

PROPOSED CHANGES TO TWIA PLAN OF OPERATION AND FUNDING PROPOSAL

1. Federal tax exemption. The IRS requires that the Insurance Commissioner or another statewide political authority appoint the TWIA Board. The proposed change by TWIA suggests that the Insurance Commissioner appoint the Board with the same makeup as currently exists (five company members, two agents, two consumers). The IRS also requires that reinsurance be included an operating expense.
 2. The first \$100 million of insured losses will be paid by an assessment to insurance companies. This assessment has been changed to 1.5% of written premium on an occurrence basis from \$100 million on a calendar year basis.
 3. The second funding source remains unchanged coming from the Catastrophe Trust Fund. However, the amount was changed from \$200 million to 50% of the fund balance.
 4. The third level of funding will now come from the sale of pre-event bonds in the amount of \$300 million. The cost of these bonds will be repaid by coastal P&C policyholders. If the entire \$300 million be used it would cost approximately \$20 for each \$1,000 of premium for coastal P&C policyholders.
- Note:** TWIA will pay the annual interest on any pre-event bonds unless they are used. These interest payments would come from TWIA premiums. Should the pre-event bonds be used, coastal P&C policyholders would pay the principle and interest.
5. The reinsurance proceeds have been split and will be used in the fourth level (\$200 million) and the sixth level (\$500 million) to fund losses.
 6. The sale of post event bonds in the amount of \$500 million will fund the next level. The cost of these bonds will be paid by statewide P&C policyholders. Additional bonds may be issued at the discretion of the Insurance Commissioner. If the \$500 million of post-event bonds are used, it would cost approximately \$3.60 per \$1,000 of premium for statewide P&C policyholders. If \$1 billion of additional post-event bonds were added, to be paid back by statewide P&C policyholders, it would cost approximately \$7.20 per \$1,000 of premium.

Note: If you ask the coastal P&C policyholders to pay the initial \$800 million of pre-and post-event bonds, it would cost them approximately \$53 per \$1,000 of premium. If you take this approach, the statewide assessment could be for amounts over \$800 million.

7. The final level of funding for losses will be a second assessment to companies that will be recouped through premium tax credits over five years. The amount of this assessment is unlimited. As mentioned above, since the Insurance Commissioner has the discretion to issue additional post-event bonds