

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Missouri Medical Malpractice Joint Underwriting  
Association as of December 31, 2005

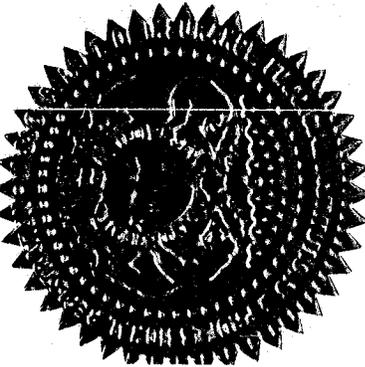
### ORDER

After full consideration and review of the report of the financial examination of Missouri Medical Malpractice Joint Underwriting Association for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Medical Malpractice Joint Underwriting Association, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions. **Specifically, the Association should take the necessary rating actions to diminish the current negative surplus position and endeavor to achieve positive surplus within a three year period.**

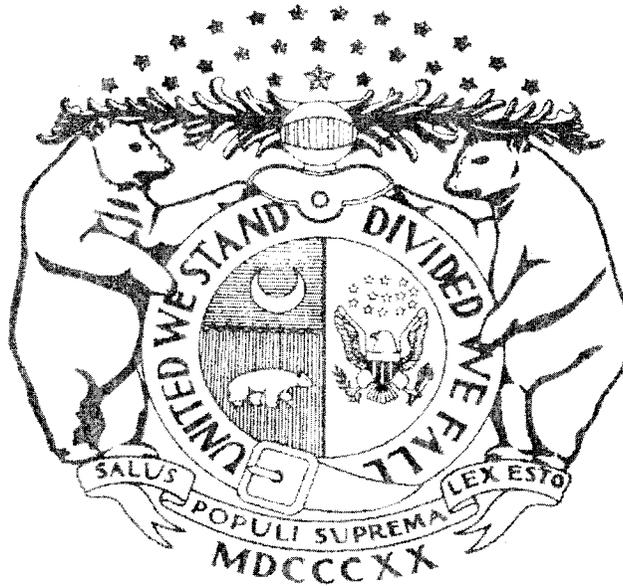
So ordered, signed and official seal affixed this July 26, 2007.

DOUGLAS M. OMMEN, Director  
Department of Insurance, Financial Institutions  
and Professional Registration



REPORT OF  
FINANCIAL EXAMINATION  
MISSOURI MEDICAL MALPRACTICE JOINT UNDERWRITING  
ASSOCIATION

AS OF  
DECEMBER 31, 2005



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE,  
FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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Kansas City, Missouri  
May 7, 2007

Honorable Douglas Ommen, Director  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Mr. Ommen:

In accordance with a financial examination warrant issued by W. Dale Finke, former Director, a limited scope examination has been made of the records, affairs and financial condition of

**Missouri Medical Malpractice Joint Underwriting Association**

also referred to as the "Association" or as "MMMJUA." The Association's administrative office is located at 2405 Grand Blvd, Kansas City, Missouri 64108, telephone number (816) 556-4229. This examination began on November 20, 2006 with field work concluded on December 14, 2006, and was completed on May 7, 2007.

**SCOPE OF EXAMINATION**

**Period Covered**

The initial limited scope examination covers the period from January 1, 2004 to December 31, 2005. This examination also included material transactions and/or events occurring subsequent to the examination date of December 31, 2005, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration and statutes of the State of Missouri prevailed. The examination was limited in scope by limiting the examination procedures on the Association's Financial Statements due to the reliance detailed below. The focus was primarily on assessing that the Association is operating in accordance with its Plan of Operations and Missouri Revised Statutes 383.150 through 383.195, which specifically apply to the Association.

The examiner relied upon information and workpapers supplied by the Association's independent auditors, BKD LLP, of Kansas City, Missouri, for the statutory audit covering the period from January 1, 2004 to December 31, 2005. This information included, but was not limited to, fraud risk narratives, premium receipt and advance and unearned calculations and deferred tax asset testing. The opinion submitted by Association's independent actuary, Tillinghast, was also relied upon for the examination.

