INFORMATIONAL BULLETIN #7 (May, 1999)

Re: (1) Appointment of new Governing Committee members
(2) Proposed change in Plan of Operation
(3) Notice of meeting

1. The MMMRP is pleased to report that Governor A. Paul Cellucci has appointed Jill Gold and Gerald J. Cassidy to the Governing Committee.
Ms. Gold is the Senior Vice President for Frontier Insurance Group, Inc., Boston, MA and Mr. Cassidy is the President and CEO for Healthcare Underwriters Mutual Insurance Company, Latham, NY.

2. On February 4th and April 1st Informational Meetings were held in Boston to obtain Member input on the issues of (a) the definition of primary insurance; (b) the allowed limits for ceding; and (c) the method of transition from calendar year methodology to policy year methodology for the purpose of calculating any surplus or deficit. Attachment 1 is the combined definition of primary insurance and the allowed limits for ceding. Attachment II is the methodology for conversion from calendar year methodology recommended by our consulting actuary.

   You are requested to make any comments you wish on the definitions and methodology in writing by June 15th to the MMMRP offices, or e-mail to mmmrp1@AOL.com.

3. The next meeting of the MMMRP will be held on June 17, 1999 at 9:00 AM at its offices in Westborough. See enclosed notice.

ATTACHMENT 1

"Primary Insurance" shall mean an insurance policy or policies for medical malpractice coverage other than umbrella coverage, written by a medical malpractice insurer or insurers under common "control" as such term is defined pursuant to G.L. ch. 175 §206 which (i) requires a direct relationship between such insurer(s) and the insured and which requires the insurer to adjust any claim under such policies in accordance with its customary and usual practices and (ii) which policies' coverage limits ceded shall not exceed (a) $2,000,000 per occurrence and $6,000,000 in the aggregate for an individual or (b) $2,000,000 per occurrence and $20,000,000 in the aggregate for a facility.

ATTACHMENT 2
SUMMARY AND ANALYSIS

This summary is based on the Plan's interpretation of the approach to implementing Section 14 that was decided upon by the Plan. This analysis is not a rigorous description of all of the accounting implications of Section 14, nor is the methodology outlined here the only possible way to implement the policy year accounting approach mandated by Section 14.

The policy year method of insurance accounting calls for all transactions related to policies issued in a given year to be allocated to that year, regardless of when the transactions actually take place. Most of the Plan's financial statements are currently produced on a calendar year basis.

Based on discussions at the Plan's April 1, 1999 Informational Meeting, the Plan has decided to use an approach to implementing Section 14 that involves retrospectively allocating the year-end 1998 balances to policy years 1996, 1997 and 1998, and keeping future financial records on a policy year basis. The details of this retrospective allocation will vary by type of transaction, as follows.

- **Earned Premium -** Allocation of earned premium will be based on data provided by the Plan. The Plan has decided to use the cession date to define the policy year for each ceded policy (as opposed to the effective date of the underlying policy issued by the ceding Plan member). This date, which is known for every ceded policy, will allow the Plan to accurately reallocate the premiums to the proper policy period.

- **Paid and Case Outstanding Losses -** As with earned premium, the allocation of losses on known claims will be based on the cession date of the policy corresponding to each claim. This allocation will be performed separately for paid losses and for case reserves.

- **Incurred But Not Reported Reserves** - Unlike premium and paid and outstanding losses on known claims, the Plan's provision for incurred but not reported (IBNR) losses established at each year-end will be allocated judgmentally to the individual policy periods. This allocation will be based on factors underlying the year-end actuarial analyses, and assumptions regarding the distribution of year-end IBNR reserves by policy year.

- **Underwriting/Operating Expenses œ**To state these operating expenses on a policy year basis will require simplifying assumptions to be made to associate the ongoing cost of operating the Plan with each of the current and prior policy years.

  A portion of the operating expenses will be allocated to the policy year that

corresponds to the calendar year in which the expenses are incurred, and that the rest of the expenses (e.g., those related to claims) will be associated with prior policy years.

- Other Income œ In general, other income (such as membership fees) will be allocated to the policy year that corresponds to the calendar year in which the income is earned.

- Investment Income – Investment income is another aspect of the Plan's operating results for which there is no direct policy effective date relationship. In practice, the Plan's investment income during a given time period is a function of the total amount of funds invested, regardless of which policies generated the funds.

  As with expenses, allocation of investment income to policy year requires some assumptions and estimates. Specifically, the Plan's invested assets will be estimated according to the policy year that generated the assets. The corresponding calendar year investment income will then be allocated to policy year in proportion to the distribution of assets by policy year.

- Federal Income Taxes – The allocation of any federal income taxes to policy year will be based on simplified assumptions, rather than an attempt to replicate precisely the provisions of the tax code. Income taxes will be allocated to policy year based on the indicated pre-tax profit or loss for policy years through the year in which the taxes are incurred. In this calculation, the loss reserves underlying the pre-tax profit/loss estimates will be discounted (to reflect future investment income), based on an assumed discount rate.