching 2021 budget. 2021 Forecast is negatively impacted by winter storm URI.

Operating expenses increase as TWIA completes project Elevate and resources resume normal support levels for TFPA operations.

Investment income remains depressed due to historic low yields on investments.

Line of credit fees decline due to reduction in commitment fee rate and credit line amount.

Slight net income of \$651,000 projected

TFPA 2022 Surplus and Key Ratios

A		B	C	D	E	F	
		For the twelve months ended December 31,			B2022 vs B2021	B2022 vs F2021	
		Forecast - 2021	Budget - 2021	Budget - 2022			
1	Surplus (Deficit) Account:						1
2	Beginning Surplus (Deficit)	6,006	5,838	249	(5,589)	(5,756)	2
3	Net Income (Loss)	(5,671)	(1,008)	651	1,659	6,322	3
4	Change in Provision for Reinsurance	83	0	0	0	(83)	4
5	Change in nonadmitted assets	(168)	(257)	(168)	89	(0)	5
6	Ending Surplus (Deficit)	\$ 249	\$ 4,573	\$ 732	\$ (3,841)	\$ 482	6
7	Key Operating Ratios:						7
8	Direct:						8
9	Loss & LAE Ratio	44.4%	35.6%	35.5%	0.0%	-8.9%	9
10	UW Expense Ratio:						10
11	Acquisition	12.3%	12.6%	12.3%	-0.3%	0.0%	11
12	Non-Acquisition	14.5%	15.2%	15.6%	0.4%	1.1%	12
13	UW Expense Ratio	26.8%	27.8%	27.9%	0.1%	1.1%	13
14	Direct Combined Ratio	71.2%	63.4%	63.4%	0.1%	-7.8%	14
15							15
16	Net Combined Ratio	111.3%	106.8%	105.9%	-0.9%	-5.4%	16

TFPA 2022 Budget Expense Summary (Gross and Net)

A		B	C	D	E	F	G
		For the twelve months ended December 31,				B2022 vs B2021	B2022 vs F2021
		Forecast - 2021	Budget - 2021	Variance - 2021	Budget - 2022		
1	Personnel Expenses						
2	Salaries & Wages - Permanent	6,023	5,058	965	6,450	1,392	428
3	Contractor & Temporary Help	1,813	1,409	404	934	(475)	(879)
4	Payroll Taxes	441	386	55	490	104	49
5	Employee Benefits	2,152	1,752	400	2,344	591	192
6	Recruiting, Training & Other	61	108	(47)	125	17	64
7	Subtotal	10,490	8,714	1,776	10,344	1,630	(146)
8							
9	Professional & Consulting Services						
10	Legal	119	139	(20)	126	(13)	7
11	Accounting & Auditing	68	76	(8)	98	21	29
12	Information Technology	142	230	(87)	209	(20)	67
13	Actuarial Services	23	20	3	24	4	1
14	Surveys & Inspections	446	546	(100)	375	(171)	(71)
15	Disaster Recovery Services	126	143	(17)	101	(43)	(25)
16	Other Services	1,395	1,285	110	1,218	(66)	(176)
17	Subtotal	2,319	2,438	(119)	2,151	(288)	(168)
18							
19	Hardware/Software Purchases & Licensing	1,336	1,375	(39)	1,339	(36)	3
20	Rental & Maintenance - Office/Equipment	688	703	(14)	701	(2)	13
21	Travel Expenses	50	70	(19)	78	9	28
22	Postage, Telephone and Express	479	517	(38)	489	(28)	10
23	Capital Management Expenses	165	200	(35)	91	(109)	(74)
24	Other Operating Expenses	498	604	(106)	663	58	164
25	Gross Operating Expenses	16,026	14,621	1,405	15,855	1,234	(171)
26							
27	Capitalization of Fixed Assets	0	0	0	0	0	0
28	Allocation To ULAE	(4,583)	(3,324)	(1,260)	(3,903)	(580)	680
29	Allocation To Investing	(165)	(200)	35	(91)	109	74
30	Net Operating Expense	11,277	11,097	180	11,860	763	583

This is the traditional expense summary that is included in the quarterly Board financial statements. Individual categories are reviewed in subsequent slides.

