

Texas Windstorm Insurance Association

2022 Budget Overview to
Board of Directors
October 25, 2021



TWIA 2022 Budget – Key Assumptions

The 2022 Budget includes the following assumptions:

- Rate changes: The **5%** rate increase filed in August 2021 scheduled to take effect on January 1, 2022 is currently not included.
- The number of policies in force is projected to increase from a projected 194,054 at December 31, 2021 to **204,211** at year end 2022, an increase of 10,157 policies (a **5.2%** increase).
- Average limit per policy: increases by 3.0%
- Debt service: no optional redemption is budgeted to occur in 2022. Principal and interest to be paid are included as scheduled. The Board could revise this based on 2021 Hurricane Season results.
- Employee merit increases are budgeted at **2.5%**.
- Operating expenses are based on detailed departmental budgets at vendor level.

TWIA 2022 Budget – Key Assumptions (cont)

- Software capitalization: As the project development phase concludes, approximately **\$15.6 million** of external software development costs associated with Project Elevate will have been capitalized. Software capitalization ends as the system is deployed in April of 2022, and total capitalized costs begin to be amortized over **60** months. No impact to surplus as capitalized amounts have been treated as non-admitted assets since 2020.
- Commissions: Budgeted at **\$67.1** million using current rate of **16.0% for new and renewal policies.**
- Premium taxes, licenses and other fees: **1.86%**
- Investment yields: **0.05%**
- **\$500 million line of credit:** assumed to be renewed on June 1, 2022, with same commitment and inception fees as 2021. (**Down from 80 BPS in 2020 to 47.5 BPS in 2021** saving slightly over \$800,000)
- Excludes loss estimates for Hurricane Nicholas

TEXAS WINDSTORM INSURANCE ASSOCIATION
Statutory Income Statement (000's omitted)

	A	B	C	D	E
	For the twelve months ended December 31,			B2022 vs	B2022 vs
	Forecast - 2021	Budget - 2021	Budget - 2022	B2021	F2021
Premiums Written:					
1 Direct	\$389,067	\$372,252	\$419,138	\$46,886	\$30,071
2 Ceded	(100,064)	(114,813)	(105,248)	9,565	(5,185)
3 Ceded - Depopulation	0	0	0	-	-
4 Net	289,004	257,439	313,890	56,451	24,886
Premiums Earned:					
5 Direct	\$377,227	\$369,475	\$405,413	\$35,938	\$28,186
6 Ceded	(100,064)	(114,813)	(105,248)	9,565	(5,185)
7 Ceded - Depopulation	0	0	0	-	-
8 Net	277,163	254,662	300,165	45,503	23,001
Deductions:					
9 Losses and LAE Incurred	3,822	62,987	68,530	5,543	64,708
10 Losses and LAE Incurred - Harvey	(20,000)	0	0	-	20,000
11 Ceded Losses and LAE Incurred - Depopulation	61	0	0	-	(61)
12 Operating Expenses	28,296	31,313	33,174	1,861	4,878
13 Commission Expense	62,223	59,560	67,062	7,502	4,839
14 Ceding commissions / brokerage	(2,171)	(3,690)	(2,277)	1,413	(105)
15 Ceding commissions / brokerage - Depopulation	0	0	0	-	-
16 Premium / Maintenance Tax	7,236	6,924	7,796	872	560
17 Total Deductions	79,466	157,093	174,285	17,192	94,819
18 Net Underwriting Gain or (Loss)	197,697	97,568	125,880	28,311	(71,817)
Other Income or (Expense):					
19 Gross Investment Income and Other	(2,090)	(2,849)	(2,236)	613	(145)
20 CRTF Funds Received	0	0	0	-	-
21 Member Assessment Income	0	0	0	-	-
22 Interest Expense on Debt	(16,673)	(16,673)	(12,359)	4,315	4,315
23 Total Other Income or (Expense)	(18,763)	(19,522)	(14,594)	4,928	4,169
24 Net Income (Loss)	\$178,934	\$78,047	\$111,286	\$33,239	(\$67,648)
Surplus (Deficit) Account:					
25 Beginning Surplus (Deficit)	(160,451)	(160,451)	(98,342)	62,109	62,109
26 Net Income (Loss)	178,934	78,047	111,286	33,239	(67,648)
27 Principal Funded on Class 1 Bonds (net)	0	0	0	-	-
28 Change in nonadmitted assets - Other	(8,091)	(8,222)	1,713	9,934	9,803
29 Other	0	0	0	-	-
30 Statutory Fund Cost	(108,734)	(27,847)	(56,886)	(29,039)	51,848
31 Ending Surplus (Deficit)	(\$98,342)	(\$118,473)	(\$42,229)	\$76,243	\$56,113
Key Operating Ratios:					
32 Direct:					
33 Loss & LAE Ratio	-4.3%	17.0%	16.9%	-0.1%	21.2%
34 UW Expense Ratio:					
35 Acquisition	17.9%	17.9%	17.9%	0.0%	0.0%
36 Non Acquisition	7.5%	8.5%	8.2%	-0.3%	0.7%
37 UW Expense Ratio	25.4%	26.3%	26.0%	-0.3%	0.7%
38 Direct Combined Ratio	21.1%	43.4%	42.9%	-0.4%	21.9%
39 Ending Balance in CRTF	182,650	185,191	297,219	112,029	114,570

Premiums forecasted to continue growing based on 2021 trend. Reinsurance is budgeted at same ROL (5.18%) as 2021. Increase in PML (\$4.03 to \$4.23 billion) covered 50% by reinsurance and remainder by higher CRTF balance.

Losses and LAE forecasted to return to historical loss ratios. Hurricanes are not budgeted.

Net operating expenses impacted by end of capitalization for Elevate. Budget includes 8 months of Elevate depreciation.

Investment income remains weak due to Fed policy. Interest on bonds decreases due to July principal reduction.

Excludes loss estimate for Nicholas

Assuming \$40 million incurred for Nicholas, funds available for CRTF or debt reduction reduced to approximately \$68 million.

