

**Local Government Center
Property Liability Trust, LLC**

Executive Summary
Rate Level Indications
Effective in 2009

May 2009



May 11, 2009

Ms. Sandal Keefe
Deputy Director/Chief Financial Officer
Local Government Center
25 Triangle Park Drive
Concord, NH 03301

Dear Sandal:

Enclosed are one bound copy and one unbound copy of our Executive Summary report regarding the estimated rate level indications for the following:

- the Local Government Center's Property Liability Trust, LLC's (LGC-PLT's) property and liability coverages for the coverage year commencing July 1, 2009; and
- LGC-PLT's workers compensation coverage for the coverage year commencing January 1, 2009.

Attention is called to the section of the report entitled *Distribution*, which sets out the limits on distribution of the report and, in particular, the conditions that permitted recipients must recognize and are deemed to have accepted by retaining a copy of the report.

This report contains workpapers, trade secrets, and confidential information of both LGC-PLT and Towers Perrin, and as such, it is not intended to be subject to disclosure requirements under any Freedom of Information Act of similar laws.

We, the authors, are members of the American Academy of Actuaries and meet its Qualification Standards to render the actuarial opinion contained herein.

Ms. Sandal Keeffe
May 11, 2009
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We have enjoyed preparing this analysis for you. Please give us a call if you have any questions.

Sincerely,

TOWERS PERRIN

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PURPOSE AND SCOPE

The Tillinghast insurance consulting business of Towers Perrin (Towers Perrin) was retained by the Local Government Center (LGC) Property-Liability Trust, LLC (PLT) to perform rate level analyses for LGC-PLT. For property and liability lines, the analysis includes coverage years July 1, 1995 through June 30, 2008 to develop rate indications for the coverage year commencing July 1, 2009. For workers compensation, the analysis includes accident years between January 1, 2000 and December 31, 2008 to develop rate indications for the year commencing January 1, 2009.

This report is an executive summary of the full reports regarding property and liability rate level indications, effective July 1, 2009 dated April 8, 2009 and workers compensation 2009 rate level indications dated January 29, 2009.

This executive summary report was prepared for the internal use of LGC-PLT management solely for the purpose of summarizing our evaluating on the July 1, 2009 rate level indications for property-liability lines and the January 1, 2009 rate level indications for workers compensation. It is our understanding that LGC-PLT management will consider our findings for internal management purposes.

Our report is not intended or necessarily suitable for any other purposes.

In this report, we develop an actuarial central estimate of the indicated July 1, 2009 and January 1, 2009 rate level changes for property-liability and for workers compensation, respectively. The actuarial central estimate is intended to represent an expected value over a range of reasonably foreseeable outcomes. The actuarial central estimate was arrived at through the evaluation of the results of various actuarial methods and models applied to LGC-PLT's experience. As such, the derivation of this estimate does not reflect extreme events which are believed to have a remote possibility of occurring.

Our analysis was based on property and liability data evaluated as of June 30, 2008 and workers compensation data as of June 30, 2008 and September 30, 2008.

The Scope does not include quantification of the uncertainty in our estimates. However, our report includes commentary on the uncertainty inherent in the loss component of our estimate of LGC-PLT's property and liability July 1, 2009 rate level indications and workers compensation January 1, 2009 rate level indications. This commentary is intended to assist in understanding the financial implications of our results.

Our analysis was performed net of excess insurance/ceded reinsurance and net of anticipated future salvage and subrogation. We have assumed that all of the Company's future excess insurance/ceded reinsurance and future salvage and subrogation will be valid and collectible.

All rate level indications are presented on a nominal and discounted basis as regards to investment income.

The exhibits and appendices attached to the full reports in support of our conclusions are an integral part of this executive summary report. These sections have been prepared so that our actuarial assumptions and judgments are documented.

Judgments about the analysis and findings presented in this executive summary report should be made only after considering the full reports in their entirety. Our projections are predicated on a number of assumptions as to future conditions and events. These assumptions are documented subsequent sections of this report and in more detail in the full reports, and should be understood in order to place the actuarial estimates in their appropriate context. In addition, these projections are subject to a number of reliances and limitations, as discussed in subsequent sections of this report and further in the full reports.