TFPA 2022 Proposed Budget

Expenses

Expense Categories

TFPA budgets and tracks expenses in five primary categories:

Personnel Expenses

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

Professional Services

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

Other Operating Expenses

- Bureaus and Associations (ISO, PIPSO, etc.)
- Printing and Supplies
- Dues and Subscriptions
- Insurance
- Media and Advertising
- Service Charges (Bank Fees)

EDP Equipment & Software

- Hardware
- Software Purchases and Licensing

Office Related

- Rent
- Maintenance
- Office Equipment
- Postage
- Telephone
- Shipping

TFPA Operating Expense History by Category

	2017	2018	2019	2020	2021 Forecast	2022 Budget
<u>TOTAL ALL DEPTS</u>						
Personnel Costs	22,943,193	15,105,525	11,350,250	11,065,152	10,490,024	10,343,715
Professional Services	8,347,754	7,519,066	4,938,527	3,975,824	2,319,011	2,150,518
Hardware & Software Licensing	1,416,681	1,177,267	1,305,467	1,304,142	1,335,729	1,338,909
Rental & Maintenance - Office/Equipment	668,634	748,160	684,883	678,653	688,524	700,682
Travel Expenses	75,488	73,599	63,988	10,184	50,714	78,059
Postage, Telephone and Express	556,182	423,073	412,485	348,767	478,070	488,675
Capital Management Expenses	107,556	84,056	121,667	150,501	165,500	91,250
Other Operating Expenses	774,596	551,225	509,274	477,148	498,481	662,818
GROSS OPERATING EXPENSES	34,890,084	25,681,969	19,386,542	18,010,370	16,026,052	15,854,626
Capitalization of Fixed Assets	-	-	-	-	-	-
Reimbursement of Depop Servicing Exp	-	-	-	-	-	-
Allocation To ULAE	(17,774,521)	(6,845,841)	(3,691,030)	(4,616,029)	(4,583,359)	(3,903,222)
Allocation To Investing & Other Exp	(107,556)	(84,056)	(121,667)	(150,501)	(165,500)	(91,250)
Net Operating Expense	17,008,007	18,752,073	15,573,845	13,243,840	11,277,193	11,860,154

Personnel Expenses (In 000's)

		For the twelve months ended December 31,					
		Forecast - 2021	Budget - 2021	Variance - 2021	Budget - 2022	B2022 vs B2021	B2022 vs F2021
1	Personnel Expenses						
2	Salaries & Wages - Permanent	6,023	5,058	965	6,450	1,392	428
3	Contractor & Temporary Help	1,813	1,409	404	934	(475)	(879)
4	Payroll Taxes	441	386	55	490	104	49
5	Employee Benefits	2,152	1,752	400	2,344	591	192
6	Recruiting, Training & Other	61	108	(47)	125	17	64
7	Subtotal	10,490	8,714	1,776	10,344	1,630	(146)

Salaries and Wages for 2021 are projected to exceed budget by \$965,000 due to:

- Higher than budgeted increase in accrued vacations (\$204,000)
- Higher allocation % of personnel to TFPA than budgeted. See salary and wages allocation slide.

Contractor expense is over by \$404,000 due to claims adjustors for Winter storm Uri (\$884,000) offset by reduction in IT contractors.

Impact of Salary Allocations 2021 Forecast vs 2021 Budget (\$ In 000's)

Department	TFPA Allocation		Impact of Change in Allocations ¹	Impact of Change in Salaries ²	Total
	2021 Forecast	2021 Budget			
Corporate	44%	35%	19	169	188
Underwriting	36%	33%	98	49	148
Claims	37%	30%	260	(33)	227
Expert Panel	0%	0%	0	0	NA
Actuary & Enterprise Analytics	35%	35%	(0)	31	31
Executive	35%	35%	(0)	(30)	(30)
Human Resources	35%	31%	32	23	54
Accounting	37%	36%	22	(36)	(14)
Internal Audit	0%	0%	0	0	NA
Legal & Compliance	23%	16%	47	2	50
Communications & Legislative Affairs	10%	7%	24	5	28
IT	22%	15%	348	10	358
Operations	33%	38%	(52)	(23)	(75)
Total TFPA	31%	26%	798	167	965
TWIA Allocation	69%	74%	83%	17%	

This slide displays the 2021 budgeted allocation of personnel expenses to TFPA (26%) versus the forecasted percentage of 31% for 2021. This increase in allocations reflects the impact on claims of the Texas Winter storm Uri and slightly higher than expected IT support for TFPA. The increase in IT personnel expense was offset by an equal reduction in contractors.