Texas Windstorm All Expenses Summary (000's)

		For the twelve months ended December 31,			Budget - 2022	B2022 vs B2021		
		Forecast - 2021	Budget - 2021	Variance - 2021		\$	%	
	Personnel Expenses							
1	Salaries & Wages - Permanent	13,622	14,149	(527)	14,217	68	0%	1
2	Contractor & Temporary Help	9,851	10,349	(499)	8,375	(1,974)	-19%	2
3	Payroll Taxes	1,002	1,081	(78)	1,004	(77)	-7%	3
4	Employee Benefits	5,194	4,853	342	4,982	130	3%	4
5	Recruiting, Training & Other	267	362	(95)	327	(35)	-10%	5
6	Subtotal	29,937	30,794	(857)	28,906	(1,889)	-6%	6
7								7
8	Professional & Consulting Services							8
9	Legal	507	643	(136)	540	(104)	-16%	9
10	Accounting & Auditing	272	273	(2)	266	(7)	-2%	10
11	Information Technology	5,583	6,372	(789)	3,092	(3,281)	-51%	11
12	Actuarial Services	39	290	(251)	39	(251)	-87%	12
13	Ombudsman Program	110	125	(15)	112	(13)	-10%	13
14	Surveys & Inspections	1,313	1,353	(40)	1,328	(25)	-2%	14
15	Disaster Recovery Services	261	325	(64)	230	(95)	-29%	15
16	Other Services	4,205	4,046	158	4,249	203	5%	16
17	Subtotal	12,289	13,428	(1,139)	9,855	(3,573)	-27%	17
18								18
19	Hardware/Software Purchases & Licensing	3,379	3,752	(373)	4,027	275	7%	19
20	Rental & Maintenance - Office/Equipment	1,279	1,305	(26)	1,318	13	1%	20
21	Travel Expenses	144	229	(85)	262	32	14%	21
22	Postage, Telephone and Express	907	919	(12)	916	(3)	0%	22
23	Capital Management Expenses	15	24	(9)	14	(10)	-40%	23
24	Depreciation	28	28	(0)	2,109	2,081	7409%	24
25	Other Operating Expenses	1,202	1,340	(138)	1,546	206	15%	25
26	Total Operating Expenses	49,181	51,820	(2,639)	48,953	(2,866)	-6%	26
27								27
28	Capitalization of Fixed Assets	(8,544)	(8,383)	(161)	(2,489)	5,894	-70%	28
29	Reimbursement of Depopulation Servicing Expenses	(16)	(23)	7	(15)	8	-35%	29
30	Allocation To ULAE	(12,028)	(11,786)	(242)	(12,941)	(1,154)	10%	30
31	Allocation To Investing	(297)	(315)	17	(335)	(20)	6%	31
32	Net Operating Expense - UW Operations	28,296	31,313	(3,017)	33,174	1,861	6%	32

Budgeted salaries and wages includes annual merit increase of 2.5% or \$318,000 and projected vacation accrual of \$226,000

Detail of Other Services is provided on later slide.

Budget includes 8 months of amortization of Project Elevate shown in Depreciation of \$2.1 Million.

Capitalization of contractor and consultants for Elevate drops to \$2.5 million from \$8.5 in 2021.

Written Premium & Policy Count Projections

Historical Policy Counts by Class of Business (Net of Depopulation)

	A	B	C	D	E	F	G		
	Policies in Force at December 31,								
								% Change B2022 vs F2021	
1	Class of Business	2017	2018	2019	2020	Forecast 2021	Budget 2022	F2021	1
2	Commercial	8,601	7,827	7,063	6,467	6,624	6,883	3.9%	2
3	Manufactured Home	756	724	694	742	916	1,112	21.5%	3
4	Residential	217,655	193,657	181,446	177,681	186,515	196,215	5.2%	4
5	Total	227,012	202,208	189,203	184,890	194,054	204,211	5.2%	5
6	% Change	-10.7%	-10.9%	-6.4%	-2.3%	5.0%	5.2%		6

The 2022 budget projects an increase in direct written premiums to \$419.1 million, representing a \$30 million increase (7.7%) over the 2021 projected premium of \$389.1 million.

Policy Counts and Average Limits per Policy

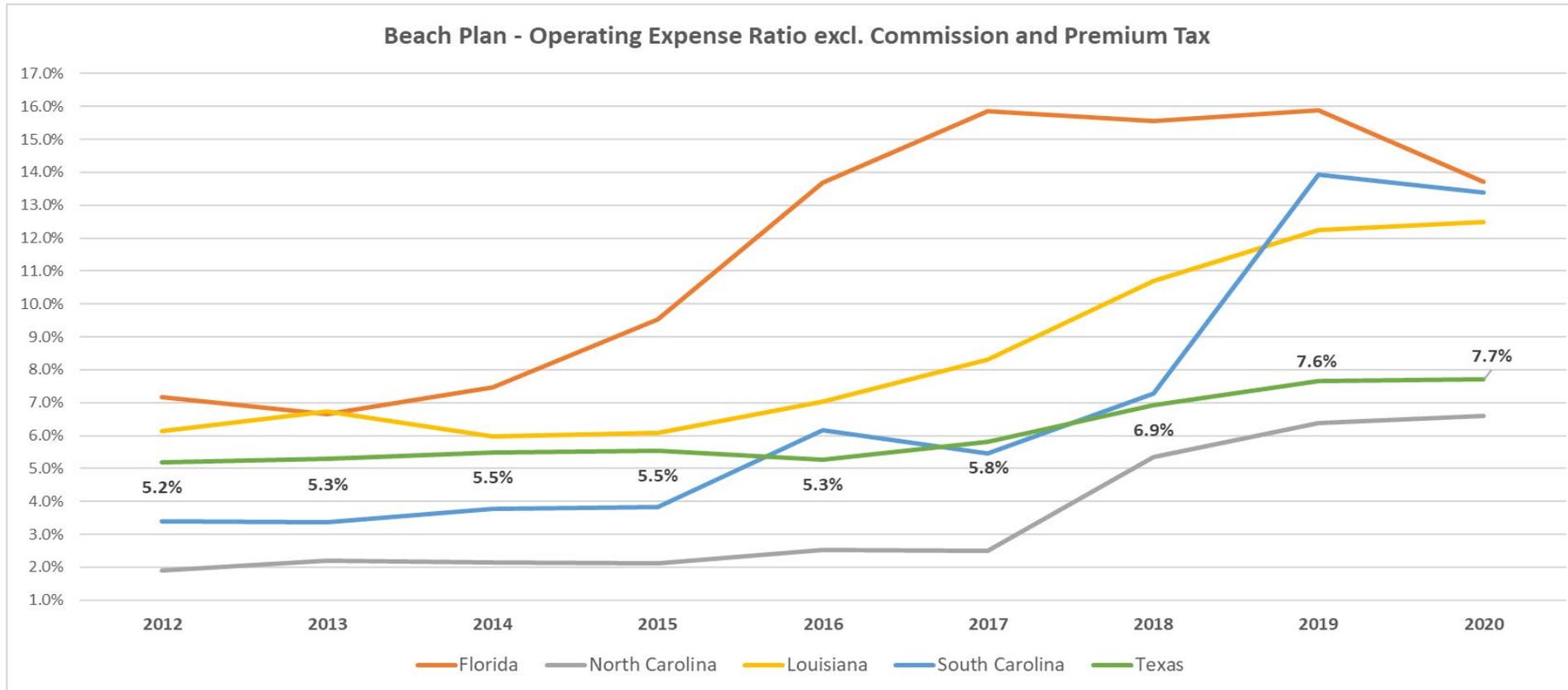
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Policy Count												
2018 Actual	225,658	224,102	221,770	219,818	217,665	213,278	211,584	208,439	207,661	205,812	204,162	202,208
2019 Actual	201,020	199,745	197,722	197,391	196,753	193,502	193,668	192,405	191,580	190,876	189,916	189,203
2020 Actual	188,550	187,920	187,189	186,522	185,852	185,474	185,695	185,633	186,313	185,712	185,188	184,890
2021 Actual/Forecast	184,781	184,722	185,298	186,123	186,831	188,185	189,797	190,659	191,494	192,357	193,191	194,054
2022 Budget	194,917	195,696	196,558	197,393	198,256	199,091	199,953	200,816	201,651	202,513	203,348	204,211

