
Michigan Catastrophic Claims Association

**Statutory Financial Report
with Supplemental Information
June 30, 2018**

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Independent Auditor's Report

To the Board of Directors
Michigan Catastrophic Claims Association

We have audited the accompanying statutory financial statements of the Michigan Catastrophic Claims Association (the "Association"), which comprise the statutory statement of admitted assets, liabilities, and accumulated deficit as of June 30, 2018 and 2017 and the related statutory statements of operations, changes in accumulated deficit, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the statutory financial statements, these statutory financial statements are prepared in conformity with the accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services, which differ from accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between such practices and accounting principles generally accepted in the United States of America are not practically determinable, but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Michigan Catastrophic Claims Association at June 30, 2018 and 2017 or the results of its operations or its cash flows for the years then ended.

To the Board of Directors
Michigan Catastrophic Claims Association

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Catastrophic Claims Association as of June 30, 2018 and 2017 and the results of its operations, changes in accumulated deficit, and cash flows for the years then ended in accordance with the basis of accounting described in Note 2.

Emphasis of Matter

As described in Note 2 to the statutory financial statements, the Association received permission from the Michigan Department of Insurance and Financial Services to discount its liabilities for loss and loss adjustment expenses on a nontabular basis. This practice differs from prescribed statutory accounting practices. As of June 30, 2018 and 2017, this permitted practice reduced the Association's accumulated deficit by \$47,249,687,000 and \$46,080,029,000, respectively. For the years ended June 30, 2018 and 2017, the Association's net loss decreased \$1,169,658,000 and \$3,814,858,000, respectively, as compared to what it would have been had the prescribed statutory accounting practice been followed. The assumptions made related to the future inflation and investment return percentages are significant estimates that are disclosed in Note 2 to the statutory financial statements. While management of the Association believes the estimates are reasonable, it is at least reasonably possible, based on past patterns, the estimates may be revised in the future.

As also discussed in Note 2 to the statutory financial statements, the Association is a private unincorporated nonprofit association formed by the Michigan Legislature, of which every insurer that sells automobile or motorcycle coverage in Michigan is required to be a member. Under the applicable statute, the Association is able to assess its member companies for all losses and deficits through adjustments to future assessments.

Plante & Moran, PLLC

November 8, 2018

Michigan Catastrophic Claims Association

Statutory Statement of Admitted Assets, Liabilities, and Accumulated Deficit

June 30, 2018 and 2017 (000s omitted)		
	2018	2017
Admitted Assets		
Cash and Invested Assets		
Bonds (Note 3)	\$ 2,360,313	\$ 2,198,832
Common stocks - Equity securities (Note 3)	6,421,948	6,274,459
Common stocks - Fixed-income funds (Note 3)	9,504,759	9,011,972
Cash and short-term investments	290,442	256,123
Other invested assets (Note 3)	1,678,268	1,544,526
Receivable for securities	4,797	-
Securities lending reinvested collateral assets (Note 4)	275,233	350,658
Total cash and invested assets	20,535,760	19,636,570
Other Assets		
Accrued investment income	18,772	17,644
Premiums and other receivables	472	446
Other	16	11
Total admitted assets	\$ 20,555,020	\$ 19,654,671
Liabilities and Accumulated Deficit		
Liabilities		
Loss and loss adjustment expense reserves, less discount of \$47,249,687 in 2018 and \$46,080,029 in 2017 (Note 7)	\$ 22,860,759	\$ 21,625,444
Accrued expenses	5,112	5,002
Unearned premium assessments	316,933	294,427
Premium refunds payable	1,434	1,702
Payable for securities	6,123	8,809
Payable for securities lending (Note 4)	275,233	350,658
Underfunded pension liability (Note 8)	154	2,197
Premium deficiency reserve	7,488	-
Other	5	5
Total liabilities	23,473,241	22,288,244
Accumulated Deficit	(2,918,221)	(2,633,573)
Total liabilities and accumulated deficit	\$ 20,555,020	\$ 19,654,671

Michigan Catastrophic Claims Association

Statutory Statement of Operations

Years Ended June 30, 2018 and 2017

(000s omitted)

	2018	2017
Underwriting Income (Loss)		
Premium assessments earned	\$ 1,246,218	\$ 1,168,077
Loss and loss adjustment expenses incurred, net of discount (Note 7)	(2,444,467)	(3,186,279)
Other underwriting expenses incurred	(10,368)	(2,565)
Net underwriting loss	(1,208,617)	(2,020,767)
Investment Income		
Investment income - Net of expenses (Note 6)	548,445	360,491
Net realized gains on sales of investments	341,986	957,882
Net investment income	890,431	1,318,373
Other Expense - Net	(1,517)	(693)
Net Loss	\$ (319,703)	\$ (703,087)

Michigan Catastrophic Claims Association

Statutory Statement of Changes in Accumulated Deficit

Years Ended June 30, 2018 and 2017

(000s omitted)

	2018	2017
Accumulated Deficit - Beginning of year	\$ (2,633,573)	\$ (1,741,431)
Net loss	(319,703)	(703,087)
Change in net unrealized gains and losses	34,355	(190,164)
Change in nonadmitted assets	798	694
Change in unrecognized pension liability	(98)	415
Accumulated Deficit - End of year	<u>\$ (2,918,221)</u>	<u>\$ (2,633,573)</u>

Michigan Catastrophic Claims Association

Statutory Statement of Cash Flows

Years Ended June 30, 2018 and 2017

(000s omitted)

