Withdrawal Plan for State Farm Florida Insurance Company

General Summary and Overview

State Farm Florida Insurance Company (hereafter "State Farm Florida") is withdrawing from all lines in Florida and will be surrendering its Certificate of Authority. State Farm Florida is doing this in order to avoid what the company considers to be an unacceptable danger of impairment or insolvency, including the inability over time to earn a rate of return that fosters an adequate capital position, which every insurer providing property insurance in this hurricane-prone state needs, and a danger of it becoming unable to pay claims and honor its other obligations if it does not withdraw. If State Farm Florida were to continue to operate under current conditions, even without a hurricane striking Florida, State Farm Florida is projected to be insolvent in 2011.

To avoid these unacceptable dangers of impairment or insolvency, State Farm Florida is withdrawing from all lines and will surrender its Certificate of Authority.

The nonrenewals under this withdrawal plan will take place over two years. State Farm Florida believes that it will have the capital to withdraw over two years in the manner described herein absent a significant event. This will allow the nonrenewed business to acquire coverage with other insurers in a more orderly fashion.

During the first year, approximately 470,000 policies covering real property (either residential or non-residential real property) that were still in-force as of September 30, 2008 which present the highest contribution to the company's probable maximum loss in proportion to premium based on an analysis of policies in force as of September 30, 2007 (that are not previously scheduled for nonrenewal) will be nonrenewed. Each policy will be nonrenewed on its anniversary date falling within this first year.

Contribution to probable maximum loss is determined by using a 1 in 250 year return period estimate, based on the blending of two hurricane model loss estimates. The cutoff between policies being nonrenewed in the first year and those that will be renewed for one additional term is a ratio (the policy's contribution to Probable Maximum Loss – hereinafter "PML" - relative to its premium) that equals 3.24. A list of policies is available for inspection by the Florida Office of Insurance Regulation (hereinafter "OIR") at the offices of State Farm Florida. This approach is necessary to help ensure State Farm Florida remains solvent during the two year withdrawal process.

If the effective date of this filing is delayed beyond the 90 day notice period, then the number of nonrenewals of policies covering real property will be increased (and the cutoff point lowered) such that the PML reduction by July 1, 2010 will be the same as that achieved with no delay..

New policies covering real property written after September 30, 2007 are outside of this analysis and will not be nonrenewed in this first year under this plan.

All boatowners policies will also be nonrenewed during the first year.

No other State Farm Florida policies will be nonrenewed by State Farm Florida during this first year as part of this withdrawal plan. However, some individual policies may be terminated for other lawful reasons, e.g. a nonrenewal because of an adverse change in the condition of the insured property, a cancellation for nonpayment of premium. The remaining residential property insurance policies and all other State Farm Florida policies will be nonrenewed in the following year. Nonrenewal notices for residential property insurance lines will receive at least 180 days notice, and nonrenewal notices for other lines will receive at least 45 days notice.

In order to assist non-renewed policyholders who are eligible for coverage in Florida Citizens Property Insurance Company (hereinafter "Citizens"), State Farm agents will be able to help policyholders apply to Citizens and obtain coverage from Citizens, or obtain coverage through the Citizens take-out program (or a "keep-out" program that Citizens may choose to establish) with carriers with whom the State Farm agent has an agreement.

All policies are annual policies so the nonrenewals will be completed over a two year period after the effective date of the first nonrenewal. Based on the 90-day notice period for a withdrawal filing, the last State Farm Florida policy should be nonrenewed during the 4th quarter of 2011. State Farm Florida will surrender its Certificate of Authority immediately after the last State Farm Florida policy's nonrenewal is effective. It will also surrender its Illinois Certificate of Authority at the same time.

No State Farm Florida policy will be offered replacement coverage in any State Farm insurance company affiliate.

Although FL Stat. 627.4133 (1) (b), (2) (b) permits the use of cancellations rather than nonrenewals in the event of a withdrawal, State Farm Florida elects to terminate its policies by nonrenewal under this withdrawal plan. State Farm Florida reserves the right to make a withdrawal plan filing under FL Stat. 624.430 to use cancellations rather than nonrenewals on all remaining State Farm Florida policies and to give the minimum 100 day notice on residential property insurance policies where permitted on such cancellations. This would occur if there are further declines in surplus such that State Farm Florida believes the decline in surplus would impair its ability to carry out this withdrawal plan without compromising its ability to pay claims and becoming impaired or insolvent.