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual % Change
Average Limit Per Policy													
2018 Actual	287,039	287,420	287,705	287,830	287,585	287,267	287,662	287,807	287,566	287,706	287,870	287,040	
2019 Actual	287,968	288,240	288,606	288,913	289,347	289,987	290,357	290,765	291,370	291,737	292,208	291,696	1.6%
2020 Actual	292,924	293,464	294,605	294,472	294,749	294,968	295,738	296,372	296,585	296,661	297,067	297,526	2.0%
2021 Actual/Frcst	298,197	298,865	299,595	300,455	301,075	302,124	302,637	303,417	304,172	304,952	305,707	306,487	3.0%
2022 Budget	307,268	307,973	308,754	309,510	310,291	311,047	311,828	312,609	313,366	314,148	314,904	315,686	3.0%

TWIA 2022 Proposed Budget

Expenses

PIPSO Expense Comparisons – Beach Plans



Written Premium - In Millions										Commission Rate
State	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
Florida	3,180.8	2,761.6	2,083.9	1,267.8	973.8	894.0	868.4	876.6	1,182.1	7.4%
North Carolina	335.3	385.5	407.1	386.9	368.6	345.3	330.0	331.4	348.3	12.9%
Louisiana	189.1	179.0	168.1	140.4	105.1	75.9	66.9	61.6	59.2	10.0%
South Carolina	95.8	92.6	84.4	73.6	59.2	48.8	41.2	36.8	32.8	10.0%
Texas	443.5	472.7	494.0	503.8	487.4	423.1	395.6	372.0	369.6	16.0%

Expense Categories

TWIA budgets and tracks expenses in five 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
- Expert Panel
- Other Services

Office Related

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

Other Operating Expenses

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

Reconciliation of Expenses

2022 Budget vs. 2021 Forecast Comparisons (000's)

	A	Total Operating Expenses			
		B	C	D	
		Budget 2022	Forecast 2021	B2022 vs F2021	
1	Total Operating Expenses - Both Associations	64,808	65,207	(399)	1
2	Allocation to TFPA ¹	(15,855)	(16,026)	171	2
3	TWIA Gross Operating Expenses	48,953	49,181	(228)	3
4	Depopulation Expense ²	(15)	(16)	1	4
5	Claims Expenses (ULAE) ³	(12,941)	(12,028)	(913)	5
6	Investment Expenses	(335)	(297)	(37)	6
7	TWIA Underwriting Expenses Before Capitalization	35,663	36,840	(1,177)	7
8	Capitalized Expenses ⁴	(2,489)	(8,544)	6,055	8
9	TWIA Net Underwriting Expenses⁵	33,174	28,296	4,878	9



(1) Reflects reimbursement by TFPA for expenses incurred by TWIA on behalf of TFPA or charged directly to TFPA pursuant to a management services agreement.

(2) Servicing fee received from participating depop carriers as an offset to TWIA expenses.

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

(4) Reflects the capitalization of external software development costs incurred in connection with Project Elevate pursuant to Statutory Accounting Principles. These capitalized costs will begin to be amortized beginning with the launch of the system.

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

Note: This budget review focuses on Gross Operating Expenses to facilitate a review of all expenses incurred by the Association. The Net Underwriting Expenses is the final amount that is included in the budgeted income statement for 2022.

TWIA Expense Summary

Version	UW Expenses	ULAE	Investment Exp	Capitalized Exp	Reimb Depop Srv	Total Expenses	Period
2022 Budget	33,173,930	12,940,847	334,625	2,488,887	15,000	48,953,288	Dec 2022 YTD
2021 Forecast	28,295,807	12,028,270	297,249	8,543,764	15,863	49,180,952	Dec 2021 YTD
2021 Budget	31,312,513	11,786,366	314,616	8,382,933	23,100	51,819,528	Dec 2021 YTD
2021 YTD Actuals	14,516,915	6,331,184	138,278	3,780,238	15,486	24,782,101	Jun 2021 YTD
Variance \$	UW Expenses	ULAE	Investment Exp	Capitalized Exp	Reimb Depop Srv	Total Expenses	
2021 Forecast vs 2021 Budget	(3,016,706)	241,904	(17,367)	160,831	(7,237)	(2,638,575)	
2022 Budget vs 2021 Forecast	4,878,123	912,577	37,376	(6,054,877)	(863)	(227,664)	
2022 Budget vs 2021 Budget	1,861,417	1,154,481	20,009	(5,894,046)	(8,100)	(2,866,240)	
Variance %	UW Expenses	ULAE	Investment Exp	Capitalized Exp	Reimb Depop Srv	Total Expenses	
2021 Forecast vs 2021 Budget	-9.6%	2.1%	-5.5%	1.9%	-31.3%	-5.1%	
2022 Budget vs 2021 Forecast	17.2%	7.6%	12.6%	-70.9%	-5.4%	-0.5%	
2022 Budget vs 2021 Budget	5.9%	9.8%	6.4%	-70.3%	-35.1%	-5.5%	

Note: The Total Expenses (Top Right) appear in various locations in the financial statements. Capitalized Elevate costs are not expensed in the current year, but are recorded as assets and depreciated over time. Capitalized amounts are treated as non-admitted assets and removed from surplus. Investment expense is recorded in other income and expenses while ULAE is booked to Loss and Loss Adjustment Expense. Underwriting expense is what remains of total expenses after reclassifying these other items to their proper location on the financial statements.