	2018	2017
Cash from Operations		
Premium assessments collected	\$ 1,268,488	\$ 1,201,964
Investment income received	555,114	369,543
Miscellaneous income (loss)	2	(693)
Total	1,823,604	1,570,814
Benefit and loss-related payments	(1,209,151)	(1,206,954)
Underwriting expenses paid	(3,800)	(2,433)
Total	(1,212,951)	(1,209,387)
Net cash from operations	610,653	361,427
Cash from Investments		
Proceeds from investments sold and maturities:		
Bonds	613,340	571,468
Common stocks	724,257	7,349,243
Other invested assets	107,153	96,003
Change in receivable for securities	(4,797)	5,939
Purchases of investments:		
Bonds	(774,253)	(679,756)
Common stocks	(1,141,948)	(7,668,617)
Other invested assets	(95,392)	(104,811)
Change in payable for securities	(2,686)	(16,002)
Net cash used in investments	(574,326)	(446,533)
Cash from Financing and Miscellaneous Sources - Other applications	(2,008)	315
Net Increase (Decrease) in Cash and Short-term Investments	34,319	(84,791)
Cash and Short-term Investments - Beginning of year	256,123	340,914
Cash and Short-term Investments - End of year	<u><u>\$ 290,442</u></u>	<u><u>\$ 256,123</u></u>

June 30, 2018 and 2017

Note 1 - Nature of Business

The Michigan Catastrophic Claims Association (the "Association") was established by Public Act 136 of 1978, which amended the no-fault auto insurance law by adding Section 3104 to the Michigan Insurance Code effective July 1, 1978. The legislature created the Association because smaller insurance companies had difficulty obtaining reinsurance for Michigan's automobile no-fault policies, which provided for unlimited lifetime medical benefits for people who are catastrophically injured in auto accidents. The Association is a private unincorporated nonprofit association of which every insurer that sells automobile or motorcycle coverage in Michigan is required to be a member.

The Association is governed by a board of directors, which consists of five members appointed by the director of the Michigan Department of Insurance and Financial Services. The director, or his or her representative, serves as an ex-officio member of the board. In addition, the following standing committees provide assistance in the operation of the Association: (1) actuarial, (2) audit, (3) claims, (4) communications, (5) information technology, (6) investment, and (7) personnel.

The Association assesses each member engaged in writing insurance coverages under policies of insurance issued to residents of the state of Michigan, which provide the coverages required (1) for motor vehicles under Section 3101 of the Michigan Insurance Code and (2) for motorcycles under Section 3103 of the Michigan Insurance Code. The Association is required to assess an amount each year that is sufficient to cover the lifetime claims of all persons catastrophically injured in that year, in excess of the members' retention level, and may adjust future assessments for excesses or deficiencies in prior assessments. These assessments provide funds for the indemnification of those members against ultimate loss sustained under statutory required personal protection insurance coverages in excess of the applicable amount set forth in Section 3104(2) of the Michigan Insurance Code.

Public Act 3 of 2001 provided for a gradual increase in the member company retention level from the original amount of \$250,000 at July 1, 1978 to \$500,000 on July 1, 2011, and thereafter increasing every two years by 6 percent or the increase in the Consumer Price Index, whichever is less, and rounded to the nearest \$5,000. Michigan statute requires this biennial adjustment to be calculated by the Association by January 1 of the year of its July 1 effective date. The calculation must be based on the two-year change in the United States Consumer Price Index for all Urban Consumers U.S. city average (CPI-U) for the 24 months prior to October 1 of the year prior to the July 1 effective date. As a result of these requirements, for a motor vehicle accident policy issued or renewed during the period from July 1, 2017 through June 30, 2019, the member retention level will total \$555,000. The Association's future operations and form are dependent upon the continuation of its enabling state legislation.

Note 2 - Significant Accounting Policies

Basis of Presentation

These statutory financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services (DIFS), which is a special-purpose framework differing from accounting principles generally accepted in the United States of America (GAAP). Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to the state of domicile. A state may adopt the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* in whole or in part, as an element of prescribed statutory accounting practices. If, however, the state laws differ from the guidance provided in the NAIC *Accounting Practices and Procedures Manual*, the state laws will take precedence. Permitted statutory accounting practices encompass all accounting practices that are not prescribed but allowed by the state regulatory authority; such practices differ from state to state, may differ from company to company within a state, and may change in the future.

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Permitted Practice

DIFS has permitted the Association a certain practice that differs from those found in the NAIC *Accounting Practices and Procedures Manual* (NAIC SAP). Specifically, the Association is permitted to discount its losses and loss adjustment expense reserves on a nontabular basis. DIFS approved the use of this permitted practice for a three-year period expiring on June 30, 2019, at which time the Association will be required to seek approval from the DIFS if it wishes to continue to discount its losses and loss adjustment reserves.

A reconciliation of the Association's net loss and accumulated deficit between NAIC SAP and practices permitted by DIFS is shown below (dollars in thousands):

	State of Domicile	2018	2017
Net Loss			
State of Michigan basis - State-permitted practice	MI	\$ (319,703)	\$ (703,087)
Change in discount on losses and loss adjustment reserves	MI	<u>(1,169,658)</u>	<u>(3,814,858)</u>
Net loss, NAIC SAP basis	MI	<u>\$ (1,489,361)</u>	<u>\$ (4,517,945)</u>
Accumulated Deficit			
State of Michigan basis - State-permitted practice state basis	MI	\$ (2,918,221)	\$ (2,633,573)
Discounting of losses and loss adjustment reserves	MI	<u>(47,249,687)</u>	<u>(46,080,029)</u>
Accumulated deficit, NAIC SAP basis	MI	<u>\$ (50,167,908)</u>	<u>\$ (48,713,602)</u>

The more significant variances between statutory accounting principles and GAAP that affect the Association are as follows:

- Bonds are carried at values prescribed by the NAIC. Generally, bonds are stated at amortized cost (unless the NAIC requires fair value). Under GAAP, the Association's bonds would be reported at fair value, with unrealized gains and losses reported in income.
- Nonadmitted assets are excluded through a charge against surplus; under GAAP, these assets are recorded on the balance sheet, net of any valuation allowance.
- The statutory basis statement of cash flows has been prepared in accordance with the prescribed format and differs in certain respects from the presentation required by GAAP. In addition, a reconciliation of net income to net cash provided by operating activities is not provided, as required by GAAP.
- Undistributed earnings and losses of equity method investments in limited partnerships and LLCs are charged directly to surplus through change in unrealized gains and losses under statutory accounting principles. Under GAAP, undistributed earnings and losses of equity method investments are reflected in earnings on the statement of operations.
- Comprehensive income and its components are not presented in the statutory basis financial statements, but are required under GAAP.

