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Pre-Loss Subsidies in the Florida Insurance Market



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ABSTRACT

This paper discusses the magnitude of pre-loss subsidies in the pricing of policies in Florida's property insurance residual market written by Citizens Property Insurance Company (Citizens). The paper begins with a brief discussion of subsidies and their conceptual attributes, such as direct versus indirect subsidies, negative externalities, temporal dimensions of subsidies, and subsidy leakage.

The paper then discusses subsidy issues in insurance, principles of actuarially sound rates, and examples of insurance subsidies in other states and other lines of insurance. The paper discusses residual market mechanisms and describes rate and subsidy issues associated with them.

Utilizing information provided by Citizens for their upcoming 2010 rate filing, the magnitude of pre-loss subsidies inherent in its rate structure is calculated for the three largest personal residential policy types. The analysis is conducted at the territory level and is done on both a percentage and a dollar basis. In addition, the impact of the 2009 "glide path" legislation is analyzed to determine how long it will take for Citizens to achieve actuarially sound rates.

The results show average policyholders in some territories are paying thousands of dollars a year in subsidies and policyholders in other territories are receiving subsidies of a similar size. Furthermore, there are some territories where, given the current limitations on rate increases, it will take Citizens more than 20 years to achieve actuarially sound rates.

The magnitude and persistence of these subsidies are important to insurers, insureds, citizens and politicians throughout Florida for a variety of reasons. There has been no work estimating the size or duration of the pre-loss (due to inaccurate risk-based pricing) subsidies in this market and very little work estimating the post-loss subsidies inherent in the assessment structure (Cole et al, 2009). Given the effect that subsidies have on incentives and individual behavior, the impact that these subsidies may have on future exposure and coastal development in Florida could be substantial.

SUBSIDY CONCEPTS

Depending on the context, the term ‘subsidy’ can carry various meanings and connotations. In this paper, we are using the term subsidy to describe the difference between what an insured is paying for property insurance and what an insured should pay for property insurance based on actuarially sound rates.

An important concept at the heart of the question of subsidies in insurance is the concept of “actuarially sound rates,” and this term arises often in discussions of the development and regulation of insurance rates. The Casualty Actuarial Society (CAS) has stated that “(I)t is important that proper actuarial procedures be employed to derive rates that protect the insurance system’s financial soundness and promote equity and availability for insurance consumers.”¹ The basic principles set forth by the CAS relevant to actuarially sound rates are as follows:

Principle 1: A rate is an estimate of the expected value of future costs.

Principle 2: A rate provides for all costs associated with the transfer of risk.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

Principle 4: A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

The use of actuarially sound rating principles and methods is designed to achieve fairness in insurance rates and, in combination with competitive forces in the insurance marketplace,² to prevent subsidies among individual insureds or lines of business in the private insurance market.

Subsidies in the Florida property insurance market may have profound public policy implications; however, the issue of subsidies is not unique to Florida. Subsidies, in insurance or any other area of the economy, are usually designed to achieve specific public policy goals by effectively collecting money from one group and delivering ‘benefits’ to another group. In fact, subsidies in the United States, because of their large number and breadth of application, affect virtually every person and business, although the effects vary significantly from one person and business to another. They may be viewed as positive or negative depending on whether the person or business is paying or receiving.

Subsidies may be direct (explicit) or indirect (implicit). Subsidies may have temporal dimensions, targeting errors, and negative externalities. An example of a direct subsidy would be tax code provisions,³ while tariffs are an example of an indirect or implicit subsidy.⁴ An example of negative externalities might be found in environmental policy. For example, when a factory discharges pollution into the air or water, people living in the vicinity may incur health or clean up costs that are not recognized in the factory’s cost analysis and price determination. In other words, the factory does not internalize these costs which, nevertheless, are costs imposed on society by the factory’s production activities.⁵

¹ Casualty Actuarial Society, May 1988

² Newman (2009), page 15

³ U. S. Department of Energy, page 2

⁴ U. S. Department of Energy, page 2

⁵ Porter

Temporal dimensions exist within subsidies because benefits may be provided to or realized by a particular group in the present while the costs of the subsidies are imposed on a different group who pay for the subsidies over many years in the future. Depending on the circumstances, the group of payers in the future may be people or businesses that did not exist or could not have received the subsidies at the time the benefits were provided.⁶

Subsidy leakage occurs as a result of targeting errors that lead either to members of the target group not being fully included or people outside the target group being included due to imprecise eligibility standards.⁷ A subsidy program that misdirects public funds, even in part, to middle and high income people when the target population of the particular subsidy is low income people is an example of subsidy leakage.⁸

One impact of government subsidies and market interventions is that the efficient functioning of markets and market price signals may be disturbed, which can produce a variety of unintended consequences. For example, when the price of a good or service is held below its full market price by governmental action, the incentive for efficient use of the good or service is reduced and excessive use of the good or service may be encouraged.⁹ For Florida, these subsidies may provide incentives for excessive migration to higher risk coastal areas, may encourage more coastal development or destruction of wetlands, and may lessen any incentives for mitigation of existing structures in higher risk areas. For a more complete discussion of subsidy concepts and subsidies in insurance see Cole et al (2009) and Newman (2009).

Insurance Subsidies in Other States

Before discussing in general how subsidies can arise in insurance residual market mechanisms and how subsidy concerns have arisen in Florida residential property insurance, it is useful to consider how subsidies have arisen in some other lines of insurance and in other states.

Property Insurance

The Mississippi legislature in 2009 continued subsidizing rates. The legislature appropriated \$40 million to protect residential and commercial insureds of the Mississippi Wind Underwriting Association (MWUA) from rate increases. The funds are to be used to purchase reinsurance for the MWUA. (Insurance Journal, July 1, 2009). This subsidy is an open and transparent effort designed to promote economic activity.

Automobile Insurance

Massachusetts – In 1977, the Massachusetts Insurance Commissioner ordered several changes in the way automobile insurance companies had traditionally classified and rated insured drivers, particularly regarding classes based on age, sex, and marital status. In addition, the variation in rates across classes

⁶ Newman (2009), page 11

⁷ Foster, et al

⁸ Valdez, page 80

⁹ Newman (2009), page 12

and territories was limited.¹⁰ During the 1980s about half of drivers in Massachusetts were forced to obtain their auto insurance coverage in the residual market, with the percentage peaking at 72 percent in 1989.

South Carolina – In the mid-1970s South Carolina undertook a program of intensive regulation of auto insurance in the form of limits on rates and underwriting and the creation of a type of residual market mechanism called a reinsurance facility.¹¹ Uniform classification systems, merit rating and rating territories were promulgated.¹² Territorial rate differentials were capped.

Many high-risk drivers chose to be in the reinsurance facility because of its low rates and lax eligibility requirements.¹³ Insurers also placed drivers in the reinsurance facility because the mandated class and territory plans did not allow insurers to charge rates commensurate with the drivers' risk characteristics. As a result, the proportion of South Carolina vehicles in the reinsurance facility rose from 20 percent in 1980 to above 40 percent from 1992 to 1995, and the reinsurance facility's cumulative deficit through 1999, when the reinsurance facility was eliminated, was \$2.4 billion.¹⁴

New Jersey – New Jersey's history of auto insurance problems dates to the early 1970s following the creation of an assigned risk plan (NJAIP) along with the implementation of a new no-fault law and other regulatory changes. From its inception in 1972 until its elimination in 1982, the number of drivers insured in the NJAIP more than tripled to 1.37 million, which represented about one third of New Jersey drivers.¹⁵ In 1982 the NJAIP was replaced by a new residual market mechanism called the New Jersey Automobile Full Insurance Underwriting Association (NJ Auto JUA).

The NJ Auto JUA was to be funded in part by a residual market equalization charge (RMEC) to be paid by all auto insurance policyholders. The RMEC was intended to help make up for the shortfalls in Auto JUA revenues resulting from the NJ Auto JUA charging high-risk drivers rates comparable to rates in the voluntary market. By 1990, more than half of the state's auto insurance policyholders were insured in the residual market. The RMEC, even though it was a subsidy from low-risk drivers to high-risk drivers, could have prevented the subsequent massive NJ Auto JUA deficits if it had been used as intended. In 1985, however, the insurance commissioner disallowed the RMEC because the Auto JUA had positive cash flow. This failure in the early years of the NJ Auto JUA to recognize the necessity to establish reserves for future claim payments related to current loss occurrences led in a few years to huge financial deficits.¹⁶ By the early 1990s, the NJ Auto JUA and the Market Transition Facility, which succeeded the NJ Auto JUA for two years, developed deficits approaching \$5 billion.¹⁷

¹⁰ Blackmon and Zeckhouser, page 65

¹¹ Grace, Klein and Phillips, pages 148-149

¹² Grace, Klein and Phillips, pages 152-153

¹³ Grace, Klein and Phillips, page 157

¹⁴ Grace, Klein and Phillips, pages 157-158

¹⁵ Worrall, page 107

¹⁶ Worrall, pages 108-109

¹⁷ Joel, page 59

Residual Market Rates, Deficits and Subsidy Issues

Residual market mechanisms are special insurance entities. They are usually created by acts of state legislatures and are often heavily regulated by state insurance departments, in large part because they are viewed as serving a public or quasi-public purpose. The typical actuarially sound rate making criteria used in regulating insurance rates for private insurance companies may be supplanted for residual market mechanisms by other criteria for political, public policy or technical reasons. Whatever the reasons, rates for residual market mechanisms are often held below the level of rates that would meet the actuarially sound rate standards.

Other characteristics that residual market mechanisms usually have in common include the lack of capital contributions by the state, the absence of any state responsibility for financial deficits, and the inapplicability or irrelevance of the traditional regulatory relationships applied to private insurance companies between premium writings and capital. Residual market mechanisms, therefore, particularly those with catastrophic loss exposure, may have large financial deficits and do not typically have funds on hand to cover the deficits. When this occurs, residual market mechanisms use the assessment authority granted to them to impose substantial assessments on private insurance companies or, in some cases, individual insurance policyholders.¹⁸

As a result, residual market mechanisms may have both pre-loss (rate related) and post-loss (assessment related) subsidies which have in varying the degrees the problems associated with many other subsidy programs, e. g., subsidy leakage, subsidies across time, unintended consequences, and negative externalities.¹⁹

Citizens Property Insurance Company

Citizens Property Insurance Corporation (Citizens) was formed in 2002 through the combination of the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association.²⁰ Its original mission was to serve as a market of last resort for properties that private insurers would not insure, but that mission was broadened by the Florida Legislature in the 2007 Special Session.²¹

Discussions of subsidies in Florida's property insurance market are couched in various terms, such as 1) whether the rates charged to, and the deficit assessments imposed on, policyholders in northern Florida counties are subsidizing policyholders in southern Florida counties; 2) whether rates and assessments paid by policyholders in inland counties are subsidizing policyholders in coastal counties; and whether intra-county subsidies exist with respect to rates charged to and assessments imposed on policyholders in coastal counties. It is important to understand property insurance subsidies in all of these contexts.

For an in depth review of legislative, regulatory, and related developments associated with Citizens and its predecessor organizations, see Newman (2005) and Newman (2009). For a discussion of the subsidy effects of the post loss assessment process on inter-county subsidies, see Cole et. al. (2009) That paper

¹⁸ Newman (2009), pages 18-19

¹⁹ Newman (2009), pages 6-9

²⁰ Chapter 2002-240, Laws of Florida

²¹ Chapter 2007-1, Laws of Florida. Also, Newman(2009), pages 24-25

discusses the inter-county issue of northern and inland counties subsidizing coastal and southern Florida counties. For a discussion of intra-territory granular pricing, see Nyce and Maroney (2009) where the average annual losses decrease for properties located further from the coastline even though they are currently in the same rating territories.

The legislative adjustments to the statutory scheme regulating Citizens warrant an examination of the issue of pre-loss subsidies in Florida. Citizens originally was a market of last resort, however the Legislature changed the eligibility requirements to allow Citizens to compete with the private market (s.627.351(6)5.a.,F.S.). The Legislature also froze the rates Citizens' charges for coverage in January 2007 (s.627.351(5)(m)4.,F.S.). Citizens was statutorily required to make a rate filing that could not be implemented before January 1, 2010 (s.627.351(6)(m)5.,F.S.). The Legislature in 2009 amended s.627.351,F.S. to provide for a "glide path" that caps Citizens rate increases at ten percent per year until the rates are actuarially sound. Thus an examination is needed of the rate indications versus the glide path restrictions, the amount of time it will take to reach actuarial soundness, and the effect on policyholders who currently are overpriced is needed.