Texas Windstorm Operating Expenses – Trend Analysis

	2017	2018	2019	2020	2021 Forecast	2022 Budget	
1 TOTAL ALL DEPTS							1
2 Personnel Costs	59,244,278	53,401,035	30,889,084	31,214,130	29,937,010	28,905,547	2
3 Professional Services	13,345,564	10,148,994	8,805,315	10,868,403	12,289,385	9,855,494	3
4 Hardware & Software Licensing	3,231,299	3,003,507	2,997,898	3,095,779	3,379,243	4,026,794	4
5 Rental & Maintenance - Office/Equipment	1,254,711	1,351,117	1,296,079	1,267,426	1,278,873	1,318,067	5
6 Travel Expenses	467,751	317,375	251,104	57,881	144,139	261,541	6
7 Postage, Telephone and Express	1,146,751	1,072,486	975,547	907,156	907,285	916,295	7
8 Capital Management Expenses	171,536	2,261,920	2,112,784	17,388	15,189	14,450	8
9 Other Operating Expenses	3,791,364	2,229,831	1,183,133	1,152,218	1,229,828	3,655,100	9
10							10
11 GROSS OPERATING EXPENSES	82,653,254	73,786,265	48,510,942	48,580,382	49,180,952	48,953,288	11
12							12
13 Capitalization of Fixed Assets	-	-	-	(4,577,587)	(8,543,764)	(2,488,887)	13
14 Reimbursement of Depop Servicing Exp	(520,882)	(248,371)	(120,463)	(76,065)	(15,863)	(15,000)	14
15 Allocation To ULAE	(55,733,320)	(42,799,315)	(16,886,693)	(15,224,675)	(12,028,270)	(12,940,847)	15
16 Allocation To Investing & Other Exp	(171,536)	(2,457,477)	(2,386,866)	(301,264)	(297,249)	(334,625)	16
17 Net Operating Expense	26,227,516	28,281,102	29,116,920	28,400,791	28,295,807	33,173,930	17

Other Operating Expense (Line 9) 2022 Budget includes 8 months (\$2.1 million) amortization of capitalized cost for Project Elevate. Development costs will be amortized over a total of 60 months.

All Expenses Summary – 2022 Budget to 2021 Budget

Texas Windstorm Insurance Association
Gross Underwriting Expenses by Category
(\$'s in 000's)

		A	B	C	
1	Description	Budget 2022	Budget 2021	B2022 vs. B2021	1
2	Personnel Costs	28,906	30,794	(1,889)	2
3	Professional Services	9,855	13,428	(3,573)	3
4	HW/SW & Licensing	4,027	3,752	275	4
5	Rental & Maintenance	1,318	1,305	13	5
6	Travel Expenses	262	229	32	6
7	Postage, Tele & Express	916	919	(3)	7
8	Capital Management Expense	14	24	(10)	8
9	Other Operating Expense	3,655	1,368	2,287	9
10	Gross Underwriting Expenses	48,953	51,820	(2,866)	10

All Expenses Summary – Budget to 2021 Forecast

Texas Windstorm Insurance Association
Gross Underwriting Expenses by Category¹
 (\$'s in 000's)

		A	B	C	
1	Description	Budget 2022	Forecast 2021	B2022 vs. F2021	1
2	Personnel Costs	28,906	29,937	(1,031)	2
3	Professional Services	9,855	12,289	(2,434)	3
4	HW/SW & Licensing	4,027	3,379	648	4
5	Rental & Maintenance	1,318	1,279	39	5
6	Travel Expenses	262	144	117	6
7	Postage, Tele & Express	916	907	9	7
8	Capital Management Expense	14	15	(1)	8
9	Other Operating Expense	3,655	1,230	2,425	9
10	Gross Underwriting Expenses	48,953	49,181	(228)	10

Separate Analysis Schedules Provided

Personnel Costs – 2022 Budget to Forecast

<i>A</i>		<i>B</i>	<i>C</i>	<i>D</i>		
		Personnel Costs (000's)				
		Budget 2022	Forecast 2021	B2022 vs F2021		
1					1	
2	Salaries & Wages - Permanent	14,217	13,622	594	2	
3	Contractor & Temporary Help	8,375	9,851	(1,476)	3	
4	Sub-total	22,592	23,473	(881)	4	
5	Payroll Taxes	1,004	1,002	2	5	
6	Employee Benefits	4,982	5,194	(212)	6	
7	Recruiting, Training & Other	327	267	60	7	
8	Personnel Costs, Gross	28,906	29,937	(1,031)	8	
9	Less:				9	
10	Capitalized Amount	(1,291)	(3,589)	2,298	10	
11	ULAE Allocation	(9,880)	(9,994)	114	11	
12	Investment Expense Allocation	0	0	0	12	
13	Personnel Costs, Net	17,734	16,354	1,381	13	

The table at left presents the elements of personnel costs in the 2022 Budget compared to the 2021 Forecast.

TWIA salaries and wages budget includes amount for merit increase of 2.5% or \$318,000 and an increase of \$226,000 in accrued vacations associated with the pandemic.

The 2022 budgeted year-end headcount of 227 reflects 3 additional positions compared to the 2021 budget of 224 positions as of December 31, 2021. These positions are more than offset by the reduction in contractors as Elevate winds down in early 2022.

Employee benefits are presented individually on later page. Pension plan details will be presented separately.