Additionally, under this withdrawal plan:

- The servicing of State Farm Florida policies and claims by State Farm Florida and its agents will not change.
- There will be no reductions in the State Farm agency force under this withdrawal plan except from attrition of agents or agency interns (employees who were pursuing an agency opportunity) and from agents or agent interns who voluntarily move to another state (currently, state to state moves by agents are allowed if

there is an opening in another state and both the agent and the State Farm insurance company affiliates in the other state agree).

In view of the filing of this Plan, State Farm Florida also requests an exemption from the requirements of F.S. 627.0645, pursuant to which, each insurer is required to make an annual filing "demonstrating that its rates are not inadequate."

Lines of Business to be Discontinued

Under this withdrawal plan, State Farm Florida will be discontinuing all lines that it writes. These lines are:

Apartment Policy
Boatowners Policy
Business Policy
Church Policy
Commercial Inland Marine
Commercial Liability Umbrella Policy
Condominium UnitOwners
Contractors Policy
Homeowners
Manufactured Home
Owners and Contractors Protective Liability Policy
Personal Articles Policy (Personal Inland Marine)
Personal and Commercial Earthquake Coverage
Personal Liability Umbrella Policy
Premises/Personal Liability Policy
Products and Completed Operations Liability Policy
Rental Condominium Unitowners Policy
Rental Dwelling Policy
Renters

Timetable for Events Related to Desired Reduction

This withdrawal plan will take effect upon the expiration of the 90-day notice period mandated by FL Stat. 624.430 (1).

Upon the expiration of the above mentioned 90-day notice period, State Farm Florida will send nonrenewal notices to all of its policyholders over the course of two years.

Personal lines and commercial lines residential property insurance policies will receive at least 180 days notice of nonrenewal in accordance with FL Stat. 627.4133 (2) (b) (1). While some of these residential property insurance policies could be nonrenewed with less than 180 days notice (in many cases 100 days notice), State Farm Florida is choosing to give all residential property insurance policies at least 180 days notice of nonrenewal. The 180-day notice for all residential property insurance is helpful to the policyholder and easier to administer. All other policies will receive at least 45 days nonrenewal notice in accordance with FL Stat. 627.4133 (1) (a).

Although Florida law permits the use of cancellations rather than nonrenewals in the event of a withdrawal, FL Stat. 627.4133 (1) (b), (2) (b), State Farm Florida elects to terminate its policies by nonrenewal. State Farm Florida reserves the right to make a withdrawal plan filing under FL Stat. 624.430 to use cancellations rather than nonrenewals on all remaining State Farm Florida policies and to give the minimum 100 day notice on residential property insurance policies where permitted on such cancellations. This would occur if there are further declines in surplus such that State Farm Florida believes the decline in surplus would impair its ability to carry out this withdrawal plan without compromising its ability to pay claims and becoming impaired or insolvent.

Under this timetable, during the first year approximately 470,000 policies covering real property (either residential or non-residential real property) that were still in force as of September 30, 2008 which present the highest contribution to the company's probable maximum loss in proportion to premium based on an analysis of policies in force as of September 30, 2007 (that are not previously scheduled for nonrenewal) will be nonrenewed. Each policy will be nonrenewed on its anniversary date falling within this first year.

Contribution to probable maximum loss is determined by using a 1 in 250 year return period estimate, based on the blending of two hurricane model loss estimates. The cutoff between policies being nonrenewed in the first year and those that will be renewed for one additional term is a ratio (the policy's contribution to PML relative to its premium) that equals 3.24. A list of policies is available for inspection by the OIR at the offices of State Farm Florida. This approach is necessary to help ensure State Farm Florida remains solvent during the two year withdrawal process.

New policies covering real property written after September 30, 2007 are outside of this analysis and will not be nonrenewed in this first year under this plan.

If the effective date of this filing is delayed beyond the 90 day notice period, then the number of nonrenewals of policies covering real property will be increased (and the cutoff point lowered) such that the PML reduction by July 1, 2010 will be the same as that achieved with no delay.

All boatowners policies will also be nonrenewed during the first year.

No other State Farm Florida policies will be nonrenewed by State Farm Florida during this first year as part of this withdrawal. However, some individual policies may be terminated for other lawful reasons, e.g. a nonrenewal because of an adverse change in the condition of the insured property, a cancellation for nonpayment of premium.

The remaining residential property insurance policies and all other State Farm Florida policies will be nonrenewed in the following year.