The empirical section will analyze the indicated territorial rate changes for the principal types of policies offered by Citizens. The purpose of this analysis is to evaluate the pre-loss rates charged by Citizens to determine the magnitude and direction of subsidies in various counties and rating territories across Florida.

Typically when calculating a subsidy, the aggregate subsidy is revenue neutral: that is, the subsidy benefits being received by one group are being completely offset by the additional costs borne by the group paying the subsidy. In the case of traditional residual market subsidies, the amount that the residual market participants are being undercharged is offset by an amount that the private insurance market is being overcharged to subsidize the residual market. The subsidy calculations are not that clear for Citizens. First, Citizens is not acting as a true residual market, but is competing for business with the private insurance market. Second, typically all policyholders in the residual market receive subsidies from the private market (paying subsidies); however, it is not clear with Citizens that all policyholders are the target group for the subsidy. In fact, as discussed later in this paper, there are a significant number of Citizens policyholders paying higher than actuarially sound rates and are therefore subsidy payers. Finally, Citizens is not required to fully fund potential losses on a pre-loss basis, because it has the ability to assess almost all policyholders for deficits suffered after major storms. These post-loss assessments are not necessarily risk-based and may contain significant subsidies depending on policyholder locations (See Cole et al, 2009). These post-loss subsidies offset the subsidies being received by many Citizens policyholders on a pre-loss basis.

EMPIRICAL ANALYSIS

The purpose of the analyses is three fold:

1. Determine if pre-loss subsidies exist in the Florida residual homeowners' insurance market
2. Determine the magnitude of the subsidies
3. Determine the persistence of the subsidies under Citizens' "glide path" rate schedule

A subsidy is defined as the difference between the rate that is currently being charged by Citizens and the actuarially sound rate as determined by the public hurricane model. If the rate being charged is higher than the rate indicated by the public model, then that policyholder is paying a subsidy. If the rate being charged is less than the rate indicated by the public model, then that policyholder is receiving a subsidy. Analysis is also conducted to determine how long any rate inaccuracies will persist under current rate glide path restrictions.

In 2008, Citizens earned approximately \$2.1 billion in property insurance premiums (over \$3 billion in 2007) in its three accounts, the personal lines account (PLA), the commercial lines account (CLA), and the high risk account (HRA). Of that \$2.1 billion, approximately \$1.5 billion (68%) was earned in the private residential product lines: personal residential multi-peril (PRM) and personal residential wind-only (PRW); and \$592 million (27%) was earned in the commercial residential product lines.

Exhibit 1: Citizens Private Residential Product Premiums

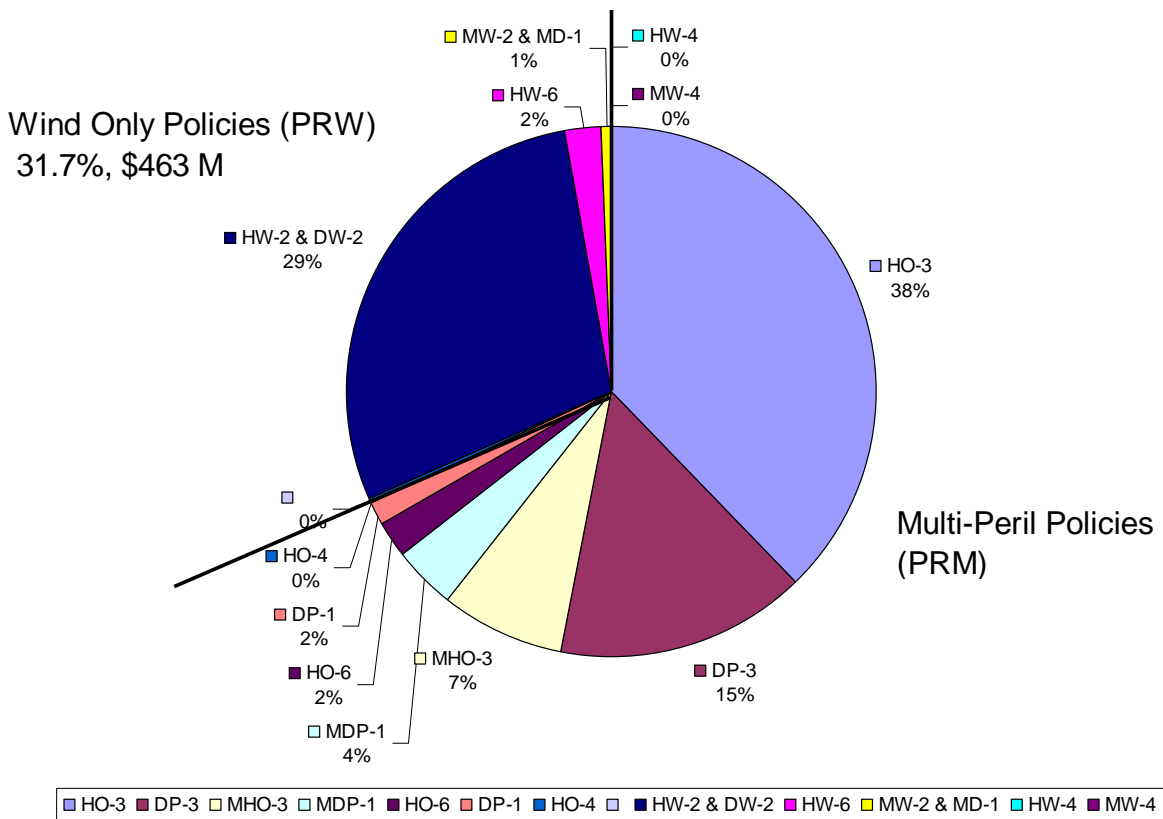


Exhibit 1 shows the breakdown of Citizens in-force premiums (as of 12/31/08) by product line. The two most commonly sold PRM policies are the HO-3 and DP-3 policies while the two most common PRW are the HW-2 and DW-2 policies. These four product lines make up over 56% of Citizens total premiums earned and over 79% of their private residential premiums. Citizens also writes a substantial amount of mobile home business with over \$175 million in premiums earned in mobile home coverage.

Estimating Actuarially Sound Premium

Estimating the actuarially sound premium in private property insurance traditionally was accomplished by looking back at historical loss costs and making adjustments for inflation and changing risk factors. Historically, this method worked well for insurers, but over the last 20 years has proven unreliable for catastrophic risk exposures. As Hurricane Andrew showed, basing premiums on historic loss costs with regard to the wind exposure results in significantly underestimating potential losses. The use of catastrophe models for wind losses, rather than historic costs, has become an accepted practice. There are a variety of providers of catastrophe models that are acceptable for use in the state of Florida. The two reported by Citizens in their Summary of Indicated Statewide Rate Changes are the public model and Risk Management Solutions (RMS). These models are designed to simulate the amount of damage that may be caused by named tropical storms and hurricanes. For a more complete discussion see Watson and Johnson (2004).

Citizens uses the public model in their rate filings. This analysis will also use the public model as the basis for actuarially sound premium calculations, but it should be noted that using alternative models may generate substantially different estimates of actuarially sound premiums (and thus subsidies) at the territory or county level.²² To determine actuarially sound premiums for wind only policies, catastrophe models are used to estimate modeled loss costs for each territory, which are then adjusted for expenses and other factors to determine the actuarially sound premium. For multi-peril policies, modeled loss costs are used for the wind risk and historical loss costs are used for the other perils to calculate the actuarially sound premium.

Aggregate Premiums

Citizens premiums at the aggregate level are inadequate when compared to actuarially sound premiums. At the end of 2008, Citizens had over \$2.1 billion in written premiums (see Table 1, Grand Total line). Based on the public model, Citizens would need an aggregate rate increase of 46.7 percent to reach an actuarially sound premium level. This would include not only the necessary increases in the personal residential product lines, but also commercial residential wind only policies (CRW), commercial non-residential wind only policies (CNRW), and commercial residential multi-peril policies (CRM). In other words, for their current book of business, Citizens premium in force should be \$3.08 billion instead of the \$2.1 billion²³.

²² This remains one of the major reasons why the cost of capital for catastrophic losses remains high, the uncertainty not only in the timing and volatility of the losses but also the uncertainty in the estimation of potential losses.

²³ Using the RMS model in place of the public model, Citizens rates need to increase 48.9 percent. If Citizens utilized the RMS model, incorporated private reinsurance and passed those reinsurance premiums through to their customers, the needed rate increase would be 78.2 percent.

Table 1 - Summary of Indicated Statewide Rate Changes

Product Line	Type of Policy	Total Inforce Premium*	Actuarially Fair Premiums (Public Model) Necessary Rate Change	Glidepath Legislation Estimated Premium Impact
PRM	HO3	552,629,031	42.8%	4.3%
PRM	HO4	3,336,847	33.8%	7.1%
PRM	HO6	30,953,911	-3.8%	-1.6%
PRM	MHO3	109,101,417	18.7%	3.2%
PRM	MDP1	55,886,586	18.9%	3.9%
PRM	DP1	22,183,153	113.7%	8.0%
PRM	DP3	222,764,673	92.5%	9.7%
PRM	Total	996,855,618	50.0%	5.3%
PRW	HW2 and DW2	422,131,821	35.6%	6.4%
PRW	HW4	776,188	-37.0%	-9.8%
PRW	HW6	32,219,403	9.5%	0.3%
PRW	MW2 and MD1	7,894,432	131.0%	8.9%
PRW	MW4	3,885	100.5%	8.7%
PRW	Total	463,025,729	35.3%	6.0%
CRW*	Total	214,177,260	-	8.2%
CNRW**	Total	62,535,201	-	9.4%
CRM**	Total	377,991,933	-	9.5%
***Grand Total		2,114,585,740	46.7%	6.6%

* Total Inforce Premium as of 12/31/08 at current rates.

** The Public Model is not applicable to commercial lines.

*** Grand Totals include the RMS results for commercial lines.

The 2009 glide path legislation²⁴ allows Citizens to increase premiums “not more than 10%” for any single policyholder. If all Citizens’ policyholders were uniformly being undercharged then Citizens’ would be able to raise rates such that their aggregate premiums being collected would increase by 10% per year until an actuarially sound premium was reached.²⁵ Unfortunately, two factors work against this result. First, not all Citizens’ policyholders are being undercharged by Citizens. Therefore, the glide path limit of not more than 10% rate increase for any single policyholder does not yield a 10 percent increase in aggregate rates. Instead the rate increases on some policyholders are offset in part by rate decreases on other policyholders. The net result is a 5.3 percent aggregate rate increase on personal residential multi-peril policies (PRM Total) and a 6.0 percent aggregate rate increase on personal residential wind-only policies (PRW Total).

The second factor working against the glide path rate increase limits will be the inflation rate of loss costs. With rate increases limited to 10%, any percentage increases in loss costs due to inflation will limit the real rate increases. For example, if the loss cost inflation rate is 3 percent then the real rate increase on the glide path will not be 10 percent, but 7 percent²⁶. The loss cost inflation factor will slow the growth in real rates and increase the amount of time it takes Citizens to reach actuarially sound premiums.

If Citizens aggregate premiums earned are not equal to the aggregate actuarially sound premiums, then the subsidy being paid by those being overcharged will not be equal to the subsidy being received by those being undercharged. The difference between aggregate actuarially sound premium indications and the aggregate premiums earned by Citizens is actually being borne by all policyholders in Citizens’ assessment base that will be assessed if Citizens has a deficit.

Personal Residential Premiums

Citizens’ personal residential premiums can be divided into two product lines: personal residential multi-peril policies (PRM) and personal residential wind-only policies (PRW). Both of these product lines are charging rates below actuarially sound rates. As shown in Table 1, the PRM line needs a rate increase of 50 percent to reach actuarially sound rates and the PRW line needs a rate increase of 35.3 percent. These rate indications imply that for the current book of business, Citizens should have collected approximately \$1.5 B in premium for the PRM line and \$626 M in premium for the PRW line in 2008 (versus \$997 M and \$463 M respectively) to have collected actuarially sound premiums.

Within these product lines, Citizens is selling two types of policies that the public model indicates need rate reductions. The HO 4 policy in the PRM product line and the HW 4 in the PRW product line both have negative rate indications. These rate reduction indications are more than offset by types of policies that need significantly more rate increases such as the DP 3 policy (92.5 percent rate increase) and the MW2 and MD 1 (131.0 percent rate increase).

²⁴ Chapter 2009-87, Laws of Florida

²⁵ This would imply that if the 2008 book of business remained intact, Citizens would collect \$2.1 billion in 2009, \$2.31 billion in 2010, \$2.54 billion in 2011, \$2.80 billion in 2012, and be close to actuarially sound in 2013 collecting \$3.07 billion.

²⁶ While rates will have increased 10 percent losses will have also increased 3 percent, thus the real rate increase is only 7 percent (the rate increase minus the increase in loss costs).