Personnel Expense Historical

	2017	2018	2019	2020	2021 Forecast	2022 Budget
<u>TOTAL ALL DEPTS</u>						
Personnel Expenses						
Salaries & Wages - Permanent	11,420,381	10,832,929	11,648,455	12,599,156	13,622,267	14,216,625
Contractor & Temporary Help	43,030,243	37,351,160	13,859,838	12,920,823	9,850,607	8,375,095
Payroll Taxes	829,141	791,907	840,015	884,562	1,002,300	1,003,991
Employee Benefits	3,687,074	4,206,690	4,145,992	4,631,721	5,194,361	4,982,394
Recruiting, Training & Other	277,439	218,349	394,783	177,868	267,475	327,442
Total Personnel Costs	59,244,278	53,401,035	30,889,084	31,214,130	29,937,010	28,905,547
Claims Department - Contractors & Temp Help	41,701,101	36,205,355	11,442,278	9,263,850	5,632,691	4,910,500
% to total Contractors & Temp Help Expenses	96.9%	96.9%	82.6%	71.7%	57.2%	58.6%

Positions Summary – TWIA and TFPA FTEs

Department	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Budget 2021	Forecast 2021	Budget 2022
FTE Headcount:							
UNDERWRITING - TWIA & TFPA	63	65	62	59	58	59	59
CLAIMS	46	46	49	48	49	49	49
ACTUARY	1	2	2	2	2	3	3
EXECUTIVE	3	2	2	3	3	2	4
ACCOUNTING	18	18	21	19	22	22	22
LEGAL/COMPLIANCE	6	6	6	6	7	7	7
INFORMATION TECHNOLOGY (IT)	53	48	45	45	46	44	48
OPERATIONS	21	19	16	19	19	16	16
INTERNAL AUDIT	0	0	0	0	0	0	0
HUMAN RESOURCES	7	8	7	8	8	9	9
COMMUNICATIONS/LEGISLATIVE AFFAIRS	8	9	10	9	10	10	10
Total	226	223	220	218	224	221	227

Note: Budgeted positions for 2020 was 231 positions.

Contractors Summary – TWIA and TFPA

Department	Actual 2020	Budget 2021	Forecast 2021	Budget 2022
Contractors Headcount:				
UNDERWRITING - TWIA & TFPA	7	6	2	2
CLAIMS	47	16	31	15
ACTUARY	0	0	0	0
EXECUTIVE	0	0	0	0
ACCOUNTING	2	1	0	0
LEGAL/COMPLIANCE	0	0	0	0
INFORMATION TECHNOLOGY (IT)	18	20	16	8
OPERATIONS	0	0	1	1
INTERNAL AUDIT	0	0	0	0
HUMAN RESOURCES	0	0	0	0
COMMUNICATIONS/LEGISLATIVE AFFAIRS	1	0	0	0
Total	75	43	50	26

Employee Benefits Summary – TWIA

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		
Total Salary & Wages	13,622,267	14,149,099	(526,832)	14,216,625	594,358	67,526
Pension Plan	2,019,960	1,767,957	252,003	1,926,050	(93,910)	158,093
401 K Plan	718,952	741,036	(22,084)	758,050	39,098	17,014
Insurance & Related:					0	0
Medical	2,203,412	2,090,760	112,652	2,049,313	(154,099)	(41,447)
Dental	117,386	117,192	194	121,049	3,663	3,857
Life & AD&D	109,867	107,926	1,941	98,957	(10,910)	(8,969)
All Other (1)	24,783	27,777	(2,994)	28,975	4,192	1,198
Total Insurance & Related	2,455,448	2,343,655	111,793	2,298,294	(157,154)	(45,361)
Total All Benefit Costs	5,194,361	4,852,648	341,713	4,982,394	(211,967)	129,746

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

Benefits % to Salaries

38.1%

34.3%

35.0%

Professional Services and Consulting - TWIA

(000's)		Professional & Consulting Services			
		Budget 2022	Forecast 2021	B2022 vs F2021	
1	Professional & Consulting Services				1
2	Legal	540	507	32	2
3	Accounting & Auditing	266	272	(5)	3
4	Information Technology	3,092	5,583	(2,491)	4
5	Actuarial Services	39	39	0	5
6	Ombudsman Program	112	110	2	6
7	Surveys & Inspections	1,328	1,313	15	7
8	Disaster Recovery Services	230	261	(32)	8
10	Other Services	4,249	4,205	45	10
11	Professional Services, Gross	9,855	12,289	(2,434)	11
12	Less:				12
13	Capitalized Amount	(1,198)	(4,955)	3,757	13
14	ULAE Allocation	(1,409)	(1,032)	(377)	14
15	Investment Expense Allocation	0	0	0	15
16	Professional Services, Net	7,249	6,302	946	16

Reduction in IT consulting due to April 2022 completion of Project Elevate

See Other Services details slide

Professional Services (Continued) – Detail Breakout

TWIA Detail of IT Consulting Expense

<u>Vendor/Description</u>	<u>2022 Budget</u>
Cynosure Service Contract TWIA/TFPA - Development	\$ 1,344,247
Zensar - Cynosure Professional Services for QA & Automation testing	818,064
TWIA Elevate Program Guidewire Consultant	392,080
Smart Comms Thunderhead	171,000
Blackcomb Program Manager	180,000
Other Vendors (below \$100K)	186,251
Total IT Consulting	\$ 3,091,642

TWIA Detail of Other Services - 2022 Budget

<u>Dept</u>	<u>Vendor</u>	<u>2022 Budget</u>
Expert Panel	Accenture & RMS Cloud Services	\$ 2,063,686
Underwriting	Clear Point - Call Center Expense	470,000
Underwriting	CoreLogic	364,265
Claims	Xactware	287,304
Claims	Eagleview	284,708
Actuary	Modeling Consulting Services (Vendor TBD)	150,000
Claims	ISO	104,320
Various departments	Other Vendors (below \$100K)	524,975
Total Other Professional Services		\$ 4,249,258

	(000's)	Professional & Consulting Services		
		Budget 2022	Budget 2021	B2022 vs B2021
1	Professional & Consulting Services			
2	Legal	540	643	(104)
3	Accounting & Auditing	266	273	(7)
4	Information Technology	3,092	6,372	(3,281)
5	Actuarial Services	39	290	(251)
6	Ombudsman Program	112	125	(13)
7	Surveys & Inspections	1,328	1,353	(25)
8	Disaster Recovery Services	230	325	(95)
9	Other Services	4,249	4,046	203
10	Professional Services, Gross	9,855	13,428	(3,573)
11	Less:			
12	Capitalized Amount	(1,198)	(5,621)	4,424
13	ULAE Allocation	(1,409)	(1,087)	(322)
14	Investment Expense Allocation	0	0	0
15	Professional Services, Net	7,249	6,719	530

Other Operating Expenses

	2017	2018	2019	2020	2021 Forecast	2022 Budget
Other Operating Expenses						
Boards, Bureaus & Associations	199,636	201,346	170,254	164,923	106,798	226,380
Printing & Supplies	218,570	229,321	181,488	97,296	61,244	122,836
Dues & Subscriptions	108,063	121,970	69,382	105,163	97,758	116,979
Insurance	311,400	304,217	245,950	256,125	305,056	370,173
Media and Advertising	43,656	51,375	59,089	59,500	31,034	38,925
Depreciation	2,705,688	888,975	18,727	28,090	28,091	2,109,457
Write-offs	20,593	91,575	14,421	(64,030)	(2,191)	-
Service Charges	134,588	288,971	381,614	452,212	559,172	624,875
Other Expenses	49,170	52,081	42,208	52,937	42,867	45,475
Total Other Operating Expense	3,791,364	2,229,831	1,183,133	1,152,218	1,229,828	3,655,100

Depreciation of \$2.1 million represents 8 months (May – Dec) amortization of software developments costs capitalized under Project Elevate. This amount was previously paid and the capitalized amount has been removed from surplus as a non-admitted asset. The total will be amortized to expense over 60 months but have no future impact on surplus.