In order to assist non-renewed policyholders eligible for coverage in Citizens, State Farm agents will be able to help policyholders apply to Citizens and obtain coverage from Citizens, or obtain coverage through the Citizens take-out program (or a "keep-out" program that Citizens may choose to establish) with carriers with whom State Farm agent has an agreement.

The first real property insurance policy will be nonrenewed under this withdrawal plan effective 190 days after the expiration of the 90-day notice period mandated by FL Stat. 624.430 (1). The 190 days consists of the 180 day notice for residential property insurance policies plus 10 days for processing and mailing. The last insurance policy will be nonrenewed two years minus one day after the first insurance policy in that line was nonrenewed. State Farm Florida will have no policies on its books as of 2 years and 190 days after the expiration of the 90-day notice period mandated by FL Stat. 624.430 (1).

State Farm Florida will not be writing any new policies while this withdrawal plan is in effect.

When there are no more policies on State Farm Florida's books (2 years and 190 days after the expiration of the 90-day notice period mandated by FL Stat. 624.430 (1)), State Farm Florida will surrender its Certificate of Authority to the OIR. State Farm Florida will surrender its Illinois Certificate of Authority at the same time. State Farm Florida will retain its Certificate of Authority until that date (a year after it has ceased renewing any policies) so that it can adjust coverage and add approved endorsements that are requested by the policyholder on the remaining policies. State Farm Florida will continue to service and pay claims after it has surrendered its Certificate of Authority. State Farm Florida may engage other entities to provide claim services in accordance with Florida law just as it does now when it does not have sufficient claims personnel to handle claims.

Detailed Reasons for Proposed Action

State Farm Florida is withdrawing from all lines in Florida and will be surrendering its Certificate of Authority. State Farm Florida will do this in order to avoid what the company considers to be an unacceptable danger of impairment or insolvency, including the inability over time to earn a rate of return that fosters an adequate capital position, which every insurer providing property insurance in this hurricane-prone state needs, and a danger of it becoming unable to pay claims and honor other obligations if it does not withdraw.

If State Farm Florida were to continue to operate under current conditions, even without a hurricane striking Florida, State Farm Florida is projected to be insolvent in 2011. State Farm Florida's July 2008 rate increase request of 47.1%, which would have slowed the decline of its surplus, has been disapproved by the OIR. State Farm Florida believes that the way to avoid the previously mentioned unacceptable dangers is for State Farm Florida to withdraw from all lines and surrender its Certificate of Authority.

Projected Insolvency

The sequence of events leading towards insolvency starts at year-end 2005. After the 2004 and 2005 hurricanes, State Farm Florida had a surplus of $561 million, all of which was derived from a $750 million surplus note from its parent, and which carries an interest rate of 7 percent. The company had $1,371 million of direct written premium and $953 million of net earned premium after reinsurance costs.

Since year-end 2005, Florida has been fortunate in that there have been no hurricanes that have made landfall. Years without hurricanes should mean a significant positive contribution to its bottom line. However, by the end of the 3rd quarter of 2008, State Farm Florida has seen an increase in its surplus of only $60 million from December 31, 2005. In fact, surplus has declined from year-end 2007 to September 2008 by $201 million. Excluding the impact of the 2008 Windstorm Mitigation Discount Program Consent Order (hereinafter "2008 Consent Order"), State Farm Florida surplus has declined approximately $100 million in the first three quarters of 2008. The table below shows State Farm Florida's direct written premium, net earned premium and surplus through September 30, 2008.

Date	Direct Written Premium	Net Earned Premium	Surplus
12/31/2005	$1,371 million	$953 million	$561 million
12/31/2006	$1,686 million	$973 million	$719 million
12/31/2007	$1,793 million	$1,013 million	$822 million
3/31/2008	$322 million (Year-to-date)	$229 million (Year-to-date)	$839 million
6/30/2008	$690 million (Year-to-date)	$419 million (Year-to-date)	$744 million
9/30/2008	$1,039 million (Year-to-date)	$571 million (Year-to-date)	$621 million

Based on data through the 3rd quarter of 2008, surplus is now projected to decline at an accelerating pace even with no hurricanes. The projected result of this decline in surplus is insolvency in 2011. Please note that these projections were developed using assumptions which include current reinsurance cost projections and no hurricane event. Changes in these assumptions would result in variations to these forecasts.