Personal Residential Premiums by Type of Policy

To get a better understanding of the pre-loss subsidies that are present in the current rate structure, analysis of the most common types of policies sold by Citizens is necessary. The three primary types of policies sold by Citizens in the personal residential market are the HO 3 and DP 3 in the PRM product line and the HW 2/DW 2 in the PRW product line. Each of these types of policies are underpriced according to the public model rate indications with necessary rate increases of 42.8, 92.5, and 35.6 percent respectively. Table 2 contains a summary of the current rate situation for Citizens for each of these policy types.

Table 2 - Summary Statistics by Policy Type

Type of Policy	Current Situation			Actuarially Fair (Public Model)			Glidepath		
	Total Inforce Premium	Policy Count	Average Inforce Premium	Needed Rate Change	Indicated Total Premium	Average Premium	2010 Rate Change	2010 Total Premium	2010 Average Premium
HO 3	\$552,629,031	276,391	\$1,999	42.79%	\$789,078,027	\$2,855	4.32%	\$576,519,230	\$2,086
DP 3	222,764,673	174,300	1,278	92.50%	\$428,821,996	\$2,460	9.60%	\$244,366,371	\$1,402
HW 2/DW 2	422,131,821	260,682	1,619	35.65%	\$572,613,336	\$2,197	6.44%	\$449,320,381	\$1,724

Table 2 shows the current situation for Citizens (total premiums in-force and average policy premium at current rates), the rate increase needed to reach actuarially sound rates, the total policy premium in-force and average policy premium that actuarially sound rates would generate and the 2010 glide path implications (rate increase, total premiums, and average premium). The DP 3 policies would have the highest aggregate rate increase in 2010 because over 98% of DP 3 policies are underpriced. In contrast, the HO 3 and HW 2/DW 2 policies have higher percentages of policies that are currently overpriced and results in lower aggregate rate increases.

HO 3 Policies

Citizens at the end of 2008 had 276,391 HO 3 policies in force with an in-force premium of \$552,629,031 (see Table 2). An aggregate rate increase of 42.8 percent was indicated by the public model for these policyholders. This would imply that the average premium paid by Citizens HO 3 policyholders should increase from \$1,999 to \$2,855. Not all HO 3 policyholders are being undercharged however. As Table 3 indicates some territories (See Exhibit 2) need significantly higher rate increases while others need significant rate decreases.

Table 3 - Citizens HO 3 Policy Statistics by Territory

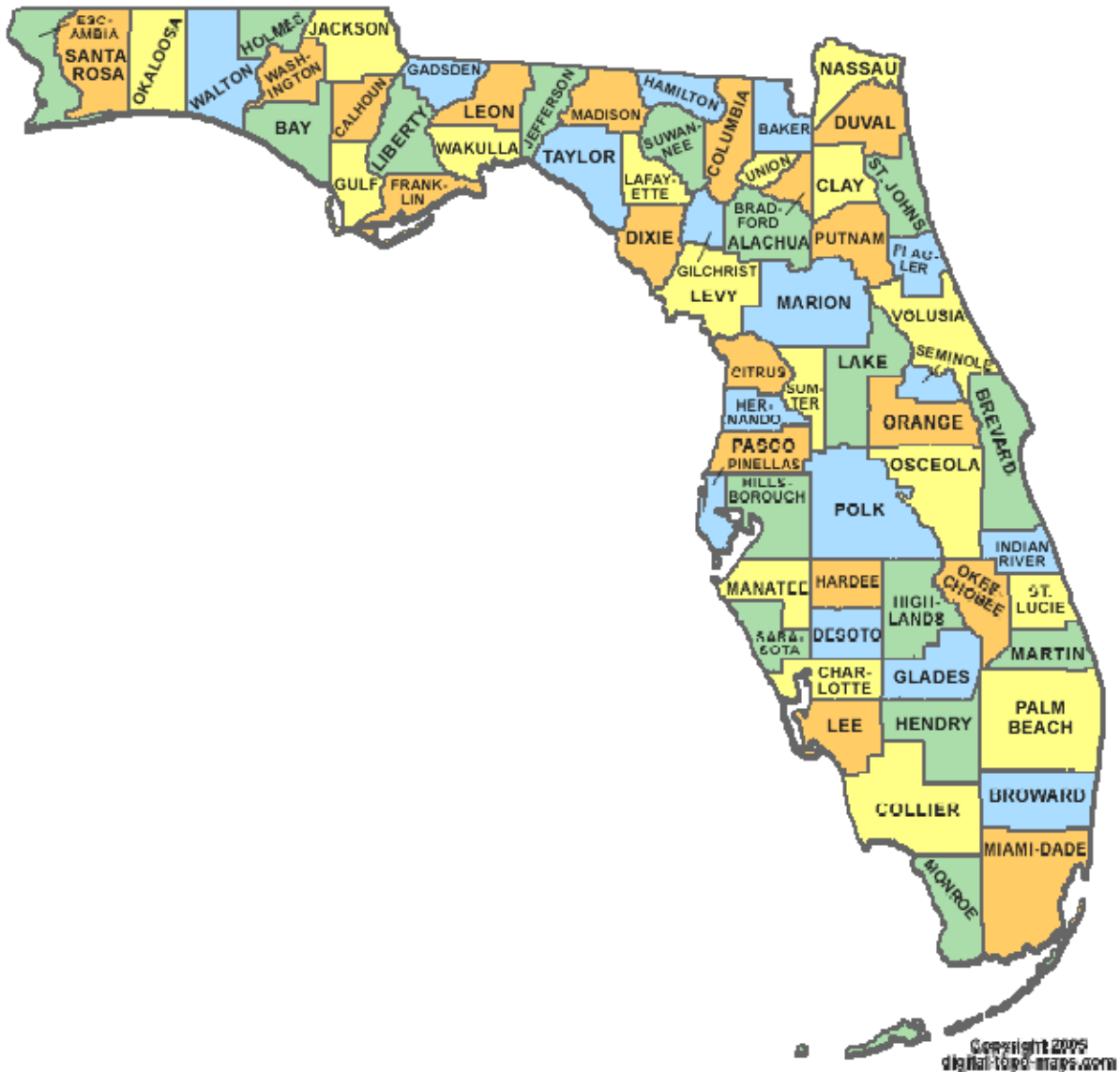
County	Territory Description	Total Inforce Premium (Current Rates)	Average Inforce Premium	Public Model Rate Indication	Public Model Indicated Premium	Public Model Indicated avg. Premium	2010 Glidepath Rate Change	2010 Glidepath New Premium	2010 Average Premium
Alachua	Alachua	405,149	1,307	-14.54%	\$346,227	\$1,117	-10.00%	\$364,634	\$1,176
Baker	Baker	44,455	1,482	-38.85%	\$27,184	\$906	-10.00%	\$40,010	\$1,334
Bay	Bay, Coastal	474,704	2,073	-27.42%	\$344,540	\$1,505	-10.00%	\$427,234	\$1,866
Bay	Bay, Remainder	904,012	2,205	-33.21%	\$603,826	\$1,473	-10.00%	\$813,611	\$1,984
Bradford	Bradford	31,543	1,577	-31.58%	\$21,581	\$1,079	-10.00%	\$28,389	\$1,419
Brevard	Brevard, Coastal	8,373,694	2,318	-9.98%	\$7,538,055	\$2,087	-9.98%	\$7,538,055	\$2,087
Brevard	Brevard, Remainder	4,742,198	1,562	-0.17%	\$4,734,241	\$1,559	-0.17%	\$4,734,241	\$1,559
Broward	Broward, Coastal	890,723	3,621	23.57%	\$1,100,709	\$4,474	10.00%	\$979,795	\$3,983
Broward	Broward, Hollywood, Ft. Lauderdale	18,527,456	2,427	28.47%	\$23,801,760	\$3,118	10.00%	\$20,380,202	\$2,670
Broward	Broward, Remainder	71,556,632	2,139	36.41%	\$97,607,406	\$2,918	10.00%	\$78,712,295	\$2,353
Calhoun	Calhoun	17,459	1,746	-37.85%	\$10,850	\$1,085	-10.00%	\$15,713	\$1,571
Charlotte	Charlotte, Coastal	2,327,961	1,832	7.30%	\$2,497,989	\$1,965	7.30%	\$2,497,989	\$1,965
Charlotte	Charlotte, Remainder	5,860,938	1,754	20.24%	\$7,047,268	\$2,109	10.00%	\$6,447,032	\$1,930
Citrus	Citrus, Coastal	260,405	2,034	-21.38%	\$204,726	\$1,599	-10.00%	\$234,365	\$1,831
Citrus	Citrus, Remainder	502,715	1,596	22.68%	\$616,711	\$1,958	10.00%	\$552,987	\$1,756
Clay	Clay	230,885	1,327	-38.87%	\$141,143	\$811	-10.00%	\$207,797	\$1,194
Collier	Collier, Coastal	1,284,287	3,310	-12.07%	\$1,129,235	\$2,910	-10.00%	\$1,155,858	\$2,979
Collier	Collier, Remainder	1,555,582	2,111	9.66%	\$1,705,808	\$2,315	9.66%	\$1,705,808	\$2,315
Columbia	Columbia	65,711	1,493	-19.93%	\$52,615	\$1,196	-10.00%	\$59,140	\$1,344
Dade	Dade, Hialeah	10,826,748	2,206	101.81%	\$21,849,526	\$4,452	10.00%	\$11,909,423	\$2,427
Dade	Dade, Miami	20,225,603	2,772	38.04%	\$27,919,895	\$3,827	10.00%	\$22,248,163	\$3,049
Dade	Dade, Miami Beach	2,171,157	5,014	29.81%	\$2,818,396	\$6,509	10.00%	\$2,388,273	\$5,516
Dade	Dade, Remainder	126,010,279	2,482	64.24%	\$206,961,406	\$4,077	10.00%	\$138,611,307	\$2,730
Dade	Dade, Coastal	1,315,155	4,188	30.11%	\$1,711,173	\$5,450	10.00%	\$1,446,671	\$4,607
De Soto	De Soto	121,614	1,559	7.85%	\$131,155	\$1,681	7.85%	\$131,155	\$1,681
Dixie	Dixie, Coastal	82,534	1,965	-34.58%	\$53,995	\$1,286	-10.00%	\$74,281	\$1,769
Dixie	Dixie, Remainder	32,752	1,820	-39.63%	\$19,771	\$1,098	-10.00%	\$29,477	\$1,638
Duval	Duval, Coastal	1,273,054	1,547	-35.81%	\$817,195	\$993	-10.00%	\$1,145,749	\$1,392
Duval	Duval, Jacksonville	1,398,282	1,224	-39.32%	\$848,512	\$743	-10.00%	\$1,258,454	\$1,102
Duval	Duval, Remainder	8,097	1,012	-37.29%	\$5,078	\$635	-10.00%	\$7,287	\$911
Escambia	Escambia, Coastal	185,715	3,148	-23.55%	\$141,984	\$2,407	-10.00%	\$167,144	\$2,833
Escambia	Escambia, Remainder	2,170,183	2,024	-15.87%	\$1,825,833	\$1,703	-10.00%	\$1,953,165	\$1,822
Flagler	Flagler, Coastal	105,834	1,556	-3.10%	\$102,558	\$1,508	-3.10%	\$102,558	\$1,508
Flagler	Flagler, Remainder	309,467	1,363	8.47%	\$335,681	\$1,479	8.47%	\$335,681	\$1,479