Wrap Up

Questions or additional analysis?

Next up - Pension Overview



Texas Windstorm Insurance Association
Defined Benefit Pension Plan Overview
10-25-2021

TWIA Defined Benefit Pension Plan – Quick Facts

- Covers employees scheduled to work at least 1,000 hours in a twelve-month period.
- Benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings
- Benefits vest five years from the date of hire. Employees that leave prior to five years forfeit all pension benefits.
- The Association makes cash contributions to the plan consistent with the minimum funding provisions of the Employee Retirement Security Act (ERISA) as adjusted by any additional funding required by the PPIO Plan fiduciaries.

TWIA Defined Benefit Pension Plan – Quick Facts

- The plan is a multiple employer, pension plan covering eligible employees of the participating employers. Among the other Participating Employers are most of the other state residual market and FAIR Plans.
- A portion of the costs associated with the Plan are allocated from TWIA to the Texas Fair Plan based on the allocation of each employee's costs to the respective organizations.
- Willis Towers Watson provides actuarial advice to TWIA in connection with the Plan. The accounting firm of Clifton Larson Allen performs an annual financial audit of the plan.

Financial Overview

- The aggregate cash contribution by TWIA to the plan in 2020 was \$2.57 million. Contributions to fund benefits are made based on the plan actuary's evaluation of the annual ERISA minimum funding requirements.
- The total expense of the plan in 2020 was \$1.83 million for TWIA and \$882K for TFPA for a total \$2.71 million.
- The fair value of plan assets (investments held by the plan) at December 31, 2020 is \$26.0 million, compared to \$21.5 million at December 31, 2019. The net increase in the fair value of plan assets reflects the amount contributed to the Plan by TWIA in 2020 (\$2.6 million), plus or minus investment gains or losses and the amount of benefits paid in the year.

Pension Plan for Insurance Org (PPIO) – Participating Employers (57)

Alabama	Idaho	Michigan	Pennsylvania
Alabama Insurance Guaranty Association	Idaho Surveying & Rating Bureau, Inc.	Michigan Catastrophic Claims Association	Insurance Placement Facility of PA/DE
Alabama Insurance Underwriting Association		MI Property & Casualty Guaranty Association	PA Financial Resp. Assigned Claims Plan
	Illinois		PA Property & Casualty Ins. Guaranty Assoc.
California	Illinois FAIR Plan Association	Minnesota	
California FAIR Plan Association	Illinois Mine Subsidence Insurance Fund	Minnesota FAIR Plan	Rhode Island
Insurance Educational Association	Surplus Line Association of Illinois		AIPSO
National Automobile Club		Missouri	
Personal Insurance Federation of California	Indiana	Missouri Property Ins. Placement Facility	South Carolina
	National Conference of Ins. Guaranty Funds		SC Medical Malpractice Liability Ins. JUA
Connecticut		Mississippi	SC Wind and Hail Underwriting Association
Connecticut FAIR Plan		Mississippi Insurance Guaranty Association	
GE Industrial Risk Insurers	Kansas	Mississippi State Rating Bureau	Tennessee
	Kansas All-Industry Placement Facility		Tennessee Insurance Guaranty Association
District of Columbia	Kansas Automobile Insurance Plan	New Jersey	
Advocates for Highway and Auto Safety		Insurance Services Office, Inc. / Verisk	Texas
The Surety & Fidelity Association of America	Louisiana	New Jersey Insurance Underwriting Assoc.	Insurance Council of Texas
	Louisiana Citizens Property Insurance Corp.	NJ Property-Liability Ins. Guaranty Assoc.	Texas Automobile Insurance Plan Association
Florida	Property Insurance Association of Louisiana		TX Medical Liability Ins. Underwriting Assoc.
Arbitration Forums, Inc.		New York	Texas Windstorm Insurance Association
Citizens Property Insurance Corporation	Massachusetts	ACORD Corporation	
FL Medical Malpractice JUA	Guaranty Fund Management Services	Affiliated Reinsurance Associations	Virginia
Florida Automobile Joint Underwriting Assoc.	Mass. Property Ins. Underwriting Association	Inland Marine Underwriters Association	Virginia Property Insurance Association
	Property Insurance Plans Service Office	NY Property Insurance Underwriting Assoc.	
Georgia			Washington
Georgia Underwriting Association	Maryland	Ohio	Washington FAIR Plan
	DC Property Insurance Facility	Ohio FAIR Plan Underwriting Association	
Hawaii	Maryland Joint Insurance Association		Wisconsin
Hawaii Insurance Bureau, Inc.			Wisconsin Insurance Plan
			Wisconsin Insurance Security Fund

Additional Insurance Companies with Active Defined Benefit Pension Plans

- Allstate Corporation
- American Family Insurance Group
- Auto-Owners Insurance
- Blue Cross Blue Shield of Michigan
- Erie Indemnity Company
- Guardian Life Insurance Co. of America
- Health Care Service Corporation
- Liberty Mutual Insurance
- MassMutual
- MetLife
- MGIC Investment Corporation
- Nationwide
- New York Life
- Northwestern Mutual
- OneAmerica Financial Partners
- Principal Financial Group
- Prudential Financial Inc.
- Reinsurance Group of America
- Securian Financial Group
- State Farm
- Thrivent
- Transamerica
- Travelers Companies
- Voya Financial
- Westfield