## HISTORY

### General

Missouri Medical Malpractice Joint Underwriting Association (MMMJUA) was activated in July of 2003 upon determination by the Director of Insurance at a public hearing that medical malpractice liability insurance was not reasonably available for some health care providers in the state. The MMMJUA is governed by Missouri Revised Statutes 383.150 through 383.195.

Following the appointment by the Director of Insurance of an eight (8) member governing Board in February of 2004, the Association created and submitted a plan of operation for the Director of Insurance's approval within 45 days, as per statute. The Board appointed an actuary and a servicing Company in the spring of 2004, and policies were offered as of June 30, 2004. The first policy written was effective July 6, 2004.

### Management

RSMo 383.175 (Board of directors, qualifications, terms, expenses, payment of authorized) states that the Association shall be governed by a board of eight (8) directors, appointed by the Director of Insurance. The statute requires that the board consist of members from each of the organizations/categories listed, which write bodily injury insurance:

- 2 Members - National Association of Independent Insurers
- 2 Members - American Mutual Insurance Alliance
- 2 Members - American Insurance Association
- 2 Members - Unaffiliated with the above-listed trade associations

Individuals appointed and serving as of December 31, 2005 by the Director were as follows:

Steve Divine, Chairman	Meadowbrook, Inc. (AMIA)
Dennis Smith, Vice Chairman	Missouri Employers Mutual Ins. Co. (AIA)
David Monaghan, Secy/Treas	American Family Mutual Ins. Co.(NAII)
Donald Ainsworth	Safety National Casualty Corp. (AMIA)
Kathleen Becker	Shelter Insurance Company (NAII)
Paul Blume	American International Companies (Unaff.)
Craig Kjellberg	State Farm Insurance(Unaff.)
Patty Williamson	Uhlemeyer Services, Inc. (AIA)

Shortly before the Director of Insurance appointed the Board, two of the organizations merged, National Association of Independent Insurers and American Mutual Insurance Alliance. In 2006 the Missouri Legislature signed into law HCS/SB1837, which modified the membership requirements of the JUA Board. The Board is now to consist of four (4) at large members, two (2) members of Property and Casualty Insurers Association of America and two (2) members of the Missouri Insurance Coalition.

The Plan of Operations, required under RSMo 383.155 (Association created), directs the Board to appoint a servicing company to administer the Association and an actuary. The Board entered into a Servicing Carrier and Administration Agreement with Marsh USA, Inc. to administer the day to day operations of the Association. The Board appointed the actuarial firm of Tillinghast to perform all actuary duties on behalf of the Association. The Plan of Operations also allows for the appointment of specific committees by the Board to assist in the administration of the Association. As of December 31, 2005, the following Committees and members were serving:

**EXECUTIVE COMMITTEE – (existing officers)**

Steve Divine , Chairman  
Dennis Smith, Vice Chairman  
Dave Monaghan, Secy/Treas.

**CLAIMS COMMITTEE**

Dennis Smith  
Dave Monaghan  
Kathleen Becker

The management and operations of the Association appear to be in accordance with the Association's Plan of Operations.

**Conflict of Interest**

The Association has no formal conflict of interest policy.

**Corporate Records**

RSMo 383.155 (Association created), requires the adoption of the Plan of Operations, which is similar to the bylaws of a corporation. Any amendments to the Plan of Operations must be filed with the Director of the Department. Amendments were made to Section 14 of the Plan and approved by the Director on July 1, 2004.

Meeting minutes of the board of directors, executive committee and claims committee were reviewed for the period under examination and periods subsequent to the examination date of December 31, 2005. The minute records appear to adequately document the major transactions of the board and committees.

## **AFFILIATED COMPANIES**

The Association does not have any affiliates and thus is not subject to Chapter 382 RSMo (Insurance Holding Companies).

## **FIDELITY BOND AND OTHER INSURANCE**

The MMMJUA does not carry Fidelity Bond or any other insurance coverage. It was decided early in the formation of the Association, that as the Plan of Operations indemnifies all Directors, acquiring Fidelity and/or Director and Officer insurance coverage would be an unnecessary expense. The reasoning was based upon the assumption that all member companies can be assessed for any and all expenses of the Association.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

MMMJUA has no employees. Services are provided per a Servicing Carrier and Administration Agreement with Marsh USA, Inc.