Franklin	Franklin	111,448	2,185	-26.08%	\$82,378	\$1,615	-10.00%	\$100,303	\$1,967
Gadsden	Gadsden	289,091	1,147	-38.78%	\$176,983	\$702	-10.00%	\$260,182	\$1,032
Gilchrist	Gilchrist	52,483	1,500	-24.45%	\$39,652	\$1,133	-10.00%	\$47,235	\$1,350
Glades	Glades	36,176	1,809	1.96%	\$36,883	\$1,844	1.96%	\$36,883	\$1,844
Gulf	Gulf, Coastal	165,838	2,475	-29.41%	\$117,067	\$1,747	-10.00%	\$149,254	\$2,228
Gulf	Gulf, Remainder	20,915	2,092	-39.36%	\$12,684	\$1,268	-10.00%	\$18,824	\$1,882
Hamilton	Hamilton	3,597	1,199	-40.71%	\$2,133	\$711	-10.00%	\$3,237	\$1,079
Hardee	Hardee	47,829	1,594	0.60%	\$48,116	\$1,604	0.60%	\$48,116	\$1,604
Hendry	Hendry	158,494	1,761	27.06%	\$201,382	\$2,238	10.00%	\$174,343	\$1,937
Hernando	Hernando, Coastal	1,818,368	1,230	246.09%	\$6,293,231	\$4,258	10.00%	\$2,000,205	\$1,353
Hernando	Hernando, Remainder	13,357,169	968	438.10%	\$71,874,567	\$5,209	10.00%	\$14,692,886	\$1,065
Highlands	Highlands	240,219	1,271	20.28%	\$288,929	\$1,529	10.00%	\$264,241	\$1,398
Hillsborough	Hillsborough, Excl. Tampa	14,750,088	1,739	48.81%	\$21,949,636	\$2,588	10.00%	\$16,225,097	\$1,913
Hillsborough	Hillsborough, Tampa	12,330,599	1,953	38.70%	\$17,102,961	\$2,709	10.00%	\$13,563,659	\$2,148
Holmes	Holmes	56,061	1,557	-35.43%	\$36,200	\$1,006	-10.00%	\$50,455	\$1,402
Indian River	Indian River, Coastal	470,714	4,903	-15.72%	\$396,736	\$4,133	-10.00%	\$423,643	\$4,413
Indian River	Indian River, Remainder	1,455,635	1,786	-0.62%	\$1,446,629	\$1,775	-0.62%	\$1,446,629	\$1,775
Jackson	Jackson	91,475	1,253	-37.97%	\$56,741	\$777	-10.00%	\$82,328	\$1,128
Jefferson	Jefferson, Coastal	\$0	\$0	0.0%	\$0	\$0	0.0%	\$0	\$0
Jefferson	Jefferson, Remainder	21,007	1,400	-41.41%	\$12,307	\$820	-10.00%	\$18,906	\$1,260
Lafayette	Lafayette	32,371	1,471	-36.61%	\$20,519	\$933	-10.00%	\$29,134	\$1,324
Lake	Lake	444,045	1,392	49.75%	\$664,942	\$2,084	10.00%	\$488,450	\$1,531
Lee	Lee, Coastal	966,602	2,296	10.08%	\$1,064,002	\$2,527	10.00%	\$1,063,262	\$2,526
Lee	Lee, Remainder	8,163,033	1,756	12.25%	\$9,163,211	\$1,971	10.00%	\$8,979,336	\$1,931
Leon	Leon	574,794	1,125	-42.71%	\$329,282	\$644	-10.00%	\$517,315	\$1,012
Levy	Levy, Coastal	95,499	1,540	-31.82%	\$65,116	\$1,050	-10.00%	\$85,949	\$1,386
Levy	Levy, Remainder	128,202	1,526	-6.61%	\$119,722	\$1,425	-6.61%	\$119,722	\$1,425
Liberty	Liberty	8,751	2,188	-38.32%	\$5,397	\$1,349	-10.00%	\$7,876	\$1,969
Madison	Madison	39,229	1,308	-31.43%	\$26,898	\$897	-10.00%	\$35,306	\$1,177
Manatee	Manatee, Coastal	1,499,854	2,964	6.68%	\$1,600,050	\$3,162	6.68%	\$1,600,050	\$3,162
Manatee	Manatee, Remainder	5,670,765	1,905	-7.13%	\$5,266,291	\$1,769	-7.13%	\$5,266,291	\$1,769
Marion	Marion	719,384	1,276	16.22%	\$836,090	\$1,482	10.00%	\$791,322	\$1,403
Martin	Martin, Coastal	194,435	4,986	12.64%	\$219,003	\$5,615	10.00%	\$213,879	\$5,484
Martin	Martin, Remainder	1,902,844	2,421	3.00%	\$1,959,973	\$2,494	3.00%	\$1,959,973	\$2,494
Monroe	Monroe, Exc. Key West	488,017	3,253	30.73%	\$637,992	\$4,253	10.00%	\$536,819	\$3,579
Monroe	Monroe, Key West	89,028	4,451	-14.42%	\$76,190	\$3,809	-10.00%	\$80,125	\$4,006
Nassau	Nassau, Coastal	465,815	1,778	-35.51%	\$300,408	\$1,147	-10.00%	\$419,234	\$1,600
Nassau	Nassau, Remainder	119,189	1,834	-39.94%	\$71,587	\$1,101	-10.00%	\$107,270	\$1,650
Okaloosa	Okaloosa, Coastal	454,656	3,072	-23.51%	\$347,754	\$2,350	-10.00%	\$409,190	\$2,765
Okaloosa	Okaloosa, Remainder	1,830,629	2,064	-14.66%	\$1,562,239	\$1,761	-10.00%	\$1,647,566	\$1,857
Okeechobee	Okeechobee	103,755	1,789	-6.69%	\$96,813	\$1,669	-6.69%	\$96,813	\$1,669

Orange	Orange, Excl. Orlando	1,219,885	1,383	15.13%	\$1,404,444	\$1,592	10.00%	\$1,341,874	\$1,521
Orange	Orange, Orlando	297,353	1,370	16.81%	\$347,341	\$1,601	10.00%	\$327,088	\$1,507
Osceola	Osceola	370,482	1,269	7.18%	\$397,090	\$1,360	7.18%	\$397,090	\$1,360
Palm Beach	Palm Beach, Coastal	1,478,050	3,528	20.13%	\$1,775,564	\$4,238	10.00%	\$1,625,855	\$3,880
Palm Beach	Palm Beach, Remainder	44,957,847	2,129	-0.89%	\$44,558,074	\$2,110	-0.89%	\$44,558,074	\$2,110
Pasco	Pasco, Coastal	7,733,455	1,327	113.14%	\$16,483,158	\$2,829	10.00%	\$8,506,801	\$1,460
Pasco	Pasco, Remainder	24,961,168	1,118	142.92%	\$60,634,917	\$2,716	10.00%	\$27,457,285	\$1,230
Pinellas	Pinellas, Coastal	3,871,518	2,356	-6.51%	\$3,619,456	\$2,203	-6.51%	\$3,619,456	\$2,203
Pinellas	Pinellas, Remainder	55,600,656	2,107	-15.10%	\$47,202,178	\$1,789	-10.00%	\$50,040,590	\$1,896
Pinellas	Pinellas, St. Petersburg	29,000,360	2,254	-16.64%	\$24,176,133	\$1,879	-10.00%	\$26,100,324	\$2,029
Polk	Polk	1,085,522	1,640	0.94%	\$1,095,763	\$1,655	0.94%	\$1,095,763	\$1,655
Putnam	Putnam	230,650	1,333	-38.74%	\$141,287	\$817	-10.00%	\$207,585	\$1,200
Saint Johns	Saint Johns, Coastal	1,444,518	1,745	-35.44%	\$932,586	\$1,126	-10.00%	\$1,300,066	\$1,570
Saint Johns	Saint Johns, Remainder	696,378	1,382	-34.41%	\$456,758	\$906	-10.00%	\$626,740	\$1,244
Saint Lucie	Saint Lucie, Coastal	166,136	2,967	-2.77%	\$161,539	\$2,885	-2.77%	\$161,539	\$2,885
Saint Lucie	Saint Lucie, Remainder	1,932,996	1,721	14.04%	\$2,204,470	\$1,963	10.00%	\$2,126,296	\$1,893
Santa Rosa	Santa Rosa, Coastal	4,089	4,089	-22.19%	\$3,182	\$3,182	-10.00%	\$3,680	\$3,680
Santa Rosa	Santa Rosa, Remainder	1,841,503	2,404	-20.63%	\$1,461,575	\$1,908	-10.00%	\$1,657,353	\$2,164
Sarasota	Sarasota, Coastal	5,158,068	2,023	-1.10%	\$5,101,338	\$2,001	-1.10%	\$5,101,338	\$2,001
Sarasota	Sarasota, Remainder	7,301,979	1,765	6.96%	\$7,809,927	\$1,887	6.96%	\$7,809,927	\$1,887
Seminole	Seminole	560,648	1,579	5.16%	\$589,574	\$1,661	5.16%	\$589,574	\$1,661
Sumter	Sumter	158,573	1,149	-7.38%	\$146,869	\$1,064	-7.38%	\$146,869	\$1,064
Suwannee	Suwannee	60,352	1,775	-33.96%	\$39,855	\$1,172	-10.00%	\$54,317	\$1,598
Taylor	Taylor, Coastal	159,988	2,192	-11.53%	\$141,544	\$1,939	-10.00%	\$143,989	\$1,972
Taylor	Taylor, Remainder	21,482	1,343	-39.77%	\$12,939	\$809	-10.00%	\$19,334	\$1,208
Union	Union	17,320	1,732	-37.80%	\$10,774	\$1,077	-10.00%	\$15,588	\$1,559
Volusia	Volusia, Coastal	1,593,750	1,866	-6.63%	\$1,488,164	\$1,743	-6.63%	\$1,488,164	\$1,743
Volusia	Volusia, Remainder	5,974,862	1,262	6.44%	\$6,359,906	\$1,343	6.44%	\$6,359,906	\$1,343
Wakulla	Wakulla, Coastal	75,138	2,147	-34.77%	\$49,012	\$1,400	-10.00%	\$67,624	\$1,932
Wakulla	Wakulla, Remainder	65,980	1,692	-42.05%	\$38,236	\$980	-10.00%	\$59,382	\$1,523
Walton	Walton, Coastal	637,800	3,393	-32.84%	\$428,375	\$2,279	-10.00%	\$574,020	\$3,053
Walton	Walton, Remainder	161,742	2,696	-35.03%	\$105,076	\$1,751	-10.00%	\$145,568	\$2,426
Washington	Washington	27,697	1,731	-34.31%	\$18,194	\$1,137	-10.00%	\$24,927	\$1,558
Totals		552,629,031	1,999	42.79%	\$789,078,027	\$2,855	4.32%	\$576,519,230	\$2,086

On a premium basis, 32.6 percent of the premium collected (\$180.4 M) by Citizens from HO 3 policies needs a rate decrease and 67.4 percent (\$372.2 M) needs a rate increase.

Exhibit 2: Counties in the State of Florida



On a policyholder basis, these rate indications imply that 30% of Citizens HO 3 policyholders need a rate decrease. These policyholders are located in 66 territories. The remaining policyholders, located in 41 territories need rate increases. At the county level, 42 of the 67 counties require rate decreases, while 25 require rate increases.

Table 3 shows that Leon (in bold), on a percentage basis, has the rates that are most overpriced (rates need to be reduced by 42.71 percent) and Hernando County has the rates that are most underpriced (rates need to be increased by 438.10 percent in the non-coastal territory).

Table 4 contains the average policyholder subsidy (paid or received) for each territory. Citizens HO 3 policyholders in Hernando are receiving the largest dollar average subsidy at over \$4,000 per year. In addition territories in Miami-Dade, Monroe and Pasco are all receiving subsidies over \$1,000 per policyholder. Coastal Walton is paying the highest subsidy per HO 3 policyholder at \$1,114, and is the only territory with more than \$1,000 subsidy being paid annually per policyholder. When taking into account the average subsidy and the number of policyholders, the remainder of Miami-Dade is receiving the largest subsidy (over \$80 M) and Pinellas is paying the most (combined over \$13 M).