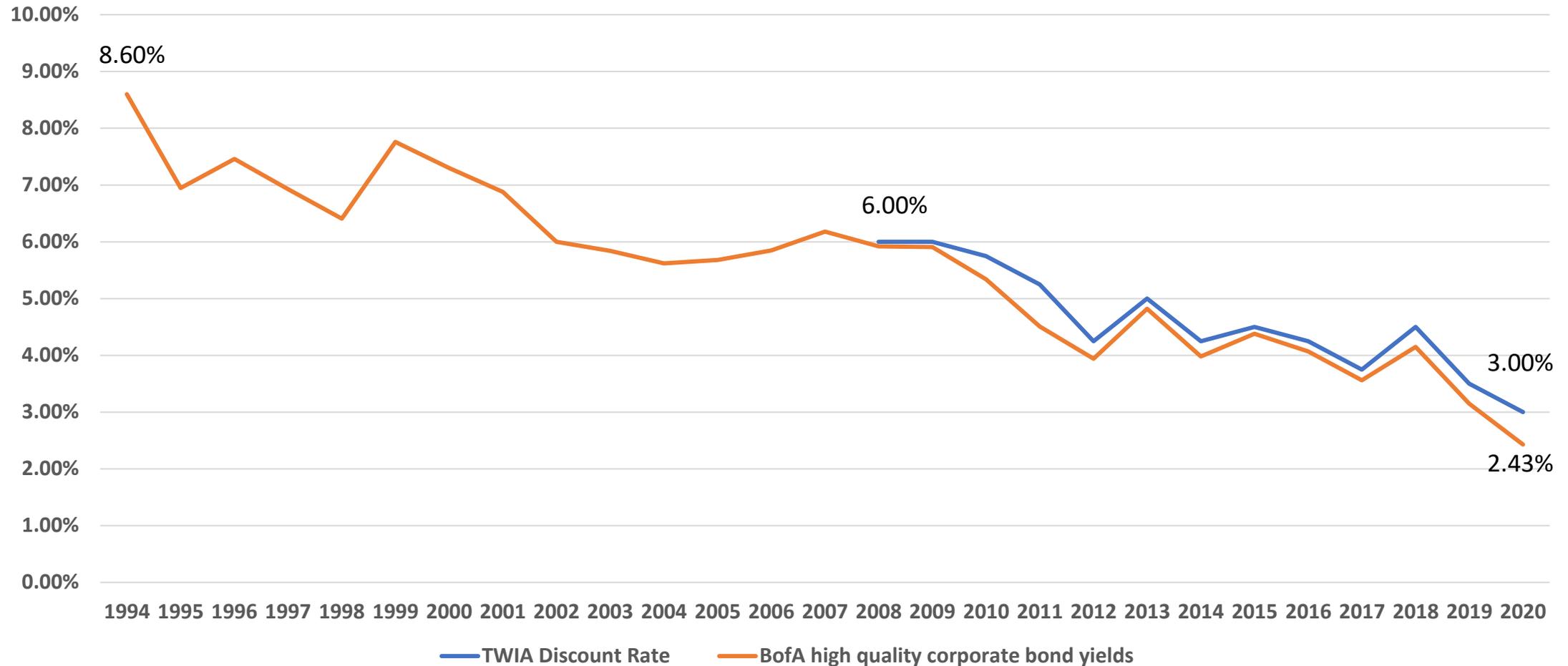
Pension Plans – Key Concepts

- **Projected Benefit Obligation (PBO)** - The present value of benefits earned to date, based on employees estimated future salary levels. (Includes non vested)

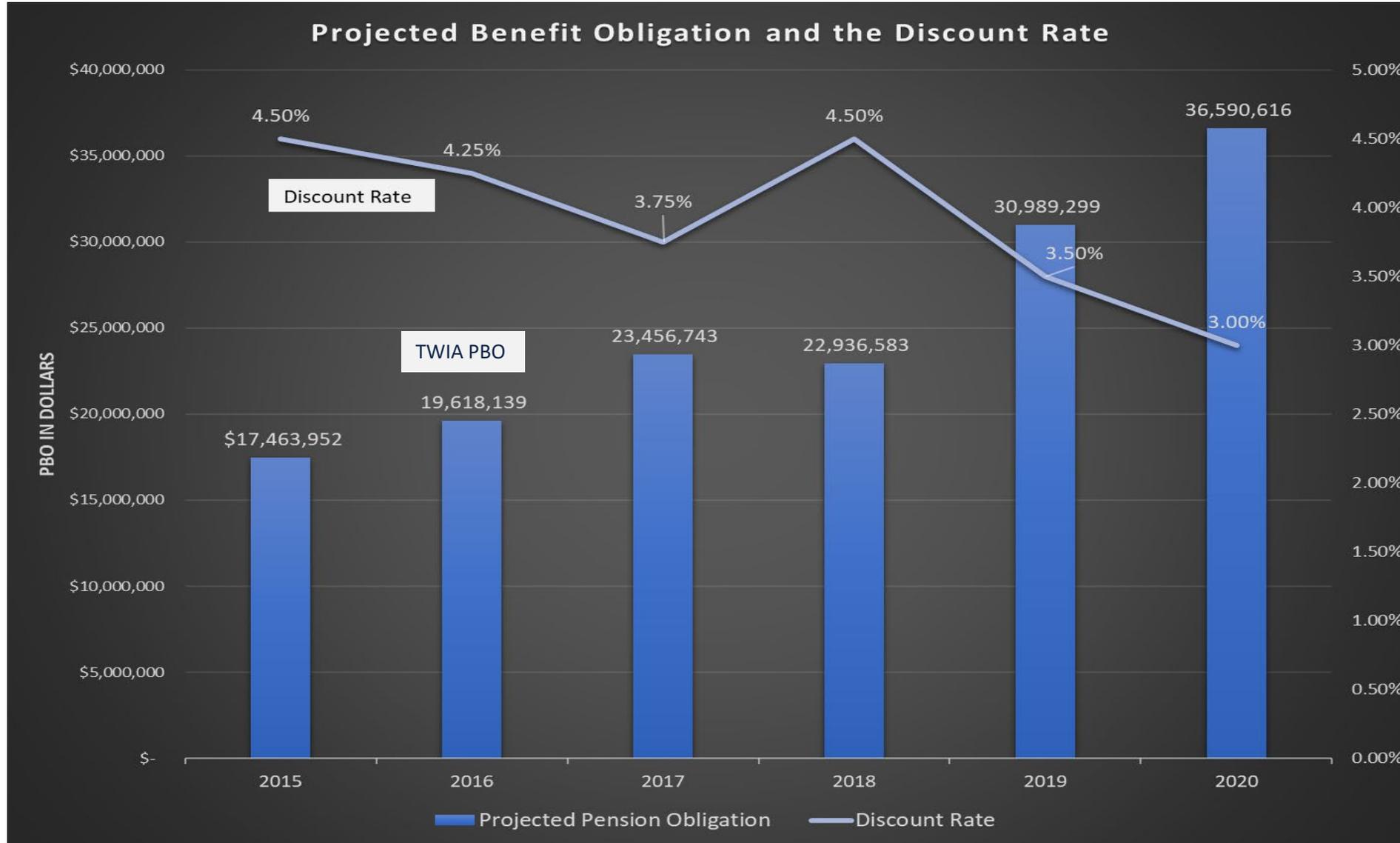
Note – To compute the PBO, actuaries discount to present value the estimated future benefits to be paid. Minor changes in the interest rate used to discount pension benefits can dramatically affect the measurement of the employer's obligation. For example, a 1% change in the discount rate can increase or decrease pension liabilities by 15% or more.