The 2022 budget allocation percentage to TFPA is also 31%.

83% of the increase was due solely to the change in allocations.

(1) 2021 Forecast TWIA salaries X Change in Allocation

(2) Change in salaries X New Allocations

Impact of Salary Allocations 2022 Budget vs 2021 Forecast

(000's)

	A	B	C	D	E	
	Combined TWIA and TFPA	TWIA	↓ TFPA	% TWIA	% TFPA	
1 2022 Budget	20,667	14,217	6,450	68.8%	31.2%	1
2 2021 Forecast	19,645	13,622	6,023	69.3%	30.7%	2
3 Increase/(Decrease)	1,022	594	428	-0.6%	0.6%	3
Impact of Change in Allocations ¹		(109)	109			
Impact of Change in Salaries ²		703	319			
		594	428			

This slide explains the increase in budgeted salary expense in 2022 over the amount forecasted for 2021. The budgeted allocation of personnel expenses to TFPA in 2022 is 31.2% versus the forecasted percentage of 30.7% for 2021. This difference results in an increase to TFPA salary expense of \$109,000 due to personnel allocations.

The increase in TWIA salaries of \$319,000 is due primarily to the 2022 budgeted merit increase and personnel changes.

Positions Summary – TFPA and TWIA

Description	for the 12 months ended December 31,		
	June 2021	January 2022	December 2022
FTE Headcount Only:			
UNDERWRITING - TWIA & TFPA	59	59	59
CLAIMS (Excluding Storm Contractors)	49	49	49
ACTUARY	2	3	3
EXECUTIVE	3	4	4
ACCOUNTING	22	22	22
LEGAL/COMPLIANCE	7	7	7
IT	49	45	48
OPERATIONS	16	16	16
INTERNAL AUDIT	0	0	0
HR	9	9	9
COMMUNICATIONS/LEGISLATIVE AFFAIRS	10	10	10
Total	226	224	227

Employee Benefits – TFPA

Description	for the 12 months ended December 31,				Budget 2022 vs Forecast 2021	Budget 2022 vs Budget 2021
	Forecast-21	Budget-21	Variance-21	Budget-22		
Employee Headcount						
Total Salary & Wages	6,022,949	5,058,217	964,732	6,450,472	427,523	1,392,255
Pension Plan	900,510	632,043	268,467	873,950	(26,560)	241,907
401 K Plan	315,380	265,181	50,199	345,210	29,830	80,029
Insurance & Related:					0	0
Medical	834,402	763,194	71,208	1,004,961	170,559	241,767
Dental	44,811	42,780	2,031	59,363	14,552	16,583
Life & AD&D	45,890	38,874	7,016	46,007	117	7,133
All Other (1)	11,070	10,139	931	14,212	3,142	4,073
Total Insurance & Related	936,174	854,987	81,187	1,124,543	188,369	269,556
Total All Benefit Costs	2,152,064	1,752,211	399,853	2,343,703	191,639	591,492

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

Benefits % to Salaries	35.7%	34.6%	36.3%
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Employee benefits in 2021 are expected to exceed the 2021 budget by \$400,000 due to the allocation of personnel including higher than budgeted pension expense by \$268,000. Budgeted 2022 benefits increased over the prior year budget due to personnel allocation.

Professional Services – Detail Breakout

TFPA Detail of Top Vendors for Other Professional Services

<u>Dept</u>	<u>Vendor</u>	<u>2022 Budget</u>
Underwriting	Clear Point - Call Center Expense	\$ 364,000
Claims	Eagleview	155,412
Underwriting	ISO	151,328
Claims	Xactware	148,119
Underwriting	CoreLogic	72,960
Claims	ISO	50,311
Various departments	Other Vendors (below \$50K)	276,340
Total Other Professional Services		1,218,470

	For the twelve months ended		
	December 31,		
	Forecast - 2021	Budget - 2021	Budget - 2022
Professional & Consulting Services			
Legal	119	139	126
Accounting & Auditing	68	76	98
Information Technology	142	230	209
Actuarial Services	23	20	24
Surveys & Inspections	446	546	375
Disaster Recovery Services	126	143	101
Other Services	1,395	1,285	1,218
Subtotal	2,319	2,438	2,151

This slide is included to provide detail of the Other Services line in the 2022 budget Professional and Consulting Services Category.

Questions ?