## **STATUTORY DEPOSITS**

The Association is not required to establish a statutory deposit with the State of Missouri or any other states.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **General**

The purpose of the Association is to provide medical malpractice insurance that is not otherwise reasonably available in the voluntary market to eligible health care providers. Per the Plan of Operations, the Association provides occurrence coverage to individual and commercial policies at varying limits, between \$1 million of coverage for one claimant under a single policy to a maximum of \$3 million for all claimants under a single policy in any one year.

First year applicants shall pay to the MMMJUA, in addition to annual premium, a surcharge equal to the annual premium payment in the first policy year, pursuant to RSMo 383.165 (Additional first year charge to policyholders). From June 30, 2004 through June 30, 2005 policyholders were required to sign a Promissory Note for the surcharge. Interest was payable to the Association on the note at a rate equal to the two-year Treasury Note rate as of January 1 each fiscal year. The interest was to be added to the principal amount of the note as of January 1 each fiscal year, however, there were no payments required on the note. In July of 2005, upon recommendation by the Insurance Department, the Board decided that a 25% down payment be collected on the surcharge before binding of a new policy, and a promissory note be issued for the remainder to be paid in three equal installments of 25% with interest of 2.5% assessed on the remaining balance each anniversary, until paid in full. For existing policyholders, the Association required a payment of 25% of the existing Note and three equal installments of 25% plus

interest equal to the two-year Treasury Note rate on January 1 of each year until paid in full. If a policy is cancelled or non-renewed, the full amount is due at cancellation or non-renewal. Any cancellation return premiums may be retained by the Association for application to remaining note balances.

A premium payment plan is available for active policy premiums when the total annual policy premium is at least \$10,000. A non-refundable service fee equal to 2.5% of the total finance premium is due at binding, along with the deposit.

As of December 31, 2005 the Association risks included ten (10) physicians, one (1) allied health provider, one (1) outpatient surgical center and fifty-nine (59) nursing home policies, for a total of 71 policyholders. Direct premiums written in 2004 and 2005 were \$ 2,208,328, and \$ 3,929,249, respectively.

The Department retained the actuary firm of Milliman Consultants and Actuaries to review the adequacy of premiums charged for the nursing home participants general liability coverage. Milliman's report found the current premium rate to be inadequate and recommended an increase of approximately 41% to 61% from current rates. Milliman also noted that due to the fact that the MMMJUA is to be an insurer of last resort and cannot reject any eligible provider based on loss experience, the increase of rates will certainly increase adverse selection among its insured base. Because the MMMJUA underwriters will not be able to control this adverse selection Milliman also recommends expanding the surcharge plan so that appropriate premiums can be charged to applicants with poor characteristics. Other relevant recommendations were: not-for-profit facilities be charged 10% less than for-profit facilities, general liability coverage continue to be charged at 10% of the professional liability premium, and the MMMJUA should maintain the current territorial plan.

#### **Policy Forms & Underwriting:**

##### **Advertising and Treatment of Policyholders**

Per the Association's Plan of Operations, it cannot actively compete with the voluntary market carriers for policyholders. The distribution system consists of independent agents authorized to write Casualty Insurance policies or directly through the Association's website at [www.MMMJUA.com](http://www.MMMJUA.com).

Per RSMo 383.160 (Policies, period covered, form of policy to be approved, rates), all policy forms must be filed and approved with the Director of Insurance before issuance. All rates must be actuarially sound and are subject to the casualty rate regulation law.

#### **REINSURANCE**

The Association does not engage in any assumed or ceded reinsurance transactions.

## **ACCOUNTS AND RECORDS**

### **Independent Auditor**

The financial statements of the Association were audited by BKD LLP, Certified Public Accountants, at 120 West 12<sup>th</sup> Street, Suite 1200, Kansas City, Missouri for the period under examination. BKD, LLP concluded that the financial statements of the Association, in all material aspects, presented fairly the financial position of the Association, its results of operations and its cash flows in conformity with the accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration.