June 30, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Investments

Short-term investments include all investments with maturities, at the time of acquisition, of one year or less and are stated at cost, which approximates fair value.

Bonds are generally stated at amortized cost using the scientific method. Common stocks are stated at fair value. Fair values were estimated on prices received from an independent pricing source and market comparables, or based on the Association's share of the net asset value for mutual funds which do not actively trade.

Single class mortgage-backed/asset-backed and multiclass mortgage-backed/asset-backed securities are stated at amortized cost using the scientific method, including anticipated prepayments at the date of purchase. Prepayment assumptions for single class and multiclass mortgage-backed/asset-backed securities are obtained from Interactive Data Pricing and Reference Data, Inc. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective adjustment method. There have been no changes from the retrospective to the perspective method of valuing loan-backed securities.

Realized gains and losses on sales of investments are determined on a specific identification basis and are credited or charged to income. Unrealized capital gains and losses resulting from the valuation of investments at fair value are credited or charged directly to the accumulated deficit. A decline in the market value of any investment security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis is established.

Private equity investments consist nearly exclusively of limited partnership positions in a variety of fund-of-funds and are carried at net asset value of the fund, which is equal to the Association's equity interest in the partnership. These limited partnerships invest directly in underlying venture capital, buyout, and/or other related private equity partnerships that typically specialize within development stage, technological sector, and/or business size. The fund-of-funds provider acts as a limited partner within these partnership investments and acts to diversify the Association's underlying investments across vintage year, economic cycle, and geography relative to available investment opportunities. The fund-of-funds in which the Association invests may purchase secondary fund offerings of, or coinvest directly in, private equity investments alongside underlying general partnerships on behalf of the limited partners in their fund, including the Association. Under the terms of various limited partnership agreements approved by the Association's board of directors, the Association is obligated to make periodic payments for advance commitments to limited partnerships. As of June 30, 2018, the Association had committed, but not paid, a total of \$366 million in funding for these limited partnerships.

The Association is the sole owner of two investment funds that invest in bank loans. The bank loan investment funds are carried at net asset value of the fund, which is equal to the Association's equity interest in the fund. The bank loan investment funds consist of portions of loans originated and serviced by commercial or investment bank arrangers that are generally syndicated out to institutional investors or funds. The loans are typically floating rate over LIBOR with a LIBOR floor, or minimum, and reset on a periodic basis, such as quarterly. The majority of loans are secured first-lien obligations and denominated in U.S. dollars.

Receivable/Payable for Securities

Receivables or payables for securities represent investments purchased or sold in the normal course of business that had not settled prior to year end.

June 30, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Loss and Loss Adjustment Expense Reserves

The Association actuarially computes loss and loss adjustment expense reserves using the present value of disbursements expected to be made for the ultimate settlement of the claims reported. The Association bases the provision for unpaid losses and loss adjustment expenses upon information reported to it by its member insurance companies with respect to reported claims, giving consideration with respect to each reported claim to past payments of the member insurance company and estimated future payments of personal injury protection insurance benefits, with the future payments (initially estimated at current cost levels) then being adjusted to their expected future levels in light of selected claim cost inflation projections; the resultant estimates are adjusted based upon actuarial tables that incorporate actual emerged association mortality and closure experience to reflect the probabilities of each claimant surviving to incur such costs. The Association also includes an estimate for incurred but not reported losses based upon the foregoing data. The methods of estimating losses and loss adjustment reserves are continually reviewed and updated, and any adjustments required are reflected in the current operations. Management believes that losses and loss adjustment reserves are adequate; however, inasmuch as these estimated amounts are based on member-reported information, present value, investment yield, and mortality assumptions (determined by actuarial tables that incorporate actual emerged association mortality and closure experience), the ultimate settlement of these liabilities may be significantly greater or less than such estimates.

The payment of losses and loss adjustment expenses is necessary over a long period of time; therefore, the Association has adopted a permitted practice to discount its unpaid losses and loss adjustment expenses. A significant actuarial assumption is that the investment return rate is equal to the discount rate. At June 30, 2018, the actuarially determined discount rate is 5.2 percent for the short term, gradually progressing to 6.4 percent in the long term. At June 30, 2017, the actuarially determined discount rate was 5.1 percent for the short term, gradually progressing to 6.3 percent in the long term.

Economic assumptions for claim cost inflation and investment returns are formulated based on forecasts utilizing both a short-term and long-term perspective.

Inflation assumptions are formulated for the general inflation rate and, based on the general inflation rate assumption and the historical relationships between the Consumer Price Index (CPI) for all items and various CPI subcomponents, for 15 different cost center component categories. These assumptions are based upon current economic data, historical Consumer Price Index data, and Congressional Budget Office (CBO) estimates. The starting point of the historical information to be included in the inflation model is 1980 to correspond with the implementation of the Depository Institutions Deregulation and Monetary Control Act of 1980.

In formulating the discount rate, the Association's portfolio performance and asset mix, as well as historical short-term and long-term investment returns, are considered.

In 2018, there was no change from 2017 in the methodology used to migrate the economic assumptions from the current environment to the long-term assumptions and in the formulation of the inflation and discount rates. The 2018 analysis developed a higher beginning short-term assumption for investment returns and a lower beginning short-term assumption for inflation rates.

Inflation and investment assumptions used at June 30, 2018 are: (1) Inflation assumptions: general inflation rate of 2.2 percent and an annual increase in claim costs for the 15 different cost component categories, other than for noninflated costs, that range between 0.5 percent and 5.7 percent, for the period from July 1, 2018 to June 30, 2019, then gradually increasing until the long-term assumption for general inflation of 2.7 percent is reached beginning July 1, 2027 and thereafter, then gradually increasing long-term assumptions for the annual increase in the inflation for claim costs for the cost component categories, ranging from 1.1 percent to 6.5 percent, beginning July 1, 2027 and thereafter; and (2) investment return assumptions: rate of 5.2 percent for the period from July 1, 2018 to June 30, 2019; then gradually increasing until a long-term rate of 6.4 percent is reached beginning July 1, 2030 and thereafter.