We are available to answer any questions that may arise regarding this executive summary report as well as the full reports. We assume that the user of this report will seek such explanation on any matter in question.

DISTRIBUTION

We have prepared this report solely for LGC-PLT's internal use as described in the preceding section.

We understand that the LGC-PLT may wish to provide copies of this report to the State of New Hampshire regulatory authorities, its current or prospective reinsurers/excess insurers and LGC-PLT members (the "Recipients"). Permission is hereby granted for such distribution on the conditions that:

- Towers Perrin is provided a list of the Recipients to whom this report is provided;
- the report is distributed in its entirety;
- each Recipient recognizes that Towers Perrin is available, at the expense of LGC-PLT, to answer any questions concerning the report;
- each Recipient agrees not to reference or distribute the report to any other party;
- each Recipient recognizes that the furnishing of this report is not a substitute for its own due diligence and agrees to place no reliance on this report or the data contained herein that would result in the creation of any duty or liability by Towers Perrin to such party;
- in the event that the Recipient is required by order of a court of competent jurisdiction, administrative agency or governmental body, or by any law, rule, regulation, subpoena, or any other administrative or legal process to disclose this report, the Recipient may disclose this report without liability hereunder, provided that the Recipient gives Towers Perrin prompt notice of any such requirement and, at our discretion, either (1) cooperates with us, at our expense, to prohibit such disclosure, or (2) uses all reasonable efforts to obtain confidential treatment of this report under a protective order or other appropriate mechanism. Furthermore, the Recipient may reference or disclose this report without liability hereunder in the event that such reference or distribution is required by professional standards bodies; and
- each Recipient understands that such RECIPIENT IS DEEMED TO HAVE ACCEPTED THESE TERMS AND CONDITIONS by retaining a copy of this report.

No further distribution of this report or reference, either oral or written, to Towers Perrin, our analysis or findings related to this report may be made without our prior written consent.

FINDINGS

Based on our review of LGC-PLT's property, liability and workers compensation experience at June 30, 2008 (for property-liability coverages) and June 30, 2008 and September 30, 2008 (for workers compensation), and subject to the considerations set forth in the *Reliances and Limitations* section, we have reached the following conclusions. When reviewing these findings, it should be noted that the use of the term loss without modification includes loss and ALAE, but does not include unallocated loss adjustment expenses (ULAE).

Property-Liability Rate Level Change Indications

The results of our review of the indicated rate level changes are summarized on Exhibits A.1 and A.2 of the full report regarding property-liability lines of business. We have produced a range of rate level change indications for 7/2009-10 on undiscounted and discounted bases.

Both assumptions assume a 5% rate increase on 7/1/2009. The indicated rate level changes by line of coverage are as follows:

July 1, 2009 Indicated Rate Level Changes (After +5% Rate Increase on July 1, 2009)

Line of Coverage	Undiscounted	Discounted (\$1.05 M of Investment Income)
Auto Liability	+13.0%	+5.4%
Auto Physical Damage	+87.3%	+74.6%
General Liability	-34.7%	-39.2%
Property and Other	+43.3%	+33.6%
Law Enforcement Liability	-60.7%	-63.3%
Public Officials' Liability	+914.1%	+845.4%
School Board Legal Liability	-18.5%	-24.0%
Overall – Variable Expenses	+16.6%	+8.8%
Adjusted for Fixed Expenses	+10.0%	+2.2%

The rate level change indications are based on an analysis of thirteen years of LGC-PLT experience sorted on an occurrence basis. The losses are at \$500,000 per occurrence loss limits for property and auto physical damage and \$1 million per occurrence loss limits for auto liability, general liability, law enforcement liability and public officials' liability. Also, we assume no aggregate excess insurance/reinsurance coverage for the coverage year beginning July 1, 2009.

The undiscounted rate level change indications in the above table are at an expected level. For the variable expense scenario, expenses are assumed to be a constant percent (39.6%) of total contributions. Estimated 7/2009-10 expenses are based on the expenses shown on Exhibit B.2, Column (14), a 2.5% expense trend assumption and 7/2008-09 contributions, adjusted for a 5% rate increase effective 7/1/2009.