### **Association's Actuary**

For the period under examination, the actuarial assumptions and methods used by the Association in determining loss reserves, actuarial liabilities and other related actuarial items were reviewed and certified by Scott Dodge, FSA, MAAA, of Tillinghast at Forestal Centre, 175 Powder Forest Drive, Weatogue, Connecticut. The actuary concluded that the loss reserves, actuarial liabilities and other related items carried during the period under examination, made a good and sufficient provision for all unpaid claims and other actuarial liabilities of the Association under the terms of its contracts and agreements and met the requirements of the insurance laws of the state of Missouri.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual Annual Statement item.

**ASSETS**

	<b>LEDGER</b>	<b>ASSETS NOT</b>	<b>NET</b>
	<b>ASSETS</b>	<b>ADMITTED</b>	<b>ADMITTED</b>
			<b>ASSETS</b>
Cash and short-term investments	\$ 4,844,937		\$ 4,844,937
Other invested assets (Schedule BA)	2,135,369	2,135,369	-
Investment income due and accrued	10,844	10,844	-
Uncollected premiums and agents' balances	153,090	120,196	32,894
Deferred premiums	140,810		140,810
Net deferred tax asset	1,473,400	1,473,400	-
Aggregate write-ins other than invested assets	12,735	12,735	-
<b>Total Assets</b>	<b>\$ 8,771,185</b>	<b>\$ 3,752,544</b>	<b>\$ 5,018,641</b>

**LIABILITIES, CAPITAL AND SURPLUS**

Losses	\$	6,076,734
Loss adjustment expenses		646,013
Commissions payable		23,392
Other expenses		52,133
Unearned premiums		1,737,661
Advance premiums		97,158
Aggregate write-ins for liabilities		3,933
<b>Total Liabilities</b>	<b>\$</b>	<b>8,637,024</b>
Gross paid in and contributed surplus		532,403
Unassigned funds (surplus)		(4,150,786)
<b>Total Capital and Surplus</b>	<b>\$</b>	<b>(3,618,383)</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$</b>	<b>5,018,641</b>

## STATEMENT OF REVENUE AND EXPENSES

Premiums earned	\$ 3,381,083
<b>Total Revenue</b>	<b>3,381,083</b>
<b>Deductions</b>	
Losses incurred	4,879,540
Loss expenses incurred	685,000
Other underwriting expenses incurred	1,099,828
<b>Total Underwriting Deductions</b>	<b>6,664,368</b>
<b>Net Underwriting gain or (loss)</b>	<b>(3,283,285)</b>
Net investment income earned	68,514
<b>Net investment gain or (loss)</b>	<b>\$ 68,514</b>
Finance and service charges not included in premiums	30,231
<b>Total Other Income</b>	<b>\$ 30,231</b>
Net income before dividends, federal and foreign income taxes and after capital gains tax	(3,184,540)
Federal and foreign income taxes incurred	
<b>Net income (loss)</b>	<b>\$ (3,184,540)</b>

## CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2004	\$ (883,047)
Net income or (loss)	(3,184,540)
Change in net deferred income tax	1,173,378
Change in non-admitted assets	(1,573,977)
Change in surcharges	317,400
Change in paid in contributions to surplus	532,403
<b>Net change in capital and surplus for the year</b>	<b>\$ (2,735,336)</b>
<b>Capital and surplus end of reporting period</b>	<b>\$ (3,618,383)</b>

## **NOTES TO FINANCIAL STATEMENTS**

None.

### **EXAMINATION CHANGES**

None.

### **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

It is recommended that the Association re-file its rates with the DIFP to adequately address the results of the Milliman actuary premium rate study for NPL coverage premiums.