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Inflation and investment assumptions used at June 30, 2017 are: (1) inflation assumptions: general inflation rate of 2.3 percent and an annual increase in claim costs for the 15 different cost component categories, other than for noninflated costs, that range between 0.6 percent and 5.9 percent, for the period from July 1, 2017 to June 30, 2018, then gradually increasing until the long-term assumption for general inflation of 2.7 percent is reached beginning July 1, 2026 and thereafter, then gradually increasing long-term assumptions for the annual increase in the inflation for claim costs for the cost component categories, ranging from 1.1 percent to 6.5 percent, beginning July 1, 2026 and thereafter; and (2) investment return assumptions: rate of 5.1 percent for the period from July 1, 2017 to June 30, 2018, then gradually increasing until a long-term rate of 6.3 percent is reached beginning July 1, 2025 and thereafter.

At June 30, 2018, the amount of discounted liabilities for losses and loss adjustment expenses using the current inflation and investment assumptions, excluding the current accident year, is \$21,636,902,000. Had these discounted liabilities been completed based on the inflation and investment assumptions used at June 30, 2017, the amount of discounted liabilities for losses and loss adjustment expenses would have been \$21,729,102,000. The adoption of the new economic assumptions decreased the liability for loss and loss adjustment expenses by approximately \$92,200,000.

Revenue Recognition

Premium assessments are levied on a fiscal year June 30 basis (encompassing the period from July 1 through June 30), and the basis for calculating each member's annual premium assessment is the member's total written car years of insurance providing the security required by Sections 500.3101 and 500.3103 of the Michigan Insurance Code. Member companies have the option of paying premium assessments on a monthly or annual basis. For each assessment period, a preliminary premium assessment is levied based on a member's total written car years during the immediately preceding assessment period. The preliminary assessment is assessed at the end of each month for member companies electing to pay in equal monthly installments and at the end of August for member companies electing to pay on an annual basis. Subsequent to the Association's fiscal year, and as soon as is practicable after the end of each assessment period for which the premium is applicable, a final premium assessment is levied for the period just completed based on actual written car years. Adjustments to the estimated preliminary assessments are recognized in the year the assessment adjustment is billed, as the Association is unable to estimate members' individual or direct written car years.

Assessments are earned and recognized as premium assessments ratably over the premium assessment period. Unearned premium assessments represent the portion of premiums written, which is applicable to the unexpired portion of the assessment, calculated by the application of monthly pro rata fractions.

Members are subject to a triennial premium audit program. The Association recognizes premium adjustments resulting from the audit program in the year the premium adjustment is identified.

The Association's revenue is dependent upon assessments, under applicable statute, to member companies operating in the state of Michigan.

Premium Deficiency Reserve

Management evaluates whether a premium deficiency reserve is necessary at each reporting period. A premium deficiency reserve is required to be recorded if the present value of expected future claim payments, including administrative expenses for the current accident year related to unearned assessable exposures, exceeds the recorded unearned premium reserve. Investment income is a factor in the premium deficiency calculation. A premium deficiency reserve of \$7,488,000 was recorded at June 30, 2018 and no premium deficiency reserve was required at June 30, 2017.

Income Taxes

The Association has received a determination letter from the Internal Revenue Service indicating that the Association is exempt from income taxes under Internal Revenue Code Section 501(c)(6).

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with prescribed or permitted statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Assessment of Losses and Deficits

The Association is a nonprofit organization and, under the applicable statute, all losses and deficits are assessable to member companies. Furthermore, excesses or deficiencies from previous periods may be adjusted in subsequent premium assessments to member companies. Recognizing the difficulty and uncertainty in predicting the projected claim payments for long-term claims in which medical benefits are unlimited, any such excesses or deficiencies may be fully adjusted in a single assessment period or may be adjusted over several periods ratably or in such proportion as the Association's board of directors may deem advisable. The uncertainty in the estimates of the liabilities is primarily due to difficulty in predicting (a) life expectancies, (b) medical cost inflation, (c) investment returns, and (d) claim frequency.

Subsequent Events

The statutory financial statements and related disclosures include evaluation of events up through and including November 8, 2018, which is the date the statutory financial statements were available to be issued.

Note 3 - Investments

The estimated fair value of bonds is based on information published by the Investment Analysis Office (IAO), formerly known as the Securities Valuation Office (SVO), market quotations, and other sources. The amortized cost, gross unrealized gains and losses, estimated fair value of bonds, common stocks, and other invested assets are as follows at June 30, 2018 and 2017 (in thousands of dollars):

	2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. government securities	\$ 630,885	\$ 760	\$ (15,384)	\$ 616,261
Obligations of state and local government	98,385	14,442	(295)	112,532
U.S. special revenue	669,930	9,310	(16,440)	662,800
Corporate	962,443	28,309	(19,119)	971,633
Subtotal	2,361,643	52,821	(51,238)	2,363,226
Common stocks:				
Equity securities	4,966,196	1,478,979	(23,227)	6,421,948
Fixed-income funds	8,858,038	747,677	(100,956)	9,504,759
Subtotal	13,824,234	2,226,656	(124,183)	15,926,707
Other invested assets	1,405,561	273,996	(1,289)	1,678,268
Total investments	\$ 17,591,438	\$ 2,553,473	\$ (176,710)	\$ 19,968,201

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 3 - Investments (Continued)