Date	Projected Direct Written Premium	Projected Net Earned Premium	Projected Surplus
12/31/2008	$1,323 million	$722 million	$597 million
12/31/2009	$1,085 million	$353 million	$376 million
12/31/2010	$1,102 million	$392 million	$56 million
12/31/2011	$1,014 million	$362 million	$(311) million - insolvency

If State Farm Florida did not withdraw from the State, we believe the OIR would be required to begin delinquency proceedings against the Company in late 2010 or the beginning of 2011, about two years from now. This voluntary withdrawal represents a good faith effort by the Company to terminate all of its contracts with policyholders and still allow full payment of insurance claims and other liabilities the Company may accrue, rather than be left unable to meet its obligations.

If there is a hurricane, State Farm Florida's surplus decline and its probability of insolvency will increase. The table above shows that the estimated surplus of State Farm Florida is projected to decrease from $376 million to $56 million during 2010 without a hurricane. A single hurricane between now and the end of the 2010 hurricane season with at least $175 million in losses is projected to cause State Farm Florida to be insolvent in the 2nd half of 2010.

As to policyholders, the insolvency of State Farm Florida would obviously be hazardous. In that situation, all 1.2 million policies (over 800,000 of which are homeowners, condo unit owners and renters policies) would be cancelled at once within 30 days of the insolvency as required by statute. FL Stat. 631.252. For that volume of policyholders to find and put into force replacement coverage with another insurer or Citizens in 30 days could be extraordinarily disruptive to the property insurance marketplace and its customers. Additionally, policyholders with large outstanding losses may not be fully paid because of the statutory limits on the coverage by the Florida Guaranty Association.

As for the Florida public, the insolvency of State Farm Florida would also obviously be hazardous. The Florida public would face potential availability and service issues in trying to purchase their own coverage during this time. For a number of months, they would experience policy servicing and claims servicing issues as the insurers and Citizens who write the former State Farm Florida policyholders have to gear up to handle the suddenly increased policy load. Because of the statutory limits on the coverage by the Guaranty Association, some 3rd party liability claimants with claims under State Farm Florida liability policies would not be fully paid. Employees may not receive their final wages because they are Class 5 creditors who are paid after claimants and policyholders are paid under Florida Statutes, FL Stat. 631.271. Others who provide services to State Farm Florida would find that they are Class 6 general creditors with even lower priority than employees.

Finally, compounding an already difficult situation, State Farm Florida's large market share may result in the remaining insurers being unable to meet their financial obligations under the Guaranty Association laws. If there is a hurricane, especially a major hurricane, in the current financial environment, this failure would be exacerbated by the potential failure of the Florida Hurricane Catastrophe Fund to meet its contractual obligations under its Reimbursement Contracts.

Reasons for Surplus Decline

The surplus of State Farm Florida is projected to decline rapidly for several reasons.

There was no offset by higher base rates for the premium loss resulting from the doubling of the discounts in the Windstorm Mitigation Discount Program (hereinafter "WMDP"). There was also no offset in the base rates for the unanticipated increase in the number of policies qualifying for that discount. The reduction in loss exposure did not correspond to the increase in the size of these discounts and the increase in number of policies qualifying for these discounts.

Compounding State Farm Florida's inability to offset the discounts with appropriate base rate changes, was a flood of policyholders applying for and receiving the Wind Mitigation Discounts. This drastically increased both the number of policies with discounts and the aggregate revenue lost. Rather than the approximately 50,000 policies that qualified for a discount in 2005, over 260,000 policies now qualify for the discounts and that number is still rising. This has contributed to a dramatic drop in earned premium. In 2008, net earned premium is projected to drop to $722 million from $1,013 million in 2007 without a reduction in loss exposure that corresponds to the drop in net earned premium.

While revenue has dropped dramatically because of the discounts and legislatively mandated rate reductions, the cost of doing business has either stayed high or increased.

In the last 12 month period through September 30, 2008, frequency of non-catastrophe Homeowners claims has increased 17.6% and the severity of those claims has increased 8.4%, causing an increase in our average non-catastrophe loss per policy of 27.3%. Reinsurance is another significant factor in the high cost of doing business in Florida. While reinsurance costs for the 2009-2010 reinsurance treaties are projected to be stable, a major new reinsurance-related cost may be incurred. The FHCF has recently acknowledged its inability to otherwise fund a large portion of its obligations. This means that State Farm Florida will have to purchase credit protection to cover the risk that the FHCF will not pay its obligations on time. In today's credit markets, such credit protection may be incredibly expensive, if it is even available at all. The only other option for State Farm Florida is to purchase reinsurance to cover the layer that the FHCF said it cannot fund. Decreasing revenue with no associated decrease in costs means State Farm Florida cannot survive for long under these conditions.