- **Plan Assets** – The total value of **the investments held by the plan**. Plan assets are invested in a diversified portfolio in accordance with the Investment Objectives and Principles established by the plan.
- **Funded Status of Pension Plan** – Companies must show on their balance sheet the difference between the projected benefit obligation and the fair value of the plan assets.

TWIA Discount Rates (2008-2020) vs. Yields on High Quality Corporate Bonds (1996-2020)

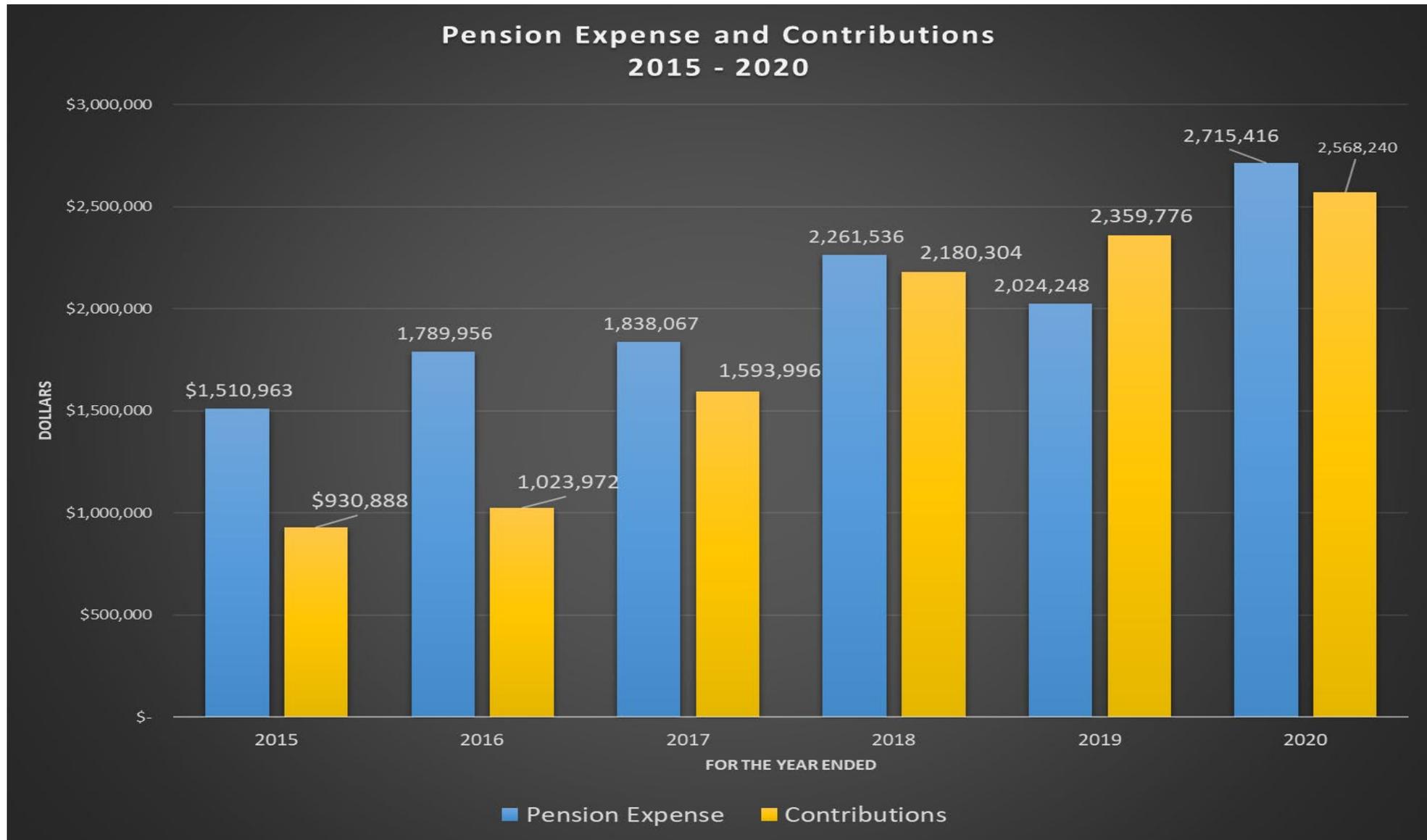


Pension Obligation and the Discount Rate



This chart displays the significant impact on the projected benefit obligation (PBO) from changes in the discount rate used to estimate the present value of future benefits to be paid to retirees. Note when the discount rate increased the total liability decreased from the prior year.

Pension Expense & Contributions – TWIA and TFPA Combined



Pension Obligation and Expense Projections

	2021 Expense	Estimated 2022 Expense	Impact of +0.50% Discount Rate	Estimated P&L 2022 Expense
Discount Rate	3.00%	3.25%		3.75%
Pension Obligation	(37,585)	(39,077)	3,428	(35,649)
Plan Assets	25,786	29,662	--	29,662
Funded Status	(11,799)	(9,415)	3,428	(5,987)
Operating Service Cost	\$2,726	\$2,564	(287)	\$2,277
Non-Operating Pension Cost	414	131	(161)	(30)
Total Pension Cost	3,140	2,695	448	2,247

How TWIA Retirement Benefits Are Calculated

The retirement benefit to be received starting at age 65 is calculated as follows:

1.30% of an employee's Annual Compensation multiplied by their years of service. (Capped at 35 years)

For example:

Four years of Service = Zero Benefit

Five years of Service = 6.5% of Annual Compensation

Ten years of Service = 13.0% of Annual Compensation

Twenty years of Service = 26.0% of Annual Compensation

Thirty-Five years of Service (Plus) = 45.5% of Annual Compensation

Questions