	2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. government securities	\$ 646,833	\$ 3,006	\$ (4,006)	\$ 645,833
Obligations of state and local government	98,741	17,157	(158)	115,740
U.S. special revenue	593,795	13,383	(5,850)	601,328
Corporate	859,463	71,353	(2,004)	928,812
Subtotal	2,198,832	104,899	(12,018)	2,291,713
Common stocks:				
Equity securities	4,865,239	1,410,570	(1,350)	6,274,459
Fixed-income funds	8,263,355	748,617	-	9,011,972
Subtotal	13,128,594	2,159,187	(1,350)	15,286,431
Other invested assets	1,362,869	182,661	(1,004)	1,544,526
Total investments	<u>\$ 16,690,295</u>	<u>\$ 2,446,747</u>	<u>\$ (14,372)</u>	<u>\$ 19,122,670</u>

The amortized cost and fair value of bonds by contractual maturity at June 30, 2018 are shown below (in thousands of dollars). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 35,241	\$ 35,743
Due in one through five years	469,014	459,638
Due after five years through 10 years	370,999	364,057
Due after 10 years	758,982	788,857
Asset-backed securities	554,265	540,153
Mortgage-backed securities	173,142	174,778
Total	<u>\$ 2,361,643</u>	<u>\$ 2,363,226</u>

Realized gains related to other invested assets totaled approximately \$54,454,000 and \$74,157,000 for the years ended June 30, 2018 and 2017, respectively.

Proceeds from the sales of bonds and the related realized gains and losses for the years ended June 30, 2018 and 2017 are as follows (in thousands of dollars):

	2018	2017
Sales proceeds	\$ 613,340	\$ 556,768
Gross realized gains	15,637	8,277
Gross realized losses	(5,634)	(2,069)

Proceeds from the sale of common stocks and the related realized gains and losses for the years ended June 30, 2018 and 2017 are as follows (in thousands of dollars):

	2018	2017
Sales proceeds	\$ 724,257	\$ 7,349,243
Gross realized gains	288,652	942,828
Gross realized losses	(7,231)	(62,054)

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 3 - Investments (Continued)

Information pertaining to investment securities with gross unrealized losses at June 30, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands of dollars):

		2018					
		Less than 12 Months		12 Months or Greater		Total	
		Gross Unrealized Losses		Gross Unrealized Losses		Gross Unrealized Losses	
		Fair Value		Fair Value		Fair Value	
Bonds:							
U.S. government securities	\$ 150,394	\$ (3,348)	\$ 431,273	\$ (12,036)	\$ 581,667	\$ (15,384)	
Obligations of states and local government	-	-	28,693	(295)	28,693	(295)	
U.S. special revenue	153,288	(3,913)	355,380	(12,527)	508,668	(16,440)	
Corporate	199,191	(5,945)	325,213	(13,174)	524,404	(19,119)	
Subtotal	502,873	(13,206)	1,140,559	(38,032)	1,643,432	(51,238)	
Common stocks	17,029	(960)	4,315,674	(123,223)	4,332,703	(124,183)	
Other invested assets	-	(150)	18,501	(1,139)	18,501	(1,289)	
Total investments	\$ 519,902	\$ (14,316)	\$ 5,474,734	\$ (162,394)	\$ 5,994,636	\$ (176,710)	
		2017					
		Less than 12 Months		12 Months or Greater		Total	
		Gross Unrealized Losses		Gross Unrealized Losses		Gross Unrealized Losses	
		Fair Value		Fair Value		Fair Value	
Bonds:							
U.S. government securities	\$ 388,077	\$ (3,883)	\$ 6,888	\$ (123)	\$ 394,965	\$ (4,006)	
Obligations of state and local government	11,628	(158)	-	-	11,628	(158)	
U.S. special revenue	301,502	(3,558)	72,476	(2,292)	373,978	(5,850)	
Corporate	81,143	(1,509)	13,589	(495)	94,732	(2,004)	
Subtotal	782,350	(9,108)	92,953	(2,910)	875,303	(12,018)	
Common stocks	14,820	(1,237)	1,137	(113)	15,957	(1,350)	
Other invested assets	4,683	(158)	5,376	(846)	10,059	(1,004)	
Total investments	\$ 801,853	\$ (10,503)	\$ 99,466	\$ (3,869)	\$ 901,319	\$ (14,372)	

Factors considered in evaluating whether a decline in value is other than temporary are: (1) whether the decline is substantial, (2) the Association's ability and intent to retain the investment for a period of time sufficient to allow for anticipated recovery in value, (3) the duration and extent to which market value has been less than cost, (4) the financial condition and near-term prospects of the issuer, (5) impact on market values due to the level of interest rates, (6) changes in rating quality, and (7) the NAIC designation. During the years ended June 30, 2018 and 2017, other-than-temporary impairment losses totaling approximately \$3,892,000 and \$3,257,000, respectively, were recognized in operations that related to common stocks and bonds.

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 4 - Securities Lending Program

The Association participates in a custodian bank securities lending program, whereby securities have been lent to various brokers. The collateral provided as security is required, at the inception of the loan, to equal at least 102 percent of the fair value of the loaned securities plus accrued interest. The loaned securities and collateral are required to be marked-to-market on a daily basis; and if the fair value of the collateral is less than the required value, additional collateral must be posted subject to the custodian's *de minimis* rule for maintenance margins. The total amount of securities to be lent cannot exceed 10 percent of the Association's total portfolio. Securities loaned at June 30, 2018 and 2017 had fair values as follows (in thousands of dollars):

	2018	2017
Government bonds	\$ 456,745	\$ 383,308
Corporate bonds	27,811	32,072
Equity securities	89,339	57,349
Total	<u>\$ 573,895</u>	<u>\$ 472,729</u>

Statement of Statutory Accounting Principles No. 103 defines *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In accordance with this standard, the Association has reported the June 30, 2018 and 2017 security lending reinvested collateral as a separate line in the statutory statement of admitted assets, liabilities, and accumulated deficit as of June 30, 2018 and 2017 (securities lending reinvested collateral assets). In addition, the Association has reported a corresponding liability (payable for securities lending). The fair value of the reinvested collateral was \$275,241,000 and \$350,720,000 at June 30, 2018 and 2017, respectively. This collateral was reinvested primarily in U.S. government and corporate fixed-income securities as of June 30, 2018. The Association did not recognize an impairment loss during 2018 and 2017. The Association also received noncash collateral with a fair value of approximately \$326,438,000 and \$133,973,000 as of June 30, 2018 and 2017, respectively, which is not reflected on the statutory statement of admitted assets, liabilities, and accumulated deficit. To further minimize risks related to the lending program, the custodian bank monitors both (1) the borrower risk, which includes reviews of borrowers and exposure limits, and (2) the credit risk, which includes risk reviews and oversight of cash pools and investments.