Table 4 - Citizens HO 3 Subsidies by Territory

<u>County</u>	<u>Territory Description</u>	<u>Policy Count</u>	<u>Average Inforce Premium</u>	<u>Public Model Indicated avg. Premium</u>	<u>Avg. Policyholder Subsidy</u>	<u>Aggregate Territory Subsidy</u>
Alachua	Alachua	310	\$1,307	\$1,117	\$190	\$58,922
Baker	Baker	30	\$1,482	\$906	\$576	\$17,271
Bay	Bay, Coastal	229	\$2,073	\$1,505	\$568	\$130,164
Bay	Bay, Remainder	410	\$2,205	\$1,473	\$732	\$300,186
Bradford	Bradford	20	\$1,577	\$1,079	\$498	\$9,962
Brevard	Brevard, Coastal	3,612	\$2,318	\$2,087	\$231	\$835,639
Brevard	Brevard, Remainder	3,036	\$1,562	\$1,559	\$3	\$7,957
Broward	Broward, Coastal	246	\$3,621	\$4,474	-\$854	-\$209,986
Broward	Broward, Hollywood and Ft. Lauderdale	7,634	\$2,427	\$3,118	-\$691	-\$5,274,304
Broward	Broward, Remainder	33,455	\$2,139	\$2,918	-\$779	-\$26,050,774
Calhoun	Calhoun	10	\$1,746	\$1,085	\$661	\$6,609
Charlotte	Charlotte, Coastal	1,271	\$1,832	\$1,965	-\$134	-\$170,028
Charlotte	Charlotte, Remainder	3,341	\$1,754	\$2,109	-\$355	-\$1,186,330
Citrus	Citrus, Coastal	128	\$2,034	\$1,599	\$435	\$55,679
Citrus	Citrus, Remainder	315	\$1,596	\$1,958	-\$362	-\$113,996
Clay	Clay	174	\$1,327	\$811	\$516	\$89,742
Collier	Collier, Coastal	388	\$3,310	\$2,910	\$400	\$155,052
Collier	Collier, Remainder	737	\$2,111	\$2,315	-\$204	-\$150,226
Columbia	Columbia	44	\$1,493	\$1,196	\$298	\$13,096
Dade	Dade, Hialeah	4,908	\$2,206	\$4,452	-\$2,246	-\$11,022,778
Dade	Dade, Miami	7,296	\$2,772	\$3,827	-\$1,055	-\$7,694,292
Dade	Dade, Miami Beach	433	\$5,014	\$6,509	-\$1,495	-\$647,239
Dade	Dade, Remainder	50,765	\$2,482	\$4,077	-\$1,595	-\$80,951,127
Dade	Dade, Coastal	314	\$4,188	\$5,450	-\$1,261	-\$396,018
De Soto	De Soto	78	\$1,559	\$1,681	-\$122	-\$9,541

Dixie	Dixie, Coastal	42	\$1,965	\$1,286	\$680	\$28,539
Dixie	Dixie, Remainder	18	\$1,820	\$1,098	\$721	\$12,981
Duval	Duval, Coastal	823	\$1,547	\$993	\$554	\$455,859
Duval	Duval, Jacksonville	1,142	\$1,224	\$743	\$481	\$549,770
Duval	Duval, Remainder	8	\$1,012	\$635	\$377	\$3,019
Escambia	Escambia, Coastal	59	\$3,148	\$2,407	\$741	\$43,731
Escambia	Escambia, Remainder	1,072	\$2,024	\$1,703	\$321	\$344,350
Flagler	Flagler, Coastal	68	\$1,556	\$1,508	\$48	\$3,276
Flagler	Flagler, Remainder	227	\$1,363	\$1,479	-\$115	-\$26,214
Franklin	Franklin	51	\$2,185	\$1,615	\$570	\$29,070
Gadsden	Gadsden	252	\$1,147	\$702	\$445	\$112,108
Gilchrist	Gilchrist	35	\$1,500	\$1,133	\$367	\$12,831
Glades	Glades	20	\$1,809	\$1,844	-\$35	-\$707
Gulf	Gulf, Coastal	67	\$2,475	\$1,747	\$728	\$48,771
Gulf	Gulf, Remainder	10	\$2,092	\$1,268	\$823	\$8,231
Hamilton	Hamilton	3	\$1,199	\$711	\$488	\$1,464
Hardee	Hardee	30	\$1,594	\$1,604	-\$10	-\$287
Hendry	Hendry	90	\$1,761	\$2,238	-\$477	-\$42,888
Hernando	Hernando, Coastal	1,478	\$1,230	\$4,258	-\$3,028	-\$4,474,863
Hernando	Hernando, Remainder	13,798	\$968	\$5,209	-\$4,241	-\$58,517,398
Highlands	Highlands	189	\$1,271	\$1,529	-\$258	-\$48,710
Hillsborough	Hillsborough, Excl. Tampa	8,481	\$1,739	\$2,588	-\$849	-\$7,199,548
Hillsborough	Hillsborough, Tampa	6,314	\$1,953	\$2,709	-\$756	-\$4,772,362
Holmes	Holmes	36	\$1,557	\$1,006	\$552	\$19,861
Indian River	Indian River, Coastal	96	\$4,903	\$4,133	\$771	\$73,978
Indian River	Indian River, Remainder	815	\$1,786	\$1,775	\$11	\$9,006
Jackson	Jackson	73	\$1,253	\$777	\$476	\$34,734
Jefferson	Jefferson, Coastal	0	\$0	\$0	\$0	\$0
Jefferson	Jefferson, Remainder	15	\$1,400	\$820	\$580	\$8,700
Lafayette	Lafayette	22	\$1,471	\$933	\$539	\$11,852
Lake	Lake	319	\$1,392	\$2,084	-\$692	-\$220,897
Lee	Lee, Coastal	421	\$2,296	\$2,527	-\$231	-\$97,400
Lee	Lee, Remainder	4,649	\$1,756	\$1,971	-\$215	-\$1,000,178
Leon	Leon	511	\$1,125	\$644	\$480	\$245,512
Levy	Levy, Coastal	62	\$1,540	\$1,050	\$490	\$30,383
Levy	Levy, Remainder	84	\$1,526	\$1,425	\$101	\$8,480
Liberty	Liberty	4	\$2,188	\$1,349	\$838	\$3,354
Madison	Madison	30	\$1,308	\$897	\$411	\$12,331
Manatee	Manatee, Coastal	506	\$2,964	\$3,162	-\$198	-\$100,196
Manatee	Manatee, Remainder	2,977	\$1,905	\$1,769	\$136	\$404,474
Marion	Marion	564	\$1,276	\$1,482	-\$207	-\$116,706
Martin	Martin, Coastal	39	\$4,986	\$5,615	-\$630	-\$24,568
Martin	Martin, Remainder	786	\$2,421	\$2,494	-\$73	-\$57,129
Monroe	Monroe, Exc. Key West	150	\$3,253	\$4,253	-\$1,000	-\$149,975
Monroe	Monroe, Key West	20	\$4,451	\$3,809	\$642	\$12,838
Nassau	Nassau, Coastal	262	\$1,778	\$1,147	\$631	\$165,407
Nassau	Nassau, Remainder	65	\$1,834	\$1,101	\$732	\$47,602
Okaloosa	Okaloosa, Coastal	148	\$3,072	\$2,350	\$722	\$106,902
Okaloosa	Okaloosa, Remainder	887	\$2,064	\$1,761	\$303	\$268,390
Okeechobee	Okeechobee	58	\$1,789	\$1,669	\$120	\$6,942

Orange	Orange, Excl. Orlando	882	\$1,383	\$1,592	-\$209	-\$184,559
Orange	Orange, Orlando	217	\$1,370	\$1,601	-\$230	-\$49,988
Osceola	Osceola	292	\$1,269	\$1,360	-\$91	-\$26,608
Palm Beach	Palm Beach, Coastal	419	\$3,528	\$4,238	-\$710	-\$297,514
Palm Beach	Palm Beach, Remainder	21,119	\$2,129	\$2,110	\$19	\$399,773
Pasco	Pasco, Coastal	5,827	\$1,327	\$2,829	-\$1,502	-\$8,749,703
Pasco	Pasco, Remainder	22,327	\$1,118	\$2,716	-\$1,598	-\$35,673,749
Pinellas	Pinellas, Coastal	1,643	\$2,356	\$2,203	\$153	\$252,062
Pinellas	Pinellas, Remainder	26,386	\$2,107	\$1,789	\$318	\$8,398,478
Pinellas	Pinellas, St. Petersburg	12,865	\$2,254	\$1,879	\$375	\$4,824,227
Polk	Polk	662	\$1,640	\$1,655	-\$15	-\$10,241
Putnam	Putnam	173	\$1,333	\$817	\$517	\$89,363
Saint Johns	Saint Johns, Coastal	828	\$1,745	\$1,126	\$618	\$511,932
Saint Johns	Saint Johns, Remainder	504	\$1,382	\$906	\$475	\$239,620
Saint Lucie	Saint Lucie, Coastal	56	\$2,967	\$2,885	\$82	\$4,597
Saint Lucie	Saint Lucie, Remainder	1,123	\$1,721	\$1,963	-\$242	-\$271,474
Santa Rosa	Santa Rosa, Coastal	1	\$4,089	\$3,182	\$907	\$907
Santa Rosa	Santa Rosa, Remainder	766	\$2,404	\$1,908	\$496	\$379,928
Sarasota	Sarasota, Coastal	2,550	\$2,023	\$2,001	\$22	\$56,730
Sarasota	Sarasota, Remainder	4,138	\$1,765	\$1,887	-\$123	-\$507,948
Seminole	Seminole	355	\$1,579	\$1,661	-\$81	-\$28,926
Sumter	Sumter	138	\$1,149	\$1,064	\$85	\$11,704
Suwannee	Suwannee	34	\$1,775	\$1,172	\$603	\$20,497
Taylor	Taylor, Coastal	73	\$2,192	\$1,939	\$253	\$18,444
Taylor	Taylor, Remainder	16	\$1,343	\$809	\$534	\$8,543
Union	Union	10	\$1,732	\$1,077	\$655	\$6,546
Volusia	Volusia, Coastal	854	\$1,866	\$1,743	\$124	\$105,586
Volusia	Volusia, Remainder	4,735	\$1,262	\$1,343	-\$81	-\$385,044
Wakulla	Wakulla, Coastal	35	\$2,147	\$1,400	\$746	\$26,126
Wakulla	Wakulla, Remainder	39	\$1,692	\$980	\$711	\$27,744
Walton	Walton, Coastal	188	\$3,393	\$2,279	\$1,114	\$209,425
Walton	Walton, Remainder	60	\$2,696	\$1,751	\$944	\$56,666
Washington	Washington	16	\$1,731	\$1,137	\$594	\$9,503
Totals		276,391	\$1,999	\$2,855		-\$236,448,996

Citizens' rate glide path limitations of no more than a 10 percent increase or decrease in any individual policyholder's rate extends the amount of time it will take Citizens to reach actuarially sound rates for each territory. Assuming that the 10 percent limitation does not change and assuming a 3 percent inflation rate for loss costs, the HO 3 rates Citizens charges in Hernando will not be actuarially sound until approximately 2034. It will take Miami=Dade nearly 9 years (2019) to reach actuarially sound premiums. Table 5 shows the percentage of Citizens' premiums expected to reach actuarial soundness in each year.

Table 5 - HO 3 Policy Type

Rate Indication	2008 In-Force Premiums	Percentage of Premiums Reaching Actuarially Fair Rates					
		2010	2011	2012	2013	2014	2015+
Lowered	\$180,393,445	37.76%	39.02%	18.17%	4.69%	0.32%	
Raised	\$372,235,586	6.20%	3.63%	2.41%	6.09%	27.97%	53.70%

All of the policyholders who need rate reductions will be paying actuarially sound premiums by 2014, with nearly 95% of that being actuarially sound by 2012. However, more than 50 percent of the premiums that need rate increases will still be underpriced by 2015.

DP 3 Policies

Unlike the HO 3 policy types, almost all of Citizens’ DP 3 policyholders are being subsidized. Citizens’ at the end of 2008 had 174,300 DP 3 policies in force with an in-force premium of \$222,764,673 (see Table 2). An aggregate rate increase of 92.5 percent was indicated by the public model for these policyholders. This would imply that the average premium paid by Citizens DP 3 policyholders should increase from \$1,278 to \$2,460. Most, but not all DP 3 policyholders are being undercharged. As Table 6 indicates some territories need significantly higher rate increases while a few need rate decreases.