An additional reason for the projected decline of State Farm Florida's surplus includes the 9 per cent mandatory rate reduction imposed on State Farm Florida under HB-1. This rate reduction was greater than that indicated by actual experience. A reduction of only 4.8 percent was indicated for HB-1.

The rate relief that the OIR has disapproved would have offset much of this decreased revenue and increased costs, and slowed the deterioration of its surplus.

Projected Insolvency Not Due to Investments or 2008 Consent Order

State Farm Florida's projected insolvency is NOT due to investment losses. State Farm Florida avoided the huge losses in equity values because it does not invest in equities. It also does not invest in subprime mortgage backed securities or collaterized debt obligations and has not issued credit default swaps. State Farm Florida instead invested its assets in U.S. Treasuries and high grade municipal and corporate bonds.

The cost of the 2008 Consent Order is also not the cause of State Farm Florida's projected insolvency. Excluding the impact of the 2008 Consent Order, State Farm Florida surplus has declined approximately $100 million in the first three quarters of 2008. This surplus decline occurred in a year without any hurricanes striking Florida.

Rate Relief to Prevent Insolvency is Disapproved by OIR

State Farm Florida's filing for a 47.1 percent homeowners insurance rate increase was disapproved by the OIR. Approval of this filing could have helped mitigate the deterioration of State Farm Florida's surplus. Had the rate increase taken effect March 1, 2009 as State Farm Florida proposed, projected surplus would have been approximately $440 million at year-end 2009, $440 million at year-end 2010 and $340 million by year-end 2011 (surplus is projected to drop in 2011, which is after the period covered in the 47.1% rate filing, because of expected unfavorable trends in non-catastrophe frequency and severity). These projections were developed using assumptions which include current reinsurance cost projections and no hurricane event.

Please note that while the approval of the rate filing would have slowed its rapid decline to insolvency, State Farm Florida would still be faced with issues that would have made measures to dramatically reduce its exposure to catastrophe loss prudent. With the rate increase the net written fully adequate premium-to-surplus ratio would climb from a projected 2.4 to 1 at year-end 2008 to 3.4 to 1 at year-end 2009 and year-end 2010, and to 3.6 to 1 at year-end 2011. Additionally, State Farm Florida would remain over-exposed to catastrophe loss. The PML from a 1 in 250 year storm would be $7.4 billion at the end of 2009, $6.8 billion at the end of 2010 and $6.2 billion at the end of 2011. For a 1 in 100 year storm, the PML would be $4.7 billion at the end of 2009, $4.3 billion at the end of 2010 and $3.9 billion at the end of 2011. Even assuming that the FHCF can make the full reinsurance payments on time that it has promised to do, these PML figures require State Farm Florida to purchase private reinsurance in amounts far in excess of what can be purchased from reinsurers not affiliated with State Farm Florida. The only other source of capital, via reinsurance, available to State Farm Florida to enable it to withstand any hurricane is through its affiliated insurance companies. State Farm Florida does not have the power to compel its affiliated insurance companies to accept such risk.

<u>Prevention of Insolvency by This Withdrawal Plan</u>

State Farm Florida is filing this withdrawal plan to avoid State Farm Florida's projected insolvency.

When the plan goes into force at the end of the 90-day statutory filing period, all policies will be nonrenewed over a two year period. The last insurance policy will be nonrenewed in a little over 30 months after the end of the 90-day statutory filing period, in the 4th quarter of 2011. State Farm Florida is projected to still be solvent at that time. Please note that like the projections in the earlier Projected Insolvency section, these projections were developed using assumptions which include current reinsurance cost projections and no hurricane event. Changes in these assumptions would result in variations to these forecasts. Under this withdrawal plan, State Farm Florida's surplus is projected to be $448 million at the end of 2009, $388 million at the end of 2010, and $343 million at the end of 2011 when it will no longer have any policies on its books. This is a sharp contrast to the financial projections if State Farm Florida does not withdraw (see previous subsection entitled Projected Insolvency). State Farm Florida will also have a smaller less exposed book of property insurance business during the 2010 and 2011 hurricane seasons as it withdraws.