The second set of rate level change indications reflects future investment income of \$1.05 million in fiscal year 7/2009-10. The consideration of future investment income in setting rate levels implies that all fiscal year 7/2009-10 investment income from all assets will be needed to pay claims from coverage year 7/2009-10. The \$1.05 million investment income assumption for fiscal year 7/2009-10 was specified by LGC-PLT.

Assuming the level of expense dollars is fixed, the overall indicated rate changes are +10.0% (undiscounted), and +2.2% (using an investment income assumption of \$1.05 million per year).

The above indications do not reflect investment income that LGC-PLT anticipates earning on the assets underlying the contributions or losses for the fund year 7/1/2009-10, but earned after June 30, 2010.

It should be noted that the indicated rate level changes are at expected loss cost levels and, as such, contain no provision for adverse deviation in loss experience. Without any additional funding margin included to increase the confidence level of the indicated rates, there exists approximately a 50% probability that actual losses may exceed those anticipated in the indicated rates. LGC-PLT should be aware that the use of its members' balance would be required to cover any deficiency that developed because actual losses and expenses exceed collected contributions and investment income.

We assume that the levels of marketing and special credits will not change in the 7/2009-10 coverage year. If LGC decides to change such credits, then the rate level indications would also change.

The above indications are based on available data pertaining to LGC-PLT experience for property-liability coverages. We utilized two actuarial methods in reviewing LGC-PLT's historical loss experience. A description of each of these methods is provided in the *Description of Loss Projection Methods* section of the full report regarding property-liability rate level indications.

Workers Compensation Rate Level Change Indications

The results of our review of the indicated 2009 rate level change are summarized on Exhibit 1 of the full report regarding LGC's workers compensation 2009 rate level indications. We have produced rate level change indications on a nominal and discounted basis.

Assuming WC expense cost per payroll (00's) of approximately \$0.273 (including reinsurance) and an overall 2008 WC contribution invoiced rate of \$0.85, the indicated rate level changes are as follows. The following estimates are on an expected value basis and do not include any risk margin for adverse deviation in loss experience.

LGC WC INDICATED 2009 RATE LEVEL CHANGES

Expected Loss Level	Indicated Rate Change
Nominal	+74.6%
Discounted at 4.5%	+57.5%

The rate level indications are based on eight years and nine months of LGC-PLT WC experience. The rate level indications are based on the assumption that approximately 70% of total payroll is for schools, with the remainder for municipalities. The expenses are assumed to be a rate per payroll. The estimated reinsurance expense is based on an assumed rate of 0.1178 per \$100 of payroll. This is the estimated reinsurance cost based on a \$350,000 retention for schools and a \$750,000 retention for municipalities.

The discounted rate level change indications also reflect consideration of the timing of expected loss payments and future investment income. The 4.5% discount rate assumption was specified by LGC.

We utilized multiple actuarial methods in reviewing LGC's workers compensation historical loss experience. A description of each of these methods is provided in the *Description of Loss Projection Methods* of the full workers compensation rate report.

Details of our analyses are found in the sections following the *Findings* section of the two full reports.

RELIANCES AND LIMITATIONS

Inherent Uncertainty

Rate level indications are subject to large potential errors of estimation, due to the fact that the ultimate disposition of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes, and social/economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on one's ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and ALAE will vary, perhaps materially, from any estimate. Thus, no assurance can be given that LGC-PLT's actual loss and ALAE will not ultimately exceed the estimates contained herein. Furthermore, there is no guarantee that that rate level indications will prove to be adequate or not excessive.

The inherent uncertainty associated with LGC-PLT's rate level indications is magnified in this case due to the following circumstances:

- LGC-PLT's property and liability retained losses are weighted toward coverages such as public entity liability for which the estimate of ultimate loss is more uncertain than short-tailed property/casualty lines of business.
- LGC-PLT has a relatively high per occurrence retention for liability coverages of \$1 million compared to contributions, which increases the uncertainty associated with our rate level estimates.
- LGC PLT's school board legal liability coverage has grown significantly in the past two years. Reliance on the limited historical school board legal liability and public officials' liability development information may not be predictive of future school board legal liability results.

