



**TEXAS DEPARTMENT OF INSURANCE
PROPOSED MAINTENANCE TAX & ASSESSMENT RATES
Stakeholder Meeting
October 25, 2017**

Agenda

1. Introduction

2. Methodology

3. Maintenance Tax Rates and Revenue Need

- **Insurance Operations**
- **Division of Workers' Compensation**
- **Examination Overhead Assessment**
- **Premium Finance**

4. Next Steps

- **Plan to send proposals to *Texas Register* by October 30, 2017, for publication November 10, 2017**
- **30-day comment period**
- **Adopt commissioner's orders by January 10, 2018**
- **Send notification of rates to Comptroller of Public Accounts by January 15, 2018**



**TEXAS DEPARTMENT OF INSURANCE
PROPOSED MAINTENANCE TAX & ASSESSMENT METHODOLOGY**

October 25, 2017

Appropriation Bill Costs for 2018 for the Texas Department of Insurance
Operating Account and Insurance Companies Maintenance Taxes and Fees

Plus

Costs for the Examination Self-Directed Account

Equals

Total Costs Need

Plus

Amount for Cash Flow

Less

Revenue from Fees and Reimbursements

Less

Fund Balance

Equals

Maintenance Tax and Assessment Revenue Needs

Note

The rate calculation for the Division of Workers' Compensation and the Office of Injured Employee Counsel is separated from the Insurance Operations calculation process.



TEXAS DEPARTMENT OF INSURANCE

PROPOSED MAINTENANCE TAX & ASSESSMENT RATES

October 2017

Maintenance Tax for Insurance Lines of Business

- Maintenance tax is calculated on 10 lines of business for insurance operations. The maintenance tax rates are set in accordance with statutes in the Insurance Code and the Labor Code.
- The current revenue need is \$91.8 million, a decrease of \$1.2 million from the prior year.

Changes

- The required revenue need decrease is largely caused by a reduction of expenses for the prior year.
- The Fire and Allied lines recommended rate decreased 5 percent largely due to the growth in the market for both 2016 and 2017.
- The Motor Vehicle recommended rate decreased 7 percent essentially due to the growth in the market for both 2016 and 2017.
- The Casualty recommended rate decreased 1 percent. The growth in the market slightly outpaced the increased costs assigned to this line. The Fraud section and Property & Casualty Lines section increased their allocation of costs to this line.
- The Title recommended rate decreased primarily due to a projected increase in the tax base and a reduction in costs allocated to this line.
- Recommended rates for Third Party Administrator and HMO increased mostly due to higher allocation of costs by the Consumer Protection section. Financial Analysis section increased its allocation of costs to HMO.
- The Workers' Compensation recommended rate for insurance operations increased 7.8 percent primary due to a declining tax base.
- The Workers' Compensation recommended rate for the Division of Workers' Compensation increased 11.1 percent primarily due to a declining tax base. The rate is set at the maximum rate.
- The revenue need for the Research and Evaluation Group (REG) increased due to lower than estimated revenues in the prior year and the current increase in the REG's budget. During the budget process for 2018, TDI reevaluated the expenditures for the REG and moved items into the budget that were aligned with the REG's responsibilities. Both the declining tax base and the growing budget are factors in the proposed 2017 tax rate.

Examination Overhead Assessment - Self Directed Budget and Administrative Support Costs

- Eleven foreign companies will be assessed in 2018 for examinations starting in 2017.
- The overall revenue need for the overhead assessment is \$8.8 million, which is an increase of \$0.1 million from the prior year. The recommended rates increased primarily due to foreign company assessment base reductions of 43 percent and 72 percent in admitted assets and gross premium receipts, respectively.

Premium Finance Assessment

- Premium finance companies will be charged the minimum assessment of \$250.



**TEXAS DEPARTMENT OF INSURANCE
MAINTENANCE TAX & ASSESSMENT REVENUE**

October 2017

| Line of Business/Assessment | Current Year Revenue Required | Distribution of LAH Shortfall | Current Year Adjusted Revenue Need | Prior Year Revenue Adjusted Need | Change in Revenue Need | Percent Difference |
|---|-------------------------------|-------------------------------|------------------------------------|----------------------------------|------------------------|--------------------|
| Motor Vehicle Insurance | 11,164,058 | 1,044,260 | 12,208,318 | 12,238,370 | (30,052) | -0.2% |
| Fire and Allied Lines Insurance | 45,677,122 | 4,272,535 | 49,949,657 | 50,415,581 | (465,924) | -0.9% |
| Workers' Compensation Insurance | 1,658,805 | 155,161 | 1,813,966 | 2,047,273 | (233,307) | -11.4% |
| Casualty Insurance | 4,391,659 | 410,786 | 4,802,445 | 4,559,122 | 243,323 | 5.3% |
| Title Insurance | 1,731,682 | 161,978 | 1,893,660 | 2,034,114 | (140,454) | -6.9% |
| Life, Accident & Health Insurance* | 23,500,723 | (6,389,362) | 17,111,361 | 18,126,080 | (1,014,719) | -5.6% |
| Third Party Administrator | 266,336 | 24,912 | 291,248 | 236,035 | 55,213 | 23.4% |
| Health Maintenance Organizations | 3,417,785 | 319,692 | 3,737,477 | 3,308,540 | 428,937 | 13.0% |
| Prepaid Legal Services | 411 | 38 | 449 | 836 | (387) | -46.3% |
| Total Insurance Operations Maintenance Taxes | 91,808,581 | 0 | 91,808,581 | 92,965,951 | (1,157,370) | -1.2% |