A breakdown of the reinvested collateral at June 30, 2018 by maturity is as follows (in thousands of dollars):

	Amortized Cost	Fair Value
30 days or less	\$ 90,000	\$ 90,001
31 to 60 days	36,974	36,979
61 to 90 days	55,859	55,857
91 to 120 days	8,000	8,000
121 to 180 days	32,943	32,947
181 to 365 days	14,000	14,000
2 to 3 years	32,500	32,500
Greater than 3 years	4,957	4,957
Total reinvested collateral	275,233	275,241
Noncash collateral	-	326,438
Total	<u>\$ 275,233</u>	<u>\$ 601,679</u>

The securities lending reinvested collateral assets amortized cost included in the above schedule by NAIC designation is as follows as of June 30, 2018 (in thousands of dollars):

NAIC - 1	\$ 275,233
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Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported or disclosed at fair value in the statutory financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Association has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Association's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following tables present information about the Association's financial instruments at June 30, 2018 and 2017 and the valuation techniques used by the Association to determine those fair values:

	June 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Total Carrying Value
Common stocks:					
Publicly traded common stocks	\$ 190,943	\$ -	\$ -	\$ 190,943	\$ 190,943
Equity mutual funds	1,822,428	4,408,577	-	6,231,005	6,231,005
Fixed-income funds	-	9,504,759	-	9,504,759	9,504,759
Subtotal	2,013,371	13,913,336	-	15,926,707	15,926,707
Bonds:					
U.S. government securities	-	616,261	-	616,261	630,885
Obligations of state and local government	-	112,532	-	112,532	98,385
U.S. special revenue	-	662,800	-	662,800	669,930
Corporate	-	971,633	-	971,633	961,113
Subtotal	-	2,363,226	-	2,363,226	2,360,313
Cash and short-term investments	290,442	-	-	290,442	290,442
Other invested assets:					
Private equity funds	-	-	704,103	704,103	704,103
High-yield bank loan funds	-	974,165	-	974,165	974,165
Subtotal	-	974,165	704,103	1,678,268	1,678,268
Total	\$ 2,303,813	\$ 17,250,727	\$ 704,103	\$ 20,258,643	\$ 20,255,730

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 5 - Fair Value Measurements (Continued)

	June 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	Total Carrying Value
Common stocks:					
Publicly traded common stocks	\$ 162,232	\$ -	\$ -	\$ 162,232	\$ 162,232
Equity mutual funds	1,800,112	4,312,115	-	6,112,227	6,112,227
Fixed-income funds	-	9,011,972	-	9,011,972	9,011,972
Subtotal	1,962,344	13,324,087	-	15,286,431	15,286,431
Bonds:					
U.S. government securities	-	645,833	-	645,833	646,833
Obligations of state and local government	-	115,740	-	115,740	98,741
U.S. special revenue	-	601,328	-	601,328	593,795
Corporate	-	928,812	-	928,812	859,463
Subtotal	-	2,291,713	-	2,291,713	2,198,832
Cash and short-term investments	256,123	-	-	256,123	256,123
Other invested assets:					
Private equity funds	-	-	608,423	608,423	608,423
High-yield bank loan funds	-	936,103	-	936,103	936,103
Subtotal	-	936,103	608,423	1,544,526	1,544,526
Total	\$ 2,218,467	\$ 16,551,903	\$ 608,423	\$ 19,378,793	\$ 19,285,912

The following summarizes the valuation methodology used in determining fair value measurements of the significant classes of the Association's financial instruments:

Level 1 Measurements

Cash and Short-term Investments - The fair value of cash balances is the Association's reported balances. Short-term investments are valued based on unadjusted quoted prices for the identical security in active markets that the Association can access.

Publicly Traded Common Stocks and Equity Mutual Funds - The fair values are based upon the unadjusted quoted prices for the identical security in active markets that the Association can access.

Level 2 Measurements

U.S. Government, Obligations of State and Local Government, U.S. Special Revenue, and Corporate Bonds - The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

Equity Mutual Funds and Fixed-income Funds - A net asset value is provided by a pricing vendor based on observable data.

High-yield Bank Loan Funds - High-yield bank loan funds are based on the net asset value of the funds.

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 5 - Fair Value Measurements (Continued)

Investments whose fair value is estimated using the net asset value are described below (in thousands of dollars):

	June 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Federated Institutional Fixed Income Fund (1)	\$ 2,394,965	\$ -	On Demand	1 Day
Mondrian Intl Equity Fund LP (2)	1,608,047	-	Monthly	15 Days
Prudential Institutional Core Conservative Bond Fund (3)	2,986,791	-	On Demand	3 Days
Prudential Institutional Long Gov't/Credit Bond Fund (4)	1,135,654	-	On Demand	3 Days
Aberdeen Emerging Markets Equity Fund (5)	191,000	-	On Demand	T+4
Dimensional Fund Advisors Emerging Markets Equity Fund (6)	194,770	-	On Demand	Same Day
Northern Trust Common US TIPS Index Fund (7)	2,987,350	-	On Demand	Same Day
LGIMA S&P 400 SL Fund (8)	505,016	-	On Demand	T+1
LGIMA S&P 500 SL Fund (8)	998,189	-	On Demand	T+1
LGIMA S&P 600 SL Fund (8)	582,195	-	On Demand	T+1
LGIMA MSCI EAFE SL Fund (9)	524,130	-	On Demand	T+1
Babson Bel-Air Loan Fund (10)	488,340	-	On Demand	15 Days
Invesco SSL Loan Fund (10)	485,826	-	On Demand	15 Days
Total	<u>\$ 15,082,273</u>	<u>\$ -</u>		

(1) The Association has a noncontrolling equity interest in the Federated Institutional Fixed Income Fund, for which the objective is to outperform the Barclays Aggregate Bond Index.

