Citizens Regular Assessments
HB 1127 and SB 1346

Background
Citizens Property Insurance Corporation ("Citizens") maintains three separate accounts for its business:

- The Coastal Account provides wind only and multi-peril policies along the coast;
- The Personal Lines Account (PLA) provides multi-peril policies in all counties; and
- The Commercial Lines Account (CLA) provides commercial coverage throughout the state.

It is possible that a major hurricane could cause a loss (called a "deficit") in one or more of these separate accounts in any calendar year. If a deficit occurs in any of the three Citizens' accounts, it is cured by the levy of assessments. There are three tiers of assessments:

1. **Policyholder Surcharge** - First, all Citizens' policyholders incur a one-time surcharge of up to 15% of their annual insurance premium for each Citizens' account. A policyholder could potentially be assessed 15% for each of the Citizens' accounts, for a total assessment of 45%.

2. **Regular Assessment** - Second, non-Citizens' policyholders incur a one-time regular assessment of up to 6% of their annual insurance premium for each Citizens' account that experiences a deficit. If there is a deficit in all three accounts, non-Citizens' policyholders could face a total assessment of 18%. Citizens' regular assessments are levied on all insurance companies doing business in Florida. Insurance companies advance the payment to Citizens within 30 days and recoup the cost by applying regular assessments on their policies*. Companies recoup costs at policy renewal, so recouping the assessment takes at least twelve months; and

3. **Emergency Assessments** - Lastly, if a deficit still remains, all policyholders—Citizens and non-Citizens—are directly levied emergency assessments of up to 10% of their annual insurance premium for all of their policies* per Citizens' account. Emergency assessments may occur over a number of years until the deficit in Citizens accounts has been paid. Insurers collect the emergency assessment from policyholders and forward those monies to Citizens.

The actual assessment percentage for each Citizens' account depends on the amount of the deficit in that account, but in no case may exceed the maximum percentage amounts described above.

Proposal
Senate Bill 1346 by Sen. Oelrich and House Bill 1127 by Rep. Albritton eliminate the regular assessment for the PLA and the CLA accounts of Citizens. The bills also reduce the maximum regular assessment authority for the Coastal Account from 6% to 2%.

How does the change in Citizens' Regular Assessments benefit Florida consumers?

1. **The proposal removes a major barrier to bringing new insurance companies to Florida:** According to Florida TaxWatch and the OIR, the threat of the financial impact of regular assessments is the number one barrier to bringing new companies to the state. Additional competition in the private market for both home and auto insurance will be beneficial to all Floridians by encouraging reasonable prices and lowering companies' risk of assessments from Citizens.

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2. **The proposal removes a significant financial threat to the solvency of many companies currently doing business in Florida:** The maximum regular assessment is $6 billion, which must be paid by insurance companies within 30 days of being levied. That will put a huge financial strain on companies after a major event, resulting in delayed claim payments to policyholders and insolvency for some carriers.

   This proposed change benefits consumers because it increases the chances that all companies will be able to pay their claims promptly, and in full, after a major storm. This change should reduce the potential of companies becoming insolvent after a major event.

3. **The proposal does not increase the amount of potential assessments or the financial exposure of Floridians:** At the end of the day, whether you call it a policyholder surcharge, a regular assessment, or an emergency assessment, the dollar amount of Citizens' deficits is going to be paid by all Floridians that purchase an insurance policy*.

   This change from regular assessments to emergency assessments doesn't change the amount Citizens needs to collect to pay claims, it makes the assessment process fairer.

4. **It could reduce the amount of assessment for non-Citizens' policyholders immediately following a major event:** Under current law, after a major event, all non-Citizens policyholders in Florida could face regular assessments of up to 18% and emergency assessments of up to 30%.

   According to the Insurance Information Institute, the average insurance premium for Florida homeowners in 2008 was $1,390 for their house and $1,055 for their car. This means that the average Florida family with a home and two cars spent $3,500 on personal insurance in 2008. This amount for 2011 is closer to $4,000. **This would mean that in the worst case scenario, the first-year assessments for the average family could be $2,160 for insuring their home and two vehicles.**

   The proposed change would reduce the assessments in the <u>first</u> year by $640. Those dollars would still be paid, but over time via emergency assessments.

5. **The proposed change makes the assessments fairer:** Under current law, private insurers are permitted to recoup 100% of regular assessments from their policyholders. In an environment in which the private insurer's premium declines, the recoupment may occur over multiple years in order to fully recoup the amount. This could cause some policyholders to pay the regular assessment multiple times, thereby increasing the regular assessment charged to those policyholders. Also, under current law, companies that enter the Florida insurance market after the storm (and their customers) are not liable for regular assessments. That is not fair.

   Under the proposal, since the bulk of the Citizens deficit is recouped via emergency assessments, which are handled on a pay as you go basis, everyone pays the same percentage.

   Under this proposal, all insurance company policyholders pay the same percentage of their insurance premium to cover the Citizens deficit —regardless of the company where they have a policy.

6. **The proposal results in Citizens' policyholders participating in a greater share of the overall assessment for Citizens deficits:** Citizens' policyholders participate in both the Citizens' Policyholder Surcharge and the Emergency Assessment. Regular assessments are <u>NOT</u> applied to Citizens' policies.

   Under this proposal, non-Citizens policyholders would be limited to a maximum regular assessment of 2% of their home and auto premiums for a total industry assessment of $660 million. The remainder of money needed would be collected through emergency assessments which are levied on non-Citizens and Citizens policyholders alike. In effect, this shifts some additional portion of the deficit to Citizens' policyholders. This is fair because Citizens policyholders have benefited from artificially low Citizens' rates.

*except policies providing coverage for medical malpractice and workers compensation.

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