- The state tort cap on third party liability limits increased (retroactively) from \$150,000/\$500,000 (per person/per occurrence) to \$275,000/\$925,000 on July 17, 2007. Based on correspondence from LGC-PLT, we understand that LGC-PLT has adjusted case reserves reflecting the revised tort cap. This change, however, increases the uncertainty in our analysis.
- Changes in the coverage form for property and liability coverages from claims made to occurrence on July 1, 2005 increases the uncertainty in our analysis.
- LGC-PLT has retained losses with workers compensation coverage for which the estimation of ultimate loss is more uncertain than short-tailed property/casualty lines of business.
- LGC's workers compensation line of business is an immature program, with only eight years and nine months of historical experience as of September 30, 2008. Therefore, due to the lack of statistical credibility of the workers compensation loss development history for LGC-PLT, we have relied (without audit or verification) on information and data from New Hampshire workers compensation industry sources to supplement LGC-PLT's workers compensation historical experience.
- LGC-PLT's workers compensation business has grown rapidly with a changing distribution among payroll classes starting in 2005. We adjusted the historical ultimate losses significantly for the change in the payroll class distributions which are used to select the 2009 pure premium. The uncertainty is further increased because of this significant adjustment of historical ultimate losses.

In our judgment, have employed techniques and assumptions that are appropriate, and the indications presented herein are reasonable, given the information currently available.

It is important to note that a quantification of this uncertainty would likely reflect a range of reasonable favorable and adverse scenarios, but not necessarily a range of all possible outcomes.

Data Reliance

Throughout this analysis, we have relied on historical data and other quantitative and qualitative information supplied by LGC-PLT. We have not independently audited or verified this information; however, we have reviewed it for reasonableness and internal consistency. We have assumed that the information is complete and accurate, and that we have been provided with all information relevant to the analysis of LGC-PLT's ultimate loss and ALAE and the indicated July 1, 2009 rate level for property and liability coverages and the indicated January 1, 2009 rate level for workers compensation coverage. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data; therefore, any material discrepancies discovered in this data should be reported to us and this report amended accordingly, if warranted.

Extraordinary Future Emergence

We have not assumed any extraordinary changes to the legal, social, or economic environment that might affect the cost, frequency or future reporting of claims. In addition, our estimates make no provision for potential future claims arising from loss causes not represented in the historical data (e.g., new types of mass torts or latent injuries, terrorist acts, etc.), except insofar as claims of these types are included, but not identified in the reported claims and are implicitly analyzed.

Discounting

Estimates discounted for time value of money are more uncertain than those on an undiscounted basis. In addition to the usual uncertainty in projecting ultimate levels of loss and ALAE, discounted estimates are also influenced by:

- Variations in the timing of actual loss and ALAE payments versus the rate of payment assume in discounting estimates to present value, and
- Variation in the actual investment yield on the assets underlying the losses in the discounted rate level indications versus the assumed interest rate used in discounting.

LGC-PLT provided an investment income assumption of \$1.05 million in fiscal year 7/2009 for property and liability coverages and 4.5% for workers compensation for policy year 2009. We have formed no opinion regarding the reasonability of these interest rates.

Self-Insurance Risk

When reviewing our findings, it is important to note certain implications of a group self-insurance plan. The entire retained risk remains with the self-insurer, which likely exposes this entity to greater potential fluctuations in financial experience than does a first dollar insurance program. LGC-PLT should have sufficient financial capacity to reserve for and withstand those fluctuations. Actual losses in excess of projected losses will have to be paid by LGC-PLT. It is not possible to estimate such fluctuations completely accurately; however, the effects of such fluctuations can be reduced by the funding of a provision for contingencies (a margin for the risk of adverse deviation from the expected loss levels). We have NOT included such risk margins or estimated confidence levels in the scope of this analysis.

An important factor bearing on a self-insurance group's financial capacity is the existence of an excess insurance/reinsurance program. Excess insurance/reinsurance is generally considered an integral part of programs with the potential for catastrophic losses; municipal liability, property and workers compensation losses are characterized by this potential.

Nothing in this report should be construed as recommending that LGC-PLT should or should not self-insure these coverages. Many factors other than the rate level indications should be considered in that decision.

General

The rate level indications include estimated provisions for the expenses listed below to the extent that they are reflected in historical expenses:

- Cost of excess insurance;
- Claims administration (ULAE);
- Actuarial and audit fees;
- Risk management fees; and
- In-house legal counsel fees.