

## Florida Insurance Assessments

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### Background

Many states have established “residual markets” that provide coverage to individuals and businesses that cannot find insurance in the private marketplace. In Florida, the residual insurer is Citizens Property Insurance Corporation, a state-run insurer with more than one million customers. While private insurers must charge rates high enough to have money on hand in advance to pay claims, Citizens charges rates that may be insufficient to handle claims resulting from a major hurricane. If Citizens runs out of money to pay claims, it charges its customers an assessment on future policy premiums to make up the difference – and if that amount of money is not enough to pay Citizens’ claims, then all other policyholders in the state are assessed. These assessments are taxes that defer the cost of hurricanes, paying off the debt over time. Assessments come in three tiers:

1. **Policyholder Surcharge.** This one-time charge of up to 45 percent of the annual premium goes to Citizens policyholders only, and if it does not solve the deficit, then the next assessment tier kicks in.
2. **Regular Assessment.** All property and casualty insurers pay this one-time assessment of up to 18 percent of the annual statewide premium they collect. Insurers must pay this tax within 30 days of receiving notice and are permitted to get the money back by passing the charge on to policyholders when policies renew the next year.
3. **Emergency Assessment.** If a deficit still remains, Citizens charges both its policyholders and nearly all other property and casualty policyholders (such as auto and business policies) an Emergency Assessment of up to 10 percent of the premium, which can be spread over up to 30 years.

Two other state entities also levy assessments if they experience deficits:

- **Florida Hurricane Catastrophe Fund (FHCF)** charges all policyholders an Emergency Assessment of up to 6 percent of the premium, and the
- **Florida Insurance Guaranty Association (FIGA)**, which pays the claims of failed insurers, assesses up to 2 percent of an annual premium at a time.

### What are the insurance assessments for 2010?

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| <b>Property Assessments</b> | FHCF Regular – 6 %<br>FHCF Emergency – 1%*<br>Citizens Emergency – 1.4% |
| <b>Auto Assessments</b>     | FHCF – 1%*  |

\*Increases to 1.3% in Jan. 2011 and extends through 2014.

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## Florida Insurance Assessments, Continued

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### **How assessments work for Citizens' policyholders**

Citizens' customers are the first to be assessed if a deficit occurs. Citizens Policyholder Surcharge is an assessment of up to 15 percent of the annual premium for each of Citizens' three separate customer accounts (High Risk, Personal Lines, and Commercial Lines). Assessments can be levied for any account that has a deficit, which means that Citizens' policyholders can be assessed a maximum of 45 percent of their premium if a deficit occurs in all three accounts. If this surcharge to Citizens' customers is insufficient to handle a deficit, a Regular Assessment is made to policyholders who have insurance with private insurers, making them responsible for paying some of Citizens claims. Citizens' customers do not pay this Regular Assessment.

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### **How Citizens' assessments work for the private market**

If a deficit still exists after Citizens' customers have paid their maximum assessment, a one-time Regular Assessment is made on all policyholders in the private market, including individuals and businesses. To reduce the amount of these charges, the Legislature expanded the assessment base in 2008 to include property, auto and other lines of insurance, except for medical malpractice and workers' compensation insurance. The Regular Assessment can be up to 6 percent of a policyholder's annual premium for each of Citizens' accounts with a deficit. That means policyholders could be assessed a maximum of 18 percent for a deficit in all three of Citizens' accounts. If assessments paid by the Policyholder Surcharge and the Regular Assessment do not eliminate the deficit, an Emergency Assessment is levied – and both Citizens' customers and Floridians with private insurance pay this.

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### **Other possible assessments**

The Florida Hurricane Catastrophe Fund (FHCF) provides a mandatory reinsurance mechanism for property insurance companies in Florida. Reinsurance is insurance for insurance companies. The FHCF was established by the Florida Legislature to help stabilize the insurance market by providing below-market reinsurance. It has money on hand to handle hurricanes; however, a major storm would require the FHCF to borrow money. To pay off the debt, the FHCF can assess all lines of property and casualty insurance, including Citizens but not workers compensation, medical malpractice, accident and health insurance. Assessments from the FHCF can be up to 6 percent for hurricane losses from one season and up to 10 percent for hurricane losses in multiple years.

The Florida Insurance Guaranty Association (FIGA) pays claims for insolvent insurers. It does not accumulate funds in advance, so when an insurance company goes out of business because claims exceed their financial capacity, FIGA pays the insolvent insurer's claims by assessing other insurance companies. FIGA can levy a Regular Assessment and an Emergency Assessment, each of which can be up to 2 percent.

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