By nonrenewing residential property insurance policies over two policy years with the full 180 days notice, State Farm Florida policyholders will have time to find and put into force replacement coverage. Insurers, including Citizens, who write former State Farm Florida policyholders, will have the time to prepare for any increased volume without a reduction in the level of policy or claims service for either the former State Farm Florida policyholders or the Florida public.

By remaining solvent through the execution of this plan, State Farm Florida will be able to pay all claims – both those of State Farm Florida policyholders and third party liability claimants. State Farm Florida will also be able to pay all of its liabilities to its general creditors other than the obligations it has under its Surplus Note to its sole shareholder.

Thus, the withdrawal of State Farm Florida from all lines and the surrender of its Certificate of Authority will not be hazardous to State Farm Florida policyholders or the Florida public. This is in sharp contrast to the insolvency of State Farm Florida that is projected to occur if State Farm Florida does not withdraw, which would be extremely hazardous to State Farm Florida policyholders and the public.

Impacted Lines of Insurance – 69O-141.020 (6) (e) 4 a.

Below are listed the premium and number of policies that will be impacted by the withdrawal of State Farm Florida.

Line	Written Premium for 12 months ending 9/30/2008	# of Policies in-force as of 9/30/2008
Apartment Policy	$5,585,820	2,631
Boatowners Policy	$33,497,854	57,982
Business Policy	$76,909,075	30,855
Church Policy	$13,582,501	1,989
Commercial Inland Marine	$875,224	2,661
Commercial Liability Umbrella Policy	$2,741,154	3,749
Condo Association	$(662)	N/A*
Condominium Unit Owners	$55,810,587	79,833
Contractors Policy	$9,142,205	3,767
Homeowners	$1,054,918,245	703,357
Manufactured Home	$15,186,032	14,533
Owners and Contractors Protective Liability Policy	$2,848	2
Personal Articles Policy (Personal Inland Marine)	$27,326,747	97,719
Personal Liability Umbrella Policy	$49,459,887	93,874
Premises/Personal Liability Policy	$657,180	5,890
Products and Completed Operations Liability Policy	$1,335	2
Rental Condominium Unit Owners Policy	$2,638,728	6,110
Rental Dwelling Policy	$45,535,805	64,902
Renters	$13,135,733	61,774
Personal and Commercial Earthquake Coverage	$668,993	N/A**

*Please note State Farm Florida has no policies-in-force for Condominium Association policies. The $(662) shown above is the result of refund activity from prior years activity.

**Please note: Premium for Personal and Commercial Earthquake Coverage is not listed with a separate Policies-In-Force. It is included as an added coverage or endorsement in other lines depicted in this table. Separate policies for earthquake insurance are not issued in Florida.

Notice and Servicing of Impacted Policyholders

Nonrenewal Notices to Policyholders

Upon the expiration of the above mentioned 90-day notice period, State Farm Florida will send a nonrenewal notice to each of its policyholders over the course of two years (all State Farm Florida policies are annual policies).

Personal lines and commercial lines residential property insurance policies will receive at least 180 days notice of nonrenewal in accordance with FL Stat. 627.4133 (2) (b) (1). While some of these residential property insurance policies, by law, could receive just 100 days nonrenewal notice, State Farm Florida is electing to give all residential property insurance policies 180 days notice. All other policies will receive at least 45 days nonrenewal notice in accordance with FL Stat. 627.4133 (1) (a). The nonrenewal notice will be the standard nonrenewal notice used by State Farm Florida and will list the reason for nonrenewal as the withdrawal of State Farm Florida.

In order to assist non-renewed policyholders eligible for coverage in Citizens, State Farm agents will be able to help policyholders apply to Citizens and obtain coverage from Citizens, or obtain coverage through the Citizens take-out program (or a "keep-out" program that Citizens may choose to establish) with carriers with whom State Farm agent has an agreement.

Although FL Stat. 627.4133 (1) (b), (2) (b) permits the use of cancellations rather than nonrenewals in the event of a withdrawal, State Farm Florida elects to terminate its policies by nonrenewal under this withdrawal plan. State Farm Florida reserves the right to make a withdrawal plan filing under FL Stat. 624.430 to use cancellations rather than nonrenewals on all remaining State Farm Florida policies and to give the minimum 100 day notice on residential property insurance policies where permitted on such cancellations. This would occur if there are further declines in surplus such that State Farm Florida believes the decline in surplus would impair its ability to carry out this withdrawal plan without endangering its ability to pay claims and becoming impaired or insolvent.