### **SUBSEQUENT EVENTS**

On December 6, 2006 the Department directed the MMMJUA to discontinue issuing promissory notes for the additional first year premium payment and follow RSMo 383.165, which requires the additional first year premium to be paid in the first year of the policy.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers of the Missouri Medical Malpractice Joint Underwriting Association and employees of Marsh USA, Inc. during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri     )  
  ) ss  
County of Clay        )

I, Barbara A. Bartlett, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

*Barbara A. Bartlett CPA, CFE*

Barbara A. Bartlett, CPA, CFE  
Examiner-in-Charge  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration

BEVERLY M. WEBB  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Clay County  
My Commission Expires March 17, 2008

Sworn to and subscribed before me this 18<sup>th</sup> day of January 2007.  
My commission expires:

03/17/2008

*Beverly M. Webb*  
\_\_\_\_\_  
Notary Public

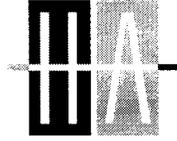
**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

*Frederick G. Heese*

Frederick G. Heese, CPA, CFE  
Audit Manager  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration

RICHARD S. BROWNLEE III  
MICHAEL A. DALLMEYER  
JOHN W. KUEBLER  
SARA C. MICHAEL  
RODNEY D. GRAY  
BEVERLY J. FIGG  
KEITH A. WENZEL  
T. DREW SCHAUFFLER  
GAYLIN RICH CARVER  
ADAM R. TROUTWINE



**HENDREN ANDRAE**  
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HENRY ANDRAE (Retired)

JOHN H. HENDREN (1907-1988)

WEBSITE

[www.hendrenandrae.com](http://www.hendrenandrae.com)

June 22, 2007

**HAND  
CARRIED**

**RECEIVED**  
JUN 22 2007  
DEPT. OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

Mr. Frederick G. Heese, CPA, CFE  
Acting Chief Financial Examiner  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration  
P.O. Box 690  
Jefferson City, MO 65102

Re: Missouri Medical Malpractice Joint Underwriting Association  
Examination Report for the Period Ending December 31, 2005

Dear Mr. Heese:

Please be advised that your letter of your May 25, 2007, relative to the above-referenced matter which was directed to Chairman Dennis Smith has been given to me for reply.

With regard to the Department's recommendation that the Missouri Medical Malpractice JUA refile its nursing home rates to address the results of Milliman's Rate Study, the MMMJUA Board has had an opportunity to review that Rate Study. It is also my understanding that representatives of Towers Perrin, MMMJUA's actuary, have been in communication with representatives of Milliman, Inc. concerning Milliman's Rate Study. As a result of these communications, and after reviewing the Rate Study, Towers Perrin prepared a summary of their comments concerning Milliman's report. A copy of Towers Perrin's letter is enclosed herewith.

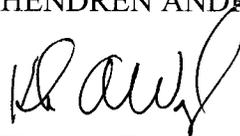
Based upon Towers Perrin's analysis, the MMMJUA Board believes that the rates currently in effect are adequate. The MMMJUA Board, however, would welcome the opportunity to meet with you and discuss this matter more fully.

Mr. Frederick G. Heese, CPA, CFE  
June 22, 2007  
Page 2

We believe that this fully and adequately responds to your letter of May 25, 2007, but should you have any questions, please feel free to contact me.

Very truly yours,

HENDREN ANDRAE, LLC

A handwritten signature in black ink, appearing to read 'KAW', written over the printed name of Keith A. Wenzel.

Keith A. Wenzel  
kwenzel@hendrenandrae.com

KAW:tr

cc: Mr. Dennis Smith  
Mr. Thomas M. Hermes  
Ms. Sheryl Manger

June 13, 2007

Ms. Sheryl Manger  
Client Advisor  
Marsh, Inc.  
2405 Grand Boulevard  
Kansas City, MO 64108

MISSOURI MEDICAL MALPRACTICE JOINT UNDERWRITING ASSOCIATION  
(MMMJUA) NURSING HOME RATE LEVELS

Dear Sheryl:

This letter summarizes our comments on the findings contained in the final Milliman report (May 5, 2007) regarding current MMMJUA nursing home rates. This report was prepared at the request of the Missouri Department of Insurance (MDI). We had previously submitted our comments via email to Milliman's actuary, MDI and Marsh.

A listing of the key areas where we thought the Milliman report needed modification follows.