*Life, Accident, & Health lines of insurance are projected to generate \$17,111,361 at the maximum statutory rate of .04%.

| Line of Business/Assessment | Current Year Revenue Required | N/A | Current Year Adjusted Revenue Need | Prior Year Revenue Adjusted Need | Change in Revenue Need | Percent Difference |
|---------------------------------|-------------------------------|-----|------------------------------------|----------------------------------|------------------------|--------------------|
| Examination Overhead Assessment | 8,802,040 | | 8,802,040 | 8,684,921 | 117,119 | 1.3% |
| Premium Finance Assessment | 48,500 | | 48,500 | 48,500 | 0 | 0.0% |
| Total Assessment | 8,850,540 | | 8,850,540 | 8,733,421 | 117,119 | 1.3% |

| Line of Business/Assessment | Current Year Revenue Required | N/A | Current Year Adjusted Revenue Need | Prior Year Revenue Adjusted Need | Change in Revenue Need | Percent Difference |
|--|-------------------------------|-----|------------------------------------|----------------------------------|------------------------|--------------------|
| Division of Workers' | 54,373,260 | | 54,373,260 | 59,603,877 | (5,230,617) | -8.8% |
| Workers' Compensation Evaluation | 1,480,290 | | 1,480,290 | 544,517 | 935,773 | 171.9% |
| Total DWC Based Workers' Compensation | 55,853,550 | | 55,853,550 | 60,148,394 | (4,294,844) | -7.1% |

¹The revenue need shown does not include an estimated \$4.4 million of fund balance to be used.



**TEXAS DEPARTMENT OF INSURANCE
PROPOSED MAINTENANCE TAX & ASSESSMENT RATES**

October 2017

| Line of Business | Statute | Maximum Rate Permitted | 2016 Rate | Proposed 2017 Rate | Percent Difference |
|---|------------------------|------------------------|-----------|--------------------|--------------------|
| Motor Vehicle Insurance | TIC §254 | 0.200 | 0.056 | 0.052 | -7.1% |
| Fire and Allied Lines Insurance | TIC §252 | 1.250 | 0.364 | 0.345 | -5.2% |
| Workers' Compensation Insurance | TIC §255 | 0.600 | 0.064 | 0.069 | 7.8% |
| Casualty Insurance | TIC §253 | 0.400 | 0.072 | 0.071 | -1.4% |
| Title Insurance | TIC §271 | 1.000 | 0.103 | 0.090 | -12.6% |
| Life, Accident, and Health Insurance | TIC §257 | 0.040 | 0.040 | 0.040 | 0.0% |
| Third Party Administrators | TIC §259 | 1.000 | 0.010 | 0.011 | 10.0% |
| Health Maintenance Organizations | TIC §258 | \$2/Enrollee | | | |
| Single Service HMO ¹ | | | \$0.23 | \$0.24 | 4.3% |
| Multi-Service HMO ¹ | | | \$0.69 | \$0.72 | 4.3% |
| Limited Service HMO ¹ | | | \$0.23 | \$0.24 | 4.3% |
| Prepaid Legal Services (nonprofit) | TIC §260 | 1.000 | 0.021 | 0.011 | -47.6% |
| Workers' Compensation Research/Evaluation | TLC §405.003 | 0.100 | 0.016 | 0.054 | 237.5% |
| Workers' Compensation Self Insurance Group | TLC §407A.302 | 0.600 | 0.064 | 0.069 | 7.8% |
| Division of Workers' Compensation/Office Injured Employee Counsel | TLC §403.002, §403.003 | 2.000 | 1.800 | 2.000 | 11.1% |
| Workers' Compensation Certified Self-Insurer | TLC §407.103 | 2.000 | 1.800 | 2.000 | 11.1% |
| Workers' Compensation Self Insurance Group | TLC §407A.301 | 2.000 | 1.800 | 2.000 | 11.1% |

| Assessment | Statute | 2016 Rate | Proposed 2017 Rate ¹ | Percent Difference |
|---|-----------------------|-----------|---------------------------------|--------------------|
| Examination Overhead Assessment – Admitted Assets | TIC §401.151-§401.153 | 0.00086 | 0.00104 | 20.9% |
| Examination Overhead Assessment – Gross Premium Receipts | TIC §401.151-§401.153 | 0.00311 | 0.00405 | 30.2% |
| Premium Finance Assessment - (Minimum Assessment Proposed for 2017 \$250 Per Company) | TIC §651.006 | 00000 | 00000 | 0.0% |

¹ HMO rates reflect a dollar amount per enrollee, other rates are given as a percentage