(2) The Association has a noncontrolling equity interest in the Mondrian International Equity Fund, for which the objective is to outperform the MSCI-EAFE Index.

(3) The Association has a noncontrolling equity interest in the Prudential Institutional Core Conservative Bond Fund, for which the objective is to outperform the Barclays Aggregate Bond Index.

(4) The Association has a noncontrolling equity interest in the Prudential Institutional Long Gov/Cr Bond Fund, for which the objective is to outperform the Barclays Long Gov't/Credit Bond Index.

(5) The Association has a noncontrolling equity interest in the Aberdeen Emerging Markets Equity Fund, for which the objective is to outperform the MSCI Emerging Markets Index.

(6) The Association has a noncontrolling equity interest in the Dimensional Fund Advisors Emerging Markets Equity Fund, for which the objective is to outperform the MSCI Emerging Markets Index.

(7) The Association has a noncontrolling equity interest in the Northern Trust Common US TIPS Index Fund, for which the objective is to parallel the performance of the Barclays US TIPS Index.

(8) The Association has a noncontrolling interest in each LGIMA S&P SL Fund, for which the objective is to outperform the S&P Index.

(9) The Association has a noncontrolling interest in the LGIMA MSCI-EAFE SL Index Fund, which the objective of the fund is to outperform the MSCI-EAFE (net) Index.

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 5 - Fair Value Measurements (Continued)

(10) The Association has a controlling interest in two bank loan funds, for which the objective is to parallel the performance of the Credit Suisse Leveraged Loan Index. These investments are included in other invested assets on the statutory statement of admitted assets, liabilities, and accumulated deficit.

Level 3 Measurements

Private Equity Limited Partnerships - Valuations represent management's estimation of the price the assets would sell for in the open market.

The following is a summary of changes for the years ended June 30, 2018 and 2017 in the fair value of Level 3 assets, which are carried at fair value on a recurring basis (in thousands of dollars):

	2018	2017
Balance - Beginning of year	\$ 608,423	\$ 526,827
Included in net income as realized gains	54,454	74,157
Included in surplus	52,987	(1,369)
Purchases, issuances, and settlements	(11,761)	8,808
Transfers in and/or out of Level 3	\$ 704,103	\$ 608,423

Note 6 - Investment Income

Investment income is composed of the following for the years ended June 30, 2018 and 2017 (in thousands of dollars):

	2018	2017
Interest income:		
Fixed maturities	\$ 75,883	\$ 72,345
Cash and short-term investments	3,551	1,082
Dividend income - Common stock	490,826	309,084
Other invested assets	2,204	1,601
Investment expenses	(24,019)	(23,621)
Net investment income	\$ 548,445	\$ 360,491

Note 7 - Unpaid Losses and Loss Adjustment Expenses

The following summarizes activity in the liability for unpaid losses and loss adjustment expenses for the years ended June 30, 2018 and 2017 (in thousands of dollars):

	2018	2017
Net balance - Beginning of year	\$ 21,625,444	\$ 19,646,878
Inurred related to:		
Current year	1,235,425	1,310,351
Prior years	1,209,042	1,875,928
Total incurred	2,444,467	3,186,279
Paid related to:		
Current year	11,568	9,857
Prior years	1,197,584	1,197,856
Total paid	1,209,152	1,207,713
Net balance - End of year	\$ 22,860,759	\$ 21,625,444

Notes to Statutory Financial Statements

June 30, 2018 and 2017

Note 7 - Unpaid Losses and Loss Adjustment Expenses (Continued)

Each year, re-estimation of unpaid losses and loss adjustment expenses is made based on an ongoing analysis of many factors, including (1) recent loss development trends, (2) continued review of individual claims as additional information is received, (3) frequency and severity trends, and (4) economic assumptions for investment returns and claim cost inflation. In addition, refinements in (1) the underlying actuarial methodology and (2) the mortality and claim closure model are done as warranted.

Unfavorable development relating to prior years occurred in both 2018 and 2017.

For 2018, unfavorable development was primarily the result of the difference in timing of the underlying discounted reserves at different valuation dates (unwinding of the discount), unanticipated additional development in reserve estimates, and the change in the economic assumptions. The unwinding of the discount, changes in the additional development in reserve estimates, and changes in the economic assumptions increased (decreased) incurred losses and loss adjustment expenses related to prior years by approximately \$1,073,842,000, \$227,400,000, and \$(92,200,000), respectively.

For 2017, unfavorable development was primarily the result of the difference in timing of the underlying discounted reserves at different valuation dates (unwinding of the discount) and the change in the economic assumptions. This unfavorable development was offset by unanticipated downward development in reserve estimates. The unwinding of the discount, changes in the additional development in reserve estimates, and changes in the economic assumptions decreased incurred losses and loss adjustment expenses related to prior years by approximately \$950,628,000, \$672,500,000, and \$252,800,000, respectively.

Note 8 - Employee Retirement Plan

The Association, as an employer, participates in the Pension Plan for Insurance Organizations. Substantially all of the Association's employees are covered by this noncontributory qualified defined benefit pension plan. Benefits are based on years of service and the employee's compensation during the last 10 years of employment.

A summary of the funded status of the Association's pension plan is as follows at June 30, 2018 and 2017 (in thousands of dollars):

	2018	2017
Funded status:		
Benefit obligation at year end	\$ 7,304	\$ 6,704
Fair value of plan assets at end of year	7,150	4,507
Underfunded status of plan	<u>\$ (154)</u>	<u>\$ (2,197)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$6,234,000 and \$5,756,000 at June 30, 2018 and 2017, respectively.