Policyholder Servicing

Claims servicing will be handled the same as it is today. Policyholders will report claim activity directly to their State Farm® agent and the agent will notify the Claims Department. Claims will then contact policyholders to determine coverage and claim settlement.

General servicing of the policies will also be handled the same way as it is handled today via the State Farm agent. Servicing State Farm Florida policies by the State Farm agent will continue through the withdrawal process.

State Farm agents will continue to be the primary contact for policyholders for all matters including, as noted above, claims and general servicing. Should a policyholder's agent retire or leave State Farm, the current procedures will be followed for these situations. Under current procedures, the policy can be serviced by an employee licensed as a producer and appointed as an agent who would use the retiring agent's office or set up a new office, or the policy could be assigned to another State Farm agent who already has an office in the area.

State Farm Florida writes business only in Florida, so there are no multi-state accounts for it to deal with.

Agency Force Impact

State Farm Florida has 826 agents in Florida. These agents are all also agents of the other State Farm insurance company affiliates that write in Florida.

There are also currently 52 agency interns. These agency interns are employees of State Farm Mutual Automobile Insurance Company who are seeking opportunities to become State Farm agents.

State Farm agents can also place business in the Florida Citizens Property Insurance Company. In order to assist non-renewed policyholders eligible for coverage in Citizens, State Farm agents will be able to help policyholders apply to Citizens and obtain coverage from Citizens, or obtain coverage through the Citizens take-out program (or a "keep-out" program that Citizens may choose to establish) with carriers with whom State Farm agent has an agreement.

Upon the filing of this plan, State Farm Florida management will communicate generally with its agents and agency interns about the contents of this withdrawal plan, including what their options may be when this withdrawal plan becomes effective. Agents and agency interns will be instructed not to take actions in furtherance of this withdrawal plan prior to the expiration of the 90 days after the receipt of this plan by the OIR.

Upon the expiration of the 90-day notice period for withdrawal plans mandated by FL Stat. 624.430 (1), State Farm Florida will communicate to all Florida agents that the plan is now effective and provide them with current information so that they can respond to customer inquiries. Florida agents will also receive a formal notice of termination from State Farm Florida of their State Farm Florida agency agreement to be effective in accordance with the timetable in the earlier section "Timetable for Events Related to Desired Reduction". Agents will also be advised whenever a nonrenewal notice is sent to one of their policyholders under this withdrawal plan. This communication will be in addition to the ongoing communications that State Farm Florida has with its agents or agent interns about current business matters, including information about the provisions of their Agent Agreements or the terms and conditions of agent interns' employment, public filings by State Farm Florida, and public policy matters.

There are NO plans to:

- reduce the size of the State Farm agency force under this withdrawal plan except from attrition of agents or agent interns and from agents or agent interns who voluntarily move to another state (currently, state to state moves by agents are allowed if there is an opening in another state and both the agent and the State Farm insurance company affiliates in the other state agree), or
- encourage agents to terminate their contracts with other State Farm insurance company affiliates (agents will be asked about their future plans for the purpose of planning policyholder service).

State Farm Florida will not be changing its commission structure and service compensation for its agency force.

There will be two small changes in agent payments as a result of this withdrawal plan, both of which will help maintain quality policyholder services during the withdrawal process.

First, agents who give notice of their intent to terminate their contract with all State Farm affiliates and agree to stay on as an agent for a mutually agreed time of up to one year and who give this notice prior to the end of the calendar month following the month in which the withdrawal plan becomes effective will have their termination benefits based on the greater of their book of business as of (1) 12/31/2008, (2) their actual termination date or (3) a date 12 months prior to their actual termination date. Currently, agents who give notice of their intent to terminate their contract with all State Farm affiliates and agree to stay on as an agent for a mutually agreed time of up to one year will have their termination benefits based on the greater of their book of business as of (1) their actual termination date or (2) a date 12 months prior to their actual termination date. The addition of the 12/31/2008 valuation date along with the floating dates will give agents more time to determine their future plans. Knowledge of the agent's future plans makes planning policyholder services easier. For agents who elect to give notice of termination after the end of the calendar month following the month in which the withdrawal plan becomes effective, termination benefits will be based on their book of business as of their termination date in accordance with the terms of the agency agreements.

Second, agents who are entitled under their agency agreements to payments in the event that State Farm Florida were to withdraw from Florida will have those payments based on the value of their book of business on 12/31/2008 rather than on the date the withdrawal plan goes into effect. Using a 12/31/2008 valuation date will give agents more time to determine their future plans. Knowledge of the agent's future plans makes planning policyholder services easier.

