



MWCIA

Minnesota Workers' Compensation Insurers Association, Inc.

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Bruce A. Tollefson, President

www.mwcia.org

October 30, 1998

ALL ASSOCIATION MEMBERS

Circular Letter No. 98-1309

RE: Reinsurance of Assigned Risk Plan liabilities

General Background on Old Assigned Risk Plan.

The Board of Directors of the Minnesota Workers' Compensation Insurers Association, Inc. ("MWCIA") acts as the successor Trustees to the Workers' Compensation Insurers Rating Association of Minnesota ("WCIRAM") for certain trust funds held to pay obligations of the old Minnesota Assigned Risk Plan. That plan provided all assigned risk coverage prior to December 31, 1981 when the law was changed and responsibilities for the plan were shifted to the Minnesota Commerce Department.

Under the Old Assigned Risk Plan, a number of insurance companies acted as servicing carriers for employers assigned to them by WCIRAM. Those Servicing Carriers issued policies of workers' compensation and employers liability insurance covering those employers' obligation to provide workers' compensation benefits. The Servicing Carriers continue to service the run-off liabilities under those policies.

The trust funds which MWCIA holds and administers were designed to cover obligations of the Old Assigned Risk Plan and to pay requests for reimbursement by Servicing Carriers for Serviced Policies. MWCIA, as successor trustee, administers the affairs and obligations of the Old Assigned Risk Plan for policies which arose prior to that date.

Institution of Review Process for Possible Transfer of Liabilities and Assets.

In an effort to more effectively fulfill these obligations as successor Trustee and to bring some certainty to any potential future liability of licensed Minnesota workers' compensation insurance companies who by statute might be called upon to provide funding for any future deficits in the trust funds, MWCIA retained the services of Willis Faber North America ("Willis Faber") to evaluate options to achieve these goals.

Willis Faber conducted an evaluation of the assets and liabilities of the Assigned Risk Plan Trust Fund and recommended that the future liabilities with respect to the Serviced Policies be put out for competitive bidding which would involve the assumption or reinsurance by the successful bidder of all future liabilities with respect to the Serviced Policies in return for all or a portion of the outstanding assets of the Assigned Risk Plan Trust Funds. Willis Faber conducted a national search

for potential bidders, prepared and distributed requests for proposals, and provided to the Board detailed evaluations of the bids of responding parties.

After a review of the responsive bids, the MWCIA Board of Directors gave preliminary approval to a bid from Employers Insurance of Wausau, A Mutual Company (“Employers”). After some negotiations the MWCIA and Employers were unable to reach a definitive agreement with respect to the assumption and/or reinsurance of all obligations of MWCIA and the Servicing Carriers.

The MWCIA was then contacted by The Hays Group (“Hays”) which indicated a desire to do a second market survey for possible interest in this portfolio. Hays did conduct a second national search which involved locating and targeting seven possible markets and preparing and distributing requests for proposals for the assumption of all future Plan liabilities.

As a result of those efforts, MWCIA did receive from American Reinsurance Management a bid for the reinsurance of all obligations of MWCIA and the Servicing Carriers with respect to the Serviced Policies in exchange for a transfer of all of the present and future assets of the Assigned Risk Trust Fund as of the date of the closing.

Hays has provided an evaluation of this bid including, but not limited to, the fairness and reasonableness of the bid amount, the capacity of the bidder to reinsure and complete all future obligations under the policies, and the protections such reinsurance would afford to employers and workers covered by the Serviced Policies.

Proposed Reinsurance and Authorizing Resolution Subject to Approvals.

Under the proposed transaction, American Re-Insurance Company would issue a Reinsurance Agreement. That agreement will provide reinsurance coverage for (a) all workers, compensation policies issued by any of the Servicing Carriers from January 1, 1943 through December 31, 1981 to employers in the State of Minnesota under the Minnesota Assigned Risk Plan, and (b) all liabilities arising from the policies described in subpart (a) of the Minnesota Workers’ Compensation Insurers Association, Inc., its predecessors in interest and its member companies to reinsure among themselves and/or to reimburse the Servicing Carriers for such liabilities.

In exchange for that policy, the Assigned Risk Trust Fund will pay the reinsurer a full and final premium equaling all of the then existing assets of the fund. The amount of those assets as of September 30, 1998 was \$37,045,527.97.

In addition, the reinsurer and MWCIA will enter into an Escrow and Security Agreement. That agreement will effect the pledge of all of the current assets of the Assigned Risk Trust Fund as additional security for performance of the Reinsurance Agreement.

The Board has determined that it is appropriate for this transaction to be submitted in advance to the Commerce Department for its review and approval. That approval is a condition precedent to the finalization of this transaction.

Notice To Members And Opportunity To Object.

As part of the preliminary approval of this transaction, the MWCIA Board also directed that each MWCIA member company and other interested parties be provided notice of this contemplated transaction and a summary of its terms. Any member company or interested parties may contact or write the following person with any comments or objections which should be considered by the Board before this transaction is completed. A deadline of thirty (30) days from the mailing of this notice is set for such comments or suggestions.

Please direct your comments or suggestions to:

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Very truly yours,

BRUCE A. TOLLEFSON, CIC

President

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