Table 6 - Citizens DP 3 Policy Statistics by Territory

County	Territory Description	Total Inforce Premium (Current Rates)	Inforce Avg. Premium (Current Rates)	Public (excluding Reins)	Public Model Indicated Premium	Public Model Indicated Avg.Premium
Alachua	Alachua	\$424,625	\$843	-5.25%	\$402,336	\$798
Baker	Baker	\$24,571	\$793	30.35%	\$32,028	\$1,033
Bay	Bay, Coastal	\$1,066,697	\$1,251	2.07%	\$1,088,827	\$1,276
Bay	Bay, Remainder	\$712,810	\$1,200	1.94%	\$726,628	\$1,223
Bradford	Bradford	\$28,184	\$909	14.03%	\$32,139	\$1,037
Brevard	Brevard, Coastal	\$2,214,701	\$1,405	29.18%	\$2,860,920	\$1,815
Brevard	Brevard, Remainder	\$2,504,601	\$1,013	38.48%	\$3,468,359	\$1,402
Broward	Broward, Coastal	\$627,798	\$853	72.29%	\$1,081,657	\$1,470
Broward	Broward, Hollywood and Ft. Lauderdale	\$7,956,376	\$1,544	76.98%	\$14,081,482	\$2,732
Broward	Broward, Remainder	\$22,161,556	\$1,501	81.64%	\$40,253,820	\$2,727
Calhoun	Calhoun	\$9,158	\$833	6.55%	\$9,757	\$887
Charlotte	Charlotte, Coastal	\$1,348,502	\$1,364	49.00%	\$2,009,242	\$2,032
Charlotte	Charlotte, Remainder	\$2,667,803	\$1,087	62.78%	\$4,342,725	\$1,770
Citrus	Citrus, Coastal	\$75,726	\$1,429	19.09%	\$90,182	\$1,702
Citrus	Citrus, Remainder	\$334,677	\$1,027	124.01%	\$749,705	\$2,300
Clay	Clay	\$203,657	\$835	25.30%	\$255,186	\$1,046
Collier	Collier, Coastal	\$2,124,332	\$1,388	59.71%	\$3,392,683	\$2,216
Collier	Collier, Remainder	\$1,617,796	\$1,308	55.75%	\$2,519,757	\$2,037
Columbia	Columbia	\$58,259	\$809	1.64%	\$59,212	\$822
Dade	Dade, Hialeah	\$5,500,977	\$1,624	146.93%	\$13,583,326	\$4,009
Dade	Dade, Miami	\$14,579,505	\$1,853	124.05%	\$32,665,830	\$4,152
Dade	Dade, Miami Beach	\$975,822	\$1,697	116.97%	\$2,117,284	\$3,682
Dade	Dade, Remainder	\$40,721,085	\$1,617	155.43%	\$104,015,231	\$4,129
Dade	Dade,Coastal	\$657,209	\$1,155	117.12%	\$1,426,906	\$2,508
De Soto	De Soto	\$69,093	\$1,016	55.27%	\$107,282	\$1,578
Dixie	Dixie, Coastal	\$14,449	\$1,605	-0.76%	\$14,340	\$1,593
Dixie	Dixie, Remainder	\$11,573	\$890	3.22%	\$11,946	\$919
Duval	Duval, Coastal	\$466,550	\$1,184	-10.70%	\$416,633	\$1,057
Duval	Duval, Jacksonville	\$1,595,524	\$745	30.81%	\$2,087,053	\$974
Duval	Duval, Remainder	\$6,139	\$767	0.23%	\$6,153	\$769
Escambia	Escambia, Coastal	\$341,017	\$1,749	14.36%	\$389,975	\$2,000
Escambia	Escambia, Remainder	\$2,026,701	\$1,142	18.53%	\$2,402,195	\$1,354
Flagler	Flagler, Coastal	\$74,287	\$1,198	12.09%	\$83,270	\$1,343
Flagler	Flagler, Remainder	\$89,311	\$1,116	21.87%	\$108,839	\$1,360
Franklin	Franklin	\$307,215	\$1,862	4.80%	\$321,950	\$1,951

Gadsden	Gadsden	\$102,273	\$747	36.24%	\$139,340	\$1,017
Gilchrist	Gilchrist	\$10,362	\$864	15.26%	\$11,944	\$995
Glades	Glades	\$20,457	\$1,574	33.08%	\$27,224	\$2,094
Gulf	Gulf, Coastal	\$255,781	\$1,717	5.70%	\$270,351	\$1,814
Gulf	Gulf, Remainder	\$14,161	\$1,180	-0.09%	\$14,148	\$1,179
Hamilton	Hamilton	\$2,532	\$844	4.68%	\$2,650	\$883
Hardee	Hardee	\$23,315	\$1,110	41.06%	\$32,889	\$1,566
Hendry	Hendry	\$140,486	\$1,325	65.73%	\$232,821	\$2,196
Hernando	Hernando, Coastal	\$283,067	\$944	297.95%	\$1,126,459	\$3,755
Hernando	Hernando, Remainder	\$2,445,673	\$748	291.23%	\$9,568,154	\$2,927
Highlands	Highlands	\$174,751	\$1,072	49.84%	\$261,845	\$1,606
Hillsborough	Hillsborough, Excl. Tampa	\$5,037,722	\$910	114.81%	\$10,821,437	\$1,955
Hillsborough	Hillsborough, Tampa	\$5,596,176	\$1,046	128.25%	\$12,773,249	\$2,388
Holmes	Holmes	\$45,797	\$881	6.71%	\$48,871	\$940
Indian River	Indian River, Coastal	\$335,362	\$1,605	63.70%	\$548,979	\$2,627
Indian River	Indian River, Remainder	\$1,429,750	\$1,127	39.59%	\$1,995,853	\$1,573
Jackson	Jackson	\$46,723	\$916	22.30%	\$57,144	\$1,120
Jefferson	Jefferson, Remainder	\$13,374	\$1,115	-0.69%	\$13,281	\$1,107
Lafayette	Lafayette	\$6,030	\$754	3.83%	\$6,261	\$783
Lake	Lake	\$394,067	\$762	93.97%	\$764,357	\$1,478
Lee	Lee, Coastal	\$1,064,541	\$1,370	35.38%	\$1,441,133	\$1,855
Lee	Lee, Remainder	\$6,040,924	\$1,150	52.62%	\$9,219,777	\$1,756
Leon	Leon	\$700,833	\$857	-0.76%	\$695,495	\$850
Levy	Levy, Coastal	\$20,568	\$1,210	-3.93%	\$19,761	\$1,162
Levy	Levy, Remainder	\$23,030	\$1,212	0.06%	\$23,044	\$1,213
Liberty	Liberty	\$4,670	\$934	1.58%	\$4,744	\$949
Madison	Madison	\$14,015	\$934	-3.73%	\$13,492	\$899
Manatee	Manatee, Coastal	\$1,445,622	\$1,769	56.71%	\$2,265,463	\$2,773
Manatee	Manatee, Remainder	\$3,277,058	\$1,204	39.36%	\$4,566,809	\$1,678
Marion	Marion	\$511,188	\$859	70.17%	\$869,874	\$1,462
Martin	Martin, Coastal	\$90,947	\$1,281	73.88%	\$158,143	\$2,227
Martin	Martin, Remainder	\$1,884,427	\$1,517	70.75%	\$3,217,573	\$2,591
Monroe	Monroe, Exc. Key West	\$1,056,523	\$1,791	114.59%	\$2,267,209	\$3,843
Monroe	Monroe, Key West	\$276,390	\$1,988	25.08%	\$345,717	\$2,487
Nassau	Nassau, Coastal	\$147,908	\$1,681	-7.68%	\$136,549	\$1,552
Nassau	Nassau, Remainder	\$33,530	\$958	4.93%	\$35,183	\$1,005
Okaloosa	Okaloosa, Coastal	\$659,811	\$1,594	12.89%	\$744,849	\$1,799
Okaloosa	Okaloosa, Remainder	\$1,809,522	\$1,125	22.13%	\$2,209,932	\$1,373
Okeechobee	Okeechobee	\$50,844	\$1,304	42.34%	\$72,373	\$1,856
Orange	Orange, Excl. Orlando	\$1,323,469	\$740	76.62%	\$2,337,462	\$1,307
Orange	Orange, Orlando	\$373,660	\$823	87.33%	\$699,964	\$1,542

Osceola	Osceola	\$421,993	\$763	58.34%	\$668,185	\$1,208
Palm Beach	Palm Beach, Coastal	\$830,307	\$1,493	47.29%	\$1,222,949	\$2,200
Palm Beach	Palm Beach, Remainder	\$20,445,806	\$1,290	50.91%	\$30,854,452	\$1,947
Pasco	Pasco, Coastal	\$2,079,334	\$782	286.16%	\$8,029,597	\$3,020
Pasco	Pasco, Remainder	\$6,391,366	\$787	259.89%	\$23,002,008	\$2,833
Pinellas	Pinellas, Coastal	\$1,860,034	\$1,229	31.02%	\$2,437,037	\$1,610
Pinellas	Pinellas, Remainder	\$15,120,092	\$1,195	47.69%	\$22,330,636	\$1,765
Pinellas	Pinellas, St. Petersburg	\$6,926,156	\$1,325	18.40%	\$8,200,377	\$1,568
Polk	Polk	\$1,480,818	\$758	97.21%	\$2,920,355	\$1,495
Putnam	Putnam	\$80,204	\$922	5.76%	\$84,827	\$975
Saint Johns	Saint Johns, Coastal	\$353,005	\$1,401	-3.49%	\$340,674	\$1,352
Saint Johns	Saint Johns, Remainder	\$305,133	\$1,332	-6.52%	\$285,229	\$1,246
Saint Lucie	Saint Lucie, Coastal	\$270,825	\$1,315	57.59%	\$426,791	\$2,072
Saint Lucie	Saint Lucie, Remainder	\$1,915,401	\$1,228	49.18%	\$2,857,393	\$1,832
Santa Rosa	Santa Rosa, Coastal	\$25,687	\$1,712	13.01%	\$29,029	\$1,935
Santa Rosa	Santa Rosa, Remainder	\$931,257	\$1,330	20.17%	\$1,119,137	\$1,599
Sarasota	Sarasota, Coastal	\$2,671,392	\$1,185	25.99%	\$3,365,682	\$1,493
Sarasota	Sarasota, Remainder	\$4,595,124	\$1,143	37.98%	\$6,340,554	\$1,577
Seminole	Seminole	\$684,364	\$794	89.93%	\$1,299,811	\$1,508
Sumter	Sumter	\$85,297	\$755	98.29%	\$169,138	\$1,497
Suwannee	Suwannee	\$34,251	\$1,070	23.79%	\$42,399	\$1,325
Taylor	Taylor, Coastal	\$38,679	\$1,842	0.44%	\$38,849	\$1,850
Taylor	Taylor, Remainder	\$16,777	\$1,049	-1.33%	\$16,554	\$1,035
Union	Union	\$8,239	\$915	2.46%	\$8,441	\$938
Volusia	Volusia, Coastal	\$855,962	\$1,126	15.70%	\$990,354	\$1,303
Volusia	Volusia, Remainder	\$2,323,298	\$918	43.47%	\$3,333,273	\$1,317
Wakulla	Wakulla, Coastal	\$26,271	\$1,383	-1.30%	\$25,931	\$1,365
Wakulla	Wakulla, Remainder	\$27,668	\$988	-5.03%	\$26,277	\$938
Walton	Walton, Coastal	\$1,008,873	\$1,848	0.60%	\$1,014,944	\$1,859
Walton	Walton, Remainder	\$132,872	\$1,303	-0.81%	\$131,799	\$1,292
Washington	Washington	\$32,563	\$930	29.41%	\$42,141	\$1,204
	Totals	\$222,764,673	\$1,278	92.50%	\$428,821,996	\$2,460

On a premium basis, only 1.2% percent of the premium collected (\$2.7 M) by Citizens from DP 3 policies needs a rate decrease and 98.8 percent (\$220.1 M) needs a rate increase. On a policyholder basis, these rate indications imply that 1.4% of Citizens' DP 3 policyholders need a rate decrease. These policyholders are located in 15 territories. The remaining policyholders, located in 92 territories need rate increases. At the county level, 9 of the 67 counties require rate decreases, while 58 require rate increases.

Table 6 shows that Coastal Duval, on a percentage basis, has the rates that are most overpriced (rates need to be reduced by 10.70 percent) and Hernando has the rates that are most underpriced (rates need to be increased by 297.95 percent in the coastal territory).

Table 7 contains the average policyholder subsidy (paid or received) for each territory. Citizens' DP 3 policyholders in Hernando are receiving the largest dollar average subsidy at over \$2,800 per year. In addition territories in Miami-Dade, Monroe and Pasco are all receiving subsidies over \$2,000 per policyholder. Coastal Nassau is paying the highest subsidy per DP 3 policyholder at \$129, (Coastal Duval is paying \$127). When taking into account the average subsidy and the number of policyholders, the remainder of Miami-Dade is receiving the largest subsidy (over \$63 M) and Coastal Duval is paying the most which is only approximately \$50,000.

