

INFORMATIONAL BULLETIN #10 (March, 2001)

This Informational Bulletin #10 (March, 2001) is referred to in Rule 4.2 Assessment Method of the Rules of Operation.

Membership Assessment Methodology HYPOTHETICAL Example

The attached exhibits provide a hypothetical example illustrating the Member assessment methodology to be used by the Massachusetts Medical Malpractice Reinsurance Plan (MMMRP). This example relates to assessments that would be made during 2001 and 2002, using MMMRP financial results as of December 31, 2000 and December 31, 2001, respectively, if the Governing Committee were to vote to assess the membership.

The top half of the exhibits pertains to hypothetical MMMRP operating results as of December 31, 2000 and December 31, 2001. The information contained in Columns (2) through (6) would be derived from MMMRP's 2000 and 2001 Annual Statements, converted to a policy year basis. We anticipate that the conversion would be based on the actual policy effective dates for premiums and paid losses, estimated policy year loss ratios for loss reserves, estimated expense ratios (to premium) for operating expenses, and estimated cash flows for investment income. The definitions of these items are consistent with the terminology used in the Annual Statement.

Column (2) contains MMMRP earned premium, Column (3) includes incurred losses and loss adjustment expenses (including estimated IBNR), Column (4) reflects total MMMRP operating expenses, Column (5) includes other income and expenses, and Column (6) reflects investment income earned. Column (7), which will apply in future years, relates to cumulative assessments collected by the MMMRP. Finally, Column (8) shows the total policy year inception to date surplus or deficit as of the statement date. The total of Column (8) will match the Surplus as Regards Policyholders items shown in the MMMRP Annual Statements.

The bottom half of the attached exhibit allocates the total MMMRP results to an individual Member, and calculates the Member's assessment. The calculation starts on Column (9) with the Member's participation ratio. The methodology for calculating this ratio is contained in MMMRP Rules of Operation (Rule 4.1). Columns (10) through (16) are the total MMMRP results from Columns (2) through (8), times the Member participation ratio in (9).

The last step in the calculation is to apply the assessment percentages shown in Column (17). These percentages are intended to reflect the relative maturity of the individual policy years at a given point in time, with greater weight given to the older, more mature years, and less weight given to the later years. The Member assessment, shown in Column (18), is the product of Column (16) and Column (17).