The withdrawal of State Farm Florida will impact total agent income. Agent income from all State Farm affiliates is expected to decline an average of 37% per agent because the agents will no longer have income from State Farm Florida on the nonrenewed policies. This may be offset by whatever commissions and fees that the agent earns by placing the nonrenewed business elsewhere in Citizens, or through the Citizens Take-out Program, or any "Keep-Out" program that Citizens may choose to establish.

Reductions in Other States

State Farm Florida does not write policies in any other state – it writes only in Florida.

Additional Matters Under FL Stat. 624.430

Provision for Satisfaction of Insurer's Obligations - FL Stat. 624.430(2)

Under this withdrawal plan, State Farm Florida will pay no dividends to its policyholders or its parent. State Farm Florida does not have accumulated surplus funds derived from net operating profits and net realized capital gains that would allow it to pay dividends to its stockholder (its surplus is derived from funds from a surplus note) and it has no plans to pay dividends to its policyholders during the withdrawal.

Also under this withdrawal plan, State Farm Florida will make no principal or interest payments on its surplus note for a period of three years and 190 days after the effective date of this withdrawal plan even if the terms of the surplus note would permit such payments. As noted in the previous paragraph, this period of time corresponds to the period under the withdrawal plan during which all policies will receive notices of nonrenewal and be nonrenewed plus one year following to allow for development of remaining loss reserves for the final runoff. After the three years and 190 day period and until the last claim is settled, payments of principal and interest on the surplus note will only be made with surplus in excess of the amount deemed adequate to account for any anticipated variation between the remaining loss and loss adjustment expense reserves and the State Farm Florida assets that will be maintained to equal these outstanding loss and loss adjustment expense reserve amounts. The provisions of this paragraph are subject to the OIR's powers under FL Stat. 624.401 regarding surplus notes.

This plan allows State Farm Florida to use the maximum amount of funds to satisfy policyholder obligations first, before other remaining obligations.

Search for Reasonably Available Reinsurance – FL Stat. 624.430(8)

Prior to surrendering its Certificate of Authority, State Farm Florida will engage an independent third party to search for unrealized reinsurance, and State Farm Florida will make all relevant books and records available to that third party.

State Farm Florida will surrender its Certificate of Authority immediately after the last State Farm Florida policy's nonrenewal is effective. Within 90 days after the surrender of its Certificate of Authority, State Farm Florida will certify to the Commissioner of the OIR that State Farm Florida has engaged an independent third party to search for unrealized reinsurance, and that State Farm Florida has made all relevant books and records available to the third party.

Compliance with Florida Law

This withdrawal complies with all relevant Florida law.

No Action in Furtherance Prior to Expiration of 90 Day Notice Period

Except as permitted by law, no action will be taken in furtherance of this withdrawal plan prior to the expiration of 90 days after the receipt by the OIR of this plan.

Request for an Exemption from F.S. 627.0645 - Annual Filings

In view of the filing of this Plan, State Farm Florida hereby requests an exemption from the requirements of F.S. 627.0645, pursuant to which, each insurer is required to make an annual filing "demonstrating that its rates are not inadequate." For many, if not most of its lines, State Farm Florida will not be able to file a certification that the existing rates are "actuarially sound and...not inadequate," because the rates will be inadequate. It is not administratively efficient to make a full rate filing, when, by the time it was implemented (and even assuming a filing was approved), State Farm Florida would either have a substantially reduced book of business, or no policies in place at all. In addition, many of the lines have or at some point will have a small number of policies and premiums outstanding, and therefore should receive an exemption under subsection 2(b).

Additional Information Not Part of Law

Employee Impact

The State Farm Florida withdrawal plan has the potential to affect the employment of State Farm employees in the State of Florida. As of January 1, 2009 State Farm Florida employs 506 persons to service its claims, underwriting, and general services. There are also some employees of State Farm Mutual who, as a part of their duties, also provide services to State Farm Florida. As State Farm Florida non-renews existing policies, the workforce supporting this type of business would decrease accordingly.

It is not possible to determine the full impact this decision will have on the workforce. Some reduction in workforce will likely occur through normal attrition and employee retirements. We expect some of the employees will remain affiliated with State Farm through assignment to other lines of insurance or possible employment relocation to other states, and we will support efforts to retain employees to the extent that opportunities, employee interest, and skills and experience are aligned.