Table 7 - Citizens DP 3 Subsidies by Territory

County	Territory Description	Count	Inforce Avg. Premium (Current Rates)	Public Model Indicated Avg.Premium	Avg. Policyholder Subsidy	Aggregate Territory Subsidy
Alachua	Alachua	504	\$843	\$798	\$44	\$22,289
Baker	Baker	31	\$793	\$1,033	-\$241	-\$7,457
Bay	Bay, Coastal	853	\$1,251	\$1,276	-\$26	-\$22,130
Bay	Bay, Remainder	594	\$1,200	\$1,223	-\$23	-\$13,818
Bradford	Bradford	31	\$909	\$1,037	-\$128	-\$3,955
Brevard	Brevard, Coastal	1576	\$1,405	\$1,815	-\$410	-\$646,219
Brevard	Brevard, Remainder	2473	\$1,013	\$1,402	-\$390	-\$963,758
Broward	Broward, Coastal	736	\$853	\$1,470	-\$617	-\$453,859
Broward	Broward, Hollywood and Ft. Lauderdale	5154	\$1,544	\$2,732	-\$1,188	-\$6,125,106
Broward	Broward, Remainder	14760	\$1,501	\$2,727	-\$1,226	-\$18,092,264
Calhoun	Calhoun	11	\$833	\$887	-\$54	-\$599
Charlotte	Charlotte, Coastal	989	\$1,364	\$2,032	-\$668	-\$660,740
Charlotte	Charlotte, Remainder	2454	\$1,087	\$1,770	-\$683	-\$1,674,922
Citrus	Citrus, Coastal	53	\$1,429	\$1,702	-\$273	-\$14,456
Citrus	Citrus, Remainder	326	\$1,027	\$2,300	-\$1,273	-\$415,028
Clay	Clay	244	\$835	\$1,046	-\$211	-\$51,529
Collier	Collier, Coastal	1531	\$1,388	\$2,216	-\$828	-\$1,268,351
Collier	Collier, Remainder	1237	\$1,308	\$2,037	-\$729	-\$901,961
Columbia	Columbia	72	\$809	\$822	-\$13	-\$953
Dade	Dade, Hialeah	3388	\$1,624	\$4,009	-\$2,386	-\$8,082,349
Dade	Dade, Miami	7867	\$1,853	\$4,152	-\$2,299	-\$18,086,325
Dade	Dade, Miami Beach	575	\$1,697	\$3,682	-\$1,985	-\$1,141,462
Dade	Dade, Remainder	25189	\$1,617	\$4,129	-\$2,513	-\$63,294,146
Dade	Dade,Coastal	569	\$1,155	\$2,508	-\$1,353	-\$769,697
De Soto	De Soto	68	\$1,016	\$1,578	-\$562	-\$38,189
Dixie	Dixie, Coastal	9	\$1,605	\$1,593	\$12	\$109
Dixie	Dixie, Remainder	13	\$890	\$919	-\$29	-\$373
Duval	Duval, Coastal	394	\$1,184	\$1,057	\$127	\$49,917
Duval	Duval, Jacksonville	2143	\$745	\$974	-\$229	-\$491,529
Duval	Duval, Remainder	8	\$767	\$769	-\$2	-\$14
Escambia	Escambia, Coastal	195	\$1,749	\$2,000	-\$251	-\$48,958
Escambia	Escambia, Remainder	1774	\$1,142	\$1,354	-\$212	-\$375,494
Flagler	Flagler, Coastal	62	\$1,198	\$1,343	-\$145	-\$8,983
Flagler	Flagler, Remainder	80	\$1,116	\$1,360	-\$244	-\$19,528
Franklin	Franklin	165	\$1,862	\$1,951	-\$89	-\$14,735

Gadsden	Gadsden	137	\$747	\$1,017	-\$271	-\$37,067
Gilchrist	Gilchrist	12	\$864	\$995	-\$132	-\$1,582
Glades	Glades	13	\$1,574	\$2,094	-\$521	-\$6,767
Gulf	Gulf, Coastal	149	\$1,717	\$1,814	-\$98	-\$14,570
Gulf	Gulf, Remainder	12	\$1,180	\$1,179	\$1	\$13
Hamilton	Hamilton	3	\$844	\$883	-\$39	-\$118
Hardee	Hardee	21	\$1,110	\$1,566	-\$456	-\$9,574
Hendry	Hendry	106	\$1,325	\$2,196	-\$871	-\$92,335
Hernando	Hernando, Coastal	300	\$944	\$3,755	-\$2,811	-\$843,392
Hernando	Hernando, Remainder	3269	\$748	\$2,927	-\$2,179	-\$7,122,481
Highlands	Highlands	163	\$1,072	\$1,606	-\$534	-\$87,094
Hillsborough	Hillsborough, Excl. Tampa	5534	\$910	\$1,955	-\$1,045	-\$5,783,715
Hillsborough	Hillsborough, Tampa	5350	\$1,046	\$2,388	-\$1,342	-\$7,177,073
Holmes	Holmes	52	\$881	\$940	-\$59	-\$3,074
Indian River	Indian River, Coastal	209	\$1,605	\$2,627	-\$1,022	-\$213,617
Indian River	Indian River, Remainder	1269	\$1,127	\$1,573	-\$446	-\$566,103
Jackson	Jackson	51	\$916	\$1,120	-\$204	-\$10,421
Jefferson	Jefferson, Remainder	12	\$1,115	\$1,107	\$8	\$93
Lafayette	Lafayette	8	\$754	\$783	-\$29	-\$231
Lake	Lake	517	\$762	\$1,478	-\$716	-\$370,290
Lee	Lee, Coastal	777	\$1,370	\$1,855	-\$485	-\$376,592
Lee	Lee, Remainder	5251	\$1,150	\$1,756	-\$605	-\$3,178,853
Leon	Leon	818	\$857	\$850	\$7	\$5,338
Levy	Levy, Coastal	17	\$1,210	\$1,162	\$47	\$807
Levy	Levy, Remainder	19	\$1,212	\$1,213	-\$1	-\$14
Liberty	Liberty	5	\$934	\$949	-\$15	-\$74
Madison	Madison	15	\$934	\$899	\$35	\$523
Manatee	Manatee, Coastal	817	\$1,769	\$2,773	-\$1,003	-\$819,841
Manatee	Manatee, Remainder	2722	\$1,204	\$1,678	-\$474	-\$1,289,751
Marion	Marion	595	\$859	\$1,462	-\$603	-\$358,686
Martin	Martin, Coastal	71	\$1,281	\$2,227	-\$946	-\$67,196
Martin	Martin, Remainder	1242	\$1,517	\$2,591	-\$1,073	-\$1,333,146
Monroe	Monroe, Exc. Key West	590	\$1,791	\$3,843	-\$2,052	-\$1,210,686
Monroe	Monroe, Key West	139	\$1,988	\$2,487	-\$499	-\$69,327
Nassau	Nassau, Coastal	88	\$1,681	\$1,552	\$129	\$11,359
Nassau	Nassau, Remainder	35	\$958	\$1,005	-\$47	-\$1,653
Okaloosa	Okaloosa, Coastal	414	\$1,594	\$1,799	-\$205	-\$85,038
Okaloosa	Okaloosa, Remainder	1609	\$1,125	\$1,373	-\$249	-\$400,410
Okeechobee	Okeechobee	39	\$1,304	\$1,856	-\$552	-\$21,529
Orange	Orange, Excl. Orlando	1788	\$740	\$1,307	-\$567	-\$1,013,993
Orange	Orange, Orlando	454	\$823	\$1,542	-\$719	-\$326,304

Osceola	Osceola	553	\$763	\$1,208	-\$445	-\$246,192
Palm Beach	Palm Beach, Coastal	556	\$1,493	\$2,200	-\$706	-\$392,642
Palm Beach	Palm Beach, Remainder	15845	\$1,290	\$1,947	-\$657	-\$10,408,646
Pasco	Pasco, Coastal	2659	\$782	\$3,020	-\$2,238	-\$5,950,263
Pasco	Pasco, Remainder	8118	\$787	\$2,833	-\$2,046	-\$16,610,642
Pinellas	Pinellas, Coastal	1514	\$1,229	\$1,610	-\$381	-\$577,003
Pinellas	Pinellas, Remainder	12655	\$1,195	\$1,765	-\$570	-\$7,210,544
Pinellas	Pinellas, St. Petersburg	5229	\$1,325	\$1,568	-\$244	-\$1,274,221
Polk	Polk	1953	\$758	\$1,495	-\$737	-\$1,439,537
Putnam	Putnam	87	\$922	\$975	-\$53	-\$4,623
Saint Johns	Saint Johns, Coastal	252	\$1,401	\$1,352	\$49	\$12,331
Saint Johns	Saint Johns, Remainder	229	\$1,332	\$1,246	\$87	\$19,904
Saint Lucie	Saint Lucie, Coastal	206	\$1,315	\$2,072	-\$757	-\$155,966
Saint Lucie	Saint Lucie, Remainder	1560	\$1,228	\$1,832	-\$604	-\$941,992
Santa Rosa	Santa Rosa, Coastal	15	\$1,712	\$1,935	-\$223	-\$3,342
Santa Rosa	Santa Rosa, Remainder	700	\$1,330	\$1,599	-\$268	-\$187,880
Sarasota	Sarasota, Coastal	2254	\$1,185	\$1,493	-\$308	-\$694,290
Sarasota	Sarasota, Remainder	4021	\$1,143	\$1,577	-\$434	-\$1,745,430
Seminole	Seminole	862	\$794	\$1,508	-\$714	-\$615,447
Sumter	Sumter	113	\$755	\$1,497	-\$742	-\$83,841
Suwannee	Suwannee	32	\$1,070	\$1,325	-\$255	-\$8,148
Taylor	Taylor, Coastal	21	\$1,842	\$1,850	-\$8	-\$170
Taylor	Taylor, Remainder	16	\$1,049	\$1,035	\$14	\$223
Union	Union	9	\$915	\$938	-\$22	-\$202
Volusia	Volusia, Coastal	760	\$1,126	\$1,303	-\$177	-\$134,392
Volusia	Volusia, Remainder	2531	\$918	\$1,317	-\$399	-\$1,009,975
Wakulla	Wakulla, Coastal	19	\$1,383	\$1,365	\$18	\$340
Wakulla	Wakulla, Remainder	28	\$988	\$938	\$50	\$1,391
Walton	Walton, Coastal	546	\$1,848	\$1,859	-\$11	-\$6,071
Walton	Walton, Remainder	102	\$1,303	\$1,292	\$11	\$1,073
Washington	Washington	35	\$930	\$1,204	-\$274	-\$9,578
Totals		174300	\$1,278	\$2,460		-\$206,166,811

Citizens' rate glide path limitations of no more than a 10 percent increase or decrease in any individual policyholder's rate extends the amount of time it will take Citizens to reach actuarially sound rates for each territory. Assuming that the 10 percent limitation does not change and assuming a 3 percent inflation rate for loss costs, the DP 3 rates Citizens charges in Hernando will not be actuarially sound until approximately 2029. It will take parts of Miami-Dade nearly 13 years (2023) to reach actuarially sound premiums. Table 8 shows what percentage of Citizens' premiums reach actuarial soundness in each year.

Table 8 - DP 3 Policy Type

Rate Indication	2008 In-Force Premiums	Percentage of Premiums Reaching Actuarially Fair Rates					
		2010	2011	2012	2013	2014	2015+
Lowered	\$2,678,209	82.58%	17.42%				
Raised	\$220,086,464	1.67%	0.91%	6.86%	3.10%	6.50%	80.97%

All of the DP 3 policyholders who need rate reductions will be paying actuarially sound premiums by 2012. However, more than 80 percent of the premiums that need rate increases will still be underpriced by 2015.

HW 2 and DW 2 Policies

Similar to the HO 3 policy types, some Citizens' HW2 and DW2 policyholders are being overcharged, while others are being undercharged. Citizens at the end of 2008 had 260,682 HW2 and DW2 policies in force with an in-force premiums of \$422,131,821 (see Table 2). An aggregate rate increase of 35.6 percent was indicated by the public model for these policyholders. This would imply that the average premium paid by Citizens HW2 and DW2 policyholders should increase from \$1,619 to \$2,197. As Table 9 indicates some territories need significantly higher rate increases while some need significant rate decreases.