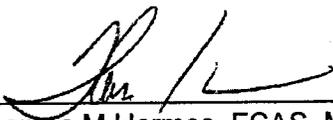
1. Loss Trend— Milliman's report assumes an annual loss trend of 10%. Malpractice trends have been moderating in the last several years on a national level. In addition, Missouri implemented tort reform (9/1/2005), which should impact prospective loss trends. The Missouri Hospital Association's current filing used 9.1%. We would suggest an annual trend rate of 9% or lower is more appropriate.
2. Skilled Nursing Fund (SNF) to Acute Care (AC) Hospital Bed Relativity— A key assumption in the Milliman report is the relationship of risk between SNF and AC beds. Milliman had assumed .250, the MMMJUA currently uses .238, a minor difference.
3. Impact of Loss Discounting— Milliman's report does not explicitly consider the impact of discounting. The impact is approximately -17% (Exhibit 7 of Milliman report).

4. Impact of Experience and Schedule Rating — Milliman's report develops a rate indication based on current manual rates. It does not adjust for the impact of either experience or schedule rating. In the case of the MMJUA, this amounts to an additional 39.3% above manual rates. Our position is that all rating elements need to be considered in order to determine the overall rate level indication. Achieving the overall indicated rate level need that is developed can be accomplished using several different means in combination (base rate change, experience rating, schedule rating). An upward adjustment in the base rates will produce a corresponding downward adjustment to the experience rating calculation since the base rates serve as the key input in developing "expected losses" to which a risk's actual losses are compared. The use of schedule credits would no doubt be less with higher base rates being available. Therefore, we do not feel it is appropriate to "separate" the significant impact of experience/schedule rating from the overall indicated rate level analysis, but rather view it as part of the process to achieve a proper rate. It is a routine practice for malpractice insurers to reflect the impact of various rating/premium credit plans in arriving at an overall rate level indication.

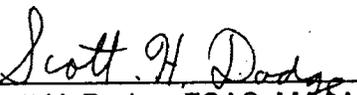
Incorporating these changes produces an overall rate level indication of between -8.0% and -0.9%. Given the range of results there is not a strong case that any rate level change is necessary at this time.

Sincerely,

TOWERS PERRIN

By: 

Thomas M. Hermes, FCAS, MAAA  
Managing Principal  
Direct Dial: (860) 843-7020

By: 

Scott H. Dodge, FCAS, MAAA  
Consulting Actuary  
Direct Dial: (860) 843-7023

**Missouri Medical Malpractice JUA**

Nursing Home Professional Liability  
Rate Level Analysis - 7/1/2007 Effective Date

	A	B
1) MHP acute care Mature CM Pure Premium \$1/3 Limit 7/1/06 Effective Date	\$4,125	\$4,125
2) Factor to Occurrence Coverage	1.08	1.08
3) Trend Factor to 7/1/2007	1.09	1.09
4) Relativity of Skilled NFP Bed to Hospital Acute Care	0.238	0.238
5) Load for LAE	8%	8%
6) Discount Factor	0.8326	0.8970
7) Target Combined Ratio		
a) Loss and ALAE	0.756	0.756
b) Underwriting Expense	0.244	0.244
Total Target Loss Ratio	1.000	1.000
8) Current MMMJUA Rate	\$1,073	\$1,073
9) Indicated Rate Change Prior to consideration of experience and schedule rating	28.1%	38.0%
10) Current impact of experience and schedule rating versus manual premium (surcharge)	1.393	1.393
11) Indicated rate change with consideration of experience and schedule rating	-8.0%	-0.9%
12) Implied contingency in current rate level	8.0%	0.9%

Exhibits Refer to March 15, 2007 Milliman Report	
(1) Per Exhibit 1, Line (1)	
(2) Per Exhibit 1, Line (2)	
(4) Current Relativity contemplated in MMMJUA rates	
(5) Per Exhibit 1, Line (8)	
(6) .8326 Per Exhibit 7	
(7) Assumes Expenses of:	
Commission	6.9%
MARSH Fee	15.0%
Fees - Other	2.0%
MISC	0.5%
	24.4%
(9) $[(1) \times (2) \times (3) \times (4) \times (5) \times (6)] / [1.00 - (7b)] / (8)$	
(10) Provided by MMMJUA for Policies effective 7/1/06 and subs.	
(11) $[1.00 + (9)] / (10) - 1.00$	