Table 9 - Citizens HW 2/DW 2 Policy Statistics by Territory

Territory	County	Total Inforce Premium (Current Rates)	Average Inforce Premium	Public (excluding Reins)	Public Model Indicated Premium	Public Model Indicated avg. Premium	Estimated Premium Impact	New Premium (Public Model - capped)	New Avg. Premium (Public Model - capped)
59	Bay	3,633,067	1,242	-63.8%	1,314,000	449	-10.00%	3,269,760	1,118
60	Brevard	2,521,328	1,181	14.6%	2,890,303	1,354	10.00%	2,773,461	1,299
45	Broward	6,522,445	3,109	27.1%	8,292,340	3,952	10.00%	7,174,690	3,420
46	Broward	22,040,035	1,975	83.5%	40,443,510	3,625	10.00%	24,244,039	2,173
47	Broward	20,052,219	1,399	56.3%	31,346,145	2,186	10.00%	22,057,441	1,538
48	Broward	19,853,085	1,139	49.2%	29,623,284	1,699	10.00%	21,838,394	1,252
61	Charlotte	1,406,129	1,510	48.5%	2,087,802	2,243	10.00%	1,546,742	1,661
62	Collier	13,872,141	2,358	-15.9%	11,661,726	1,982	-10.00%	12,484,927	2,122
22	Dade	23,180,980	4,525	27.0%	29,442,105	5,747	10.00%	25,499,078	4,977
23	Dade	8,483,503	2,086	91.4%	16,237,376	3,992	10.00%	9,331,853	2,295
24	Dade	9,605,391	1,489	50.9%	14,497,720	2,247	10.00%	10,565,930	1,637
25	Dade	12,754,684	1,581	46.8%	18,724,479	2,321	10.00%	14,030,152	1,739
26	Dade	8,077,314	2,908	78.6%	14,426,744	5,193	10.00%	8,885,045	3,198
27	Dade	23,937,079	2,040	78.1%	42,635,479	3,633	10.00%	26,330,787	2,244
28	Dade	18,283,904	1,669	61.9%	29,610,580	2,703	10.00%	20,112,294	1,836
29	Dade	4,076,852	868	13.0%	4,607,046	981	10.00%	4,484,537	955
41	Duval	1,402,414	865	-55.0%	631,000	389	-10.00%	1,262,173	779
52	Escambia	1,985,368	2,085	-43.5%	1,121,542	1,178	-10.00%	1,786,831	1,877
53	Escambia	496,072	965	0.8%	500,168	973	0.83%	500,168	973
54	Escambia	5,926,306	1,091	0.0%	5,924,087	1,091	-0.04%	5,924,087	1,091
83	Flagler	1,393,583	681	17.2%	1,633,198	798	10.00%	1,532,941	749
65	Franklin	3,164,815	1,843	-63.2%	1,165,097	679	-10.00%	2,848,334	1,659
66	Gulf	1,512,885	1,299	-74.1%	392,487	337	-10.00%	1,361,597	1,169
56	Hernando	524,043	824	-33.0%	351,219	552	-10.00%	471,639	742
76	Indian river	5,867,433	3,480	-36.4%	3,728,885	2,212	-10.00%	5,280,690	3,132
17	Lee	13,509,403	1,876	27.7%	17,255,380	2,396	10.00%	14,860,343	2,063
18	Lee	3,278,270	1,106	22.5%	4,015,710	1,355	10.00%	3,606,097	1,217
19	Lee	1,478,575	1,458	41.2%	2,088,143	2,059	10.00%	1,626,433	1,604
20	Lee	850,346	923	43.5%	1,220,012	1,325	10.00%	935,381	1,016
57	Levy	179,473	596	-53.4%	83,719	278	-10.00%	161,526	537
68	Manatee	2,536,111	1,601	14.9%	2,913,470	1,839	10.00%	2,789,722	1,761
90	Monroe	36,756,761	1,919	114.9%	78,999,374	4,124	10.00%	40,432,437	2,111
69	Nassau	678,577	895	-62.0%	257,926	340	-10.00%	610,719	806
70	Okaloosa	1,994,513	2,512	-56.2%	874,169	1,101	-10.00%	1,795,062	2,261

94	Palm Beach	15,175,591	3,207	38.3%	20,987,707	4,435	10.00%	16,693,150	3,528
95	Palm Beach	21,130,125	1,724	24.8%	26,373,931	2,151	10.00%	23,243,138	1,896
96	Palm Beach	24,886,878	1,350	21.8%	30,312,778	1,644	10.00%	27,375,566	1,485
97	Beach	6,589,994	1,523	38.9%	9,156,252	2,117	10.00%	7,248,993	1,676
88	Pasco	4,919,017	1,197	-48.9%	2,511,535	611	-10.00%	4,427,115	1,077
42	Pinellas	12,928,208	1,441	11.8%	14,449,509	1,611	10.00%	14,221,029	1,585
92	Santa Rosa	2,008,974	1,603	-27.8%	1,449,516	1,157	-10.00%	1,808,077	1,443
49	Sarasota	18,312,499	1,489	1.4%	18,566,200	1,510	1.39%	18,566,200	1,510
50	Sarasota	8,528,884	940	-6.2%	8,003,354	882	-6.16%	8,003,354	882
51	Sarasota	2,405,620	952	-19.4%	1,938,986	767	-10.00%	2,165,058	857
71	Saint Johns	1,562,165	1,071	-44.5%	866,484	594	-10.00%	1,405,949	964
77	Saint Lucie	521,633	1,327	-29.6%	367,231	934	-10.00%	469,470	1,195
14	Volusia	7,484,042	935	13.8%	8,518,810	1,064	10.00%	8,232,446	1,028
15	Volusia	2,660,236	500	68.2%	4,475,007	841	10.00%	2,926,260	550
16	Volusia	273,517	563	10.4%	301,968	621	10.00%	300,869	619
58	Wakulla	369,678	844	-64.4%	131,769	301	-10.00%	332,710	760
75	Walton	10,539,656	1,968	-69.6%	3,206,073	599	-10.00%	9,485,690	1,771
	Totals	422,131,821	1,619	0.36%	572,613,336	2,197	6.44%	449,320,381	1,724

On a premium basis, 15.56% percent of the premium collected (\$65.7 M) by Citizens from HW2 and DW2 policies need a rate decrease and 84.44 percent (\$356.5 M) need a rate increase. On a policyholder basis, these rate indications imply that 16.5% of Citizens HW2 and DW2 policyholders need a rate decrease. These policyholders are located in 19 territories. The remaining policyholders, located in 32 territories need rate increases. At the county level, 18 of the 29 counties in which Citizens sells wind only policies require rate decreases (11 require rate increases).

Table 9 shows that Gulf, on a percentage basis, has the rates that are most overpriced (rates need to be reduced by 74.10 percent) and Monroe has the rates that are most underpriced (rates need to be increased by 114.9 percent in the coastal territory).

Table 10 contains the average policyholder subsidy (paid or received) for each territory. Citizens HW2 and DW2 policyholders in Territory 26 in Miami-Dade are receiving the largest dollar average subsidy at nearly \$2,300 per year. In addition, other territories in Miami-Dade, Broward and Monroe are all receiving subsidies over \$1,500 per policyholder. Okaloosa is paying the highest subsidy per HW2 and DW2 policyholder at \$1,411, (Walton is paying \$1,369, Indian River is paying \$1,268 and Franklin is paying \$1,165). When taking into account the average subsidy and the number of policyholders, Monroe is receiving the largest subsidy (over \$42 M) and Walton is paying the most (over \$7 M). Bay, Collier, Franklin, Indian River, and Pasco are all paying more than \$2 M per year in subsidies.

Table 10 - Citizens HW 2/DW 2 Subsidies by Territory

Territory	County	<u>Policy Count</u>	Average Inforce Premium	Public Model Indicated avg. Premium	Avg. Policyholder Subsidy	Aggregate Territory Subsidy
59	Bay	2,924	1,242	449	\$793	\$2,319,067
60	Brevard	2,135	1,181	1,354	-\$173	-\$368,975
45	Broward	2,098	3,109	3,952	-\$844	-\$1,769,895
46	Broward	11,157	1,975	3,625	-\$1,650	-\$18,403,475
47	Broward	14,338	1,399	2,186	-\$788	-\$11,293,926
48	Broward	17,436	1,139	1,699	-\$560	-\$9,770,199
61	Charlotte	931	1,510	2,243	-\$732	-\$681,673
62	Collier	5,884	2,358	1,982	\$376	\$2,210,415
22	Dade	5,123	4,525	5,747	-\$1,222	-\$6,261,125
23	Dade	4,067	2,086	3,992	-\$1,907	-\$7,753,873
24	Dade	6,453	1,489	2,247	-\$758	-\$4,892,329
25	Dade	8,067	1,581	2,321	-\$740	-\$5,969,795
26	Dade	2,778	2,908	5,193	-\$2,286	-\$6,349,430
27	Dade	11,735	2,040	3,633	-\$1,593	-\$18,698,400
28	Dade	10,956	1,669	2,703	-\$1,034	-\$11,326,676
29	Dade	4,695	868	981	-\$113	-\$530,194
41	Duval	1,621	865	389	\$476	\$771,414
52	Escambia	952	2,085	1,178	\$907	\$863,826
53	Escambia	514	965	973	-\$8	-\$4,096
54	Escambia	5,430	1,091	1,091	\$0	\$2,219
83	Flagler	2,046	681	798	-\$117	-\$239,615
65	Franklin	1,717	1,843	679	\$1,165	\$1,999,718
66	Gulf	1,165	1,299	337	\$962	\$1,120,398

56	Hernando	636	824	552	\$272	\$172,824
76	Indian river	1,686	3,480	2,212	\$1,268	\$2,138,548
17	Lee	7,203	1,876	2,396	-\$520	-\$3,745,977
18	Lee	2,964	1,106	1,355	-\$249	-\$737,440
19	Lee	1,014	1,458	2,059	-\$601	-\$609,568
20	Lee	921	923	1,325	-\$401	-\$369,666
57	Levy	301	596	278	\$318	\$95,754
68	Manatee	1,584	1,601	1,839	-\$238	-\$377,359
90	Monroe	19,155	1,919	4,124	-\$2,205	-\$42,242,613
69	Nassau	758	895	340	\$555	\$420,651
70	Okaloosa	794	2,512	1,101	\$1,411	\$1,120,344
94	Palm Beach	4,732	3,207	4,435	-\$1,228	-\$5,812,116
95	Palm Beach	12,259	1,724	2,151	-\$428	-\$5,243,806
96	Palm Beach	18,438	1,350	1,644	-\$294	-\$5,425,900
97	Palm Beach	4,326	1,523	2,117	-\$593	-\$2,566,258
88	Pasco	4,110	1,197	611	\$586	\$2,407,482
42	Pinellas	8,971	1,441	1,611	-\$170	-\$1,521,301
71	Saint Johns	1,458	1,071	594	\$477	\$695,681
77	Saint Lucie	393	1,327	934	\$393	\$154,402
92	Santa Rosa	1,253	1,603	1,157	\$446	\$559,458
49	Sarasota	12,299	1,489	1,510	-\$21	-\$253,701
50	Sarasota	9,076	940	882	\$58	\$525,530
51	Sarasota	2,527	952	767	\$185	\$466,634
14	Volusia	8,005	935	1,064	-\$129	-\$1,034,768
15	Volusia	5,318	500	841	-\$341	-\$1,814,771
16	Volusia	486	563	621	-\$59	-\$28,451
58	Wakulla	438	844	301	\$543	\$237,909
75	Walton	5,355	1,968	599	\$1,369	\$7,333,583
Totals		260,682	1,619	2,197		-\$150,481,515

Citizens' rate glide path limitations of no more than a 10 percent increase or decrease in any individual policyholder's rate extends the amount of time it will take Citizens to reach actuarially sound rates for each territory. Assuming that the 10 percent limitation does not change and assuming a 3 percent inflation rate for loss costs, the HW2 and DW2 rates Citizens charges in Monroe will not be actuarially sound until approximately 2020. It will take parts of Miami-Dade and Broward nearly 8 years to reach actuarially sound premiums. Similarly, it will take more than 7 years for Bay, Franklin, Gulf, Nassau, Wakulla, and Walton counties to reach actuarial soundness with limitations on their rate reductions. Table 11 shows what percentage of Citizens' premiums reach actuarial soundness in each year.

Table 11 - HW 2/DW 2 Policy Type

Rate Indication	2008 In-Force Premiums	Percentage of Premiums Reaching Actuarially Fair Rates					
		2010	2011	2012	2013	2014	2015+
Lowered	\$65,670,356	12.99%	24.79%	3.85%	9.73%	5.40%	43.24%
Raised	\$356,461,465	6.94%	8.76%	13.83%	12.12%	6.76%	51.59%

Unlike the HO 3 and DP 3 policy types, where most of the underpriced premiums reached actuarially soundness quickly, more than 43 percent of the HW 2 and DW 2 premiums that require rate reductions will not be actuarially sound by 2015. Similarly, more than 50 percent of the premiums that need rate increases will still be underpriced by 2015.

CONCLUSION

This paper documents the existence, magnitude and persistence of pre-loss subsidies in the pricing of policies in Florida's property insurance residual market written by Citizens Property Insurance Company (Citizens).

Utilizing information provided by Citizens for their upcoming 2010 rate filing the magnitude of pre-loss subsidies inherent in their rate structure was calculated for their three largest personal residential policy types. The analysis was conducted at the territory level and was done on a percentage and dollar basis. In addition, the impact of the current "glide path" legislation was analyzed to determine how long it will take for Citizens to achieve actuarially sound rates.

The results show average policyholders in some territories are paying thousands of dollars a year in subsidies and policyholders in other territories are receiving similar subsidies. Furthermore, there are some territories where given the current limitations on rate increases, it will take Citizens more than 20 years to achieve actuarially sound rates.

The magnitude and persistence of these subsidies are important to insurers, insureds, citizens and politicians throughout Florida for a variety of reasons. There has been no work estimating the size or duration of the pre-loss (inaccurate risk-based pricing) subsidies in this market, and very little work estimating the post-loss subsidies due to the assessment structure (Cole et al, 2009). The impact that these subsidies may have on future exposure and coastal development in Florida could be substantial. The pre-loss subsidies documented in this paper appear to support the political arguments of inland territories subsidizing coastal territories and northern territories subsidizing southern territories.

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