Information related to the pension plan for the year ended June 30 is as follows (in thousands of dollars):

	2018	2017
Benefit cost	\$ 762	\$ 367
Employer contributions	2,651	310
Benefits paid	162	101

Weighted-average assumptions used to determine benefit obligations at June 30 are as follows:

	2018	2017
Discount rate	4.00%	4.00%
Expected return on plan assets	5.50%	5.50%
Rate of compensation increase	4.00%	4.00%

Notes to Statutory Financial Statements**June 30, 2018 and 2017****Note 8 - Employee Retirement Plan (Continued)**

The assumption for the expected long-term rate of return on assets for the year beginning July 1, 2018 is 5.5 percent. This assumption represents the rate of return on plan assets reflecting the average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class. The target asset allocation is 40.0 percent equity securities and 60.0 percent debt securities.

A breakdown of the percentage of plan assets by asset category as of June 30 is as follows:

	2018	2017
Equity securities	39%	42%
Debt securities	56%	57%
Other	5%	1%
Total	100%	100%

Note 9 - Litigation and Claims

Various legal actions and other claims are pending or may be instituted or asserted in the future against the Association. Some of these matters involve or may involve claims in large amounts or other relief which, if granted, would require very significant expenditures. Management believes that all liabilities on pending legal actions have been adequately included in its established loss reserves.

Litigation is subject to many uncertainties; the outcome of individual litigated matters is not predictable with assurance, and it is reasonably possible that some of the foregoing matters could be decided unfavorably to the Association. Although the amount of liability at June 30, 2018, with respect to these matters, cannot be ascertained, management believes that any resulting liability would not materially affect the financial position or results of operations of the Association.

Note 10 - Accumulated Deficit

The Association is a nonprofit organization and has no stock outstanding.

The portion of unassigned funds (surplus) represented by (or reduced by) each item below is as follows as of June 30, 2018 and 2017 (in thousands of dollars):

	2018	2017
Net unrealized gains	\$ 2,373,850	\$ 2,339,495
Nonadmitted assets:		
EDP equipment and software	(1,841)	(2,660)
Premium receivable	(104)	(163)
Furniture and equipment	(100)	(35)
Prepaid expenses	(57)	(42)

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Directors
Michigan Catastrophic Claims Association

We have audited the statutory financial statements of the Michigan Catastrophic Claims Association as of and for the year ended June 30, 2018 and have issued our report thereon dated November 8, 2018, which contained an unmodified opinion on those statutory financial statements. Our audit was performed for the purpose of forming an opinion on the statutory financial statements as a whole. The summary investment schedule and the schedule of investment risks interrogatories are presented for compliance with the National Association of Insurance Commissioners' instructions to annual audited financial reports and are not required parts of the statutory financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Plante & Moran, PLLC

November 8, 2018

Summary Investment Schedule

June 30, 2018

(000s omitted)

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statements	
	Amount	Percentage	Amount	Percentage
1. Bonds:				
1.1 U.S. treasury securities	\$ 617,036	3.005 %	\$ 617,036	3.005 %
1.2 U.S. government agency obligations (excluding mortgage-backed securities):	-	-	-	-
1.21 Issued by U.S. government agencies	7,268	0.035	7,268	0.035
1.22 Issued by U.S. government sponsored agencies	-	-	-	-
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	-	-	-	-
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:	-	-	-	-
1.41 States, territories, and possessions general obligations	58,627	0.285	58,627	0.285
1.42 Political subdivisions of states, territories, and possessions and political subdivisions general obligations	39,758	0.194	39,758	0.194
1.43 Revenue and assessment obligations	16,300	0.079	16,300	0.079
1.44 Industrial development and similar obligations	-	-	-	-
1.5 Mortgage-backed securities (includes residential and commercial MBS):	-	-	-	-
1.51 Pass-through securities:	-	-	-	-
1.511 Issued or guaranteed by GNMA	-	-	-	-
1.512 Issued or guaranteed by FNMA and FHLMC	554,265	2.699	554,265	2.699
1.513 All other	-	-	-	-
1.52 CMOs and REMICs:	-	-	-	-
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC, or VA	101,618	0.495	101,618	0.495
1.522 Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in line	4,328	0.021	4,328	0.021
1.523 All other	85,459	0.416	85,459	0.416
2. Other debt and other fixed-income securities (excluding short term):	-	-	-	-
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	849,372	4.136	849,372	4.136
2.2 Unaffiliated non-U.S. securities (including Canada)	26,282	0.128	26,282	0.128
2.3 Affiliated securities	-	-	-	-
3. Equity interests:	-	-	-	-
3.1 Investments in mutual funds	-	-	-	-
3.2 Preferred stocks:	-	-	-	-
3.21 Affiliated	-	-	-	-
3.22 Unaffiliated	-	-	-	-
3.3 Publicly traded equity securities (excluding preferred stocks):	-	-	-	-
3.31 Affiliated	-	-	-	-
3.32 Unaffiliated	15,926,707	77.556	15,926,707	77.556
3.4 Other equity securities:	-	-	-	-
3.41 Affiliated	-	-	-	-
3.42 Unaffiliated	-	-	-	-
3.5 Other equity interests including tangible personal property under lease:	-	-	-	-
3.51 Affiliated	-	-	-	-
3.52 Unaffiliated	-	-	-	-
4. Mortgage loans:	-	-	-	-
4.1 Construction and land development	-	-	-	-
4.2 Agricultural	-	-	-	-
4.3 Single family residential properties	-	-	-	-
4.4 Multifamily residential properties	-	-	-	-
4.5 Commercial loans	-	-	-	-
4.6 Mezzanine real estate loans	-	-	-	-
5. Real estate investments:	-	-	-	-
5.1 Property occupied by company	-	-	-	-
5.2 Property held for production of income (including \$- of property acquired in satisfaction of debt)	-	-	-	-
5.3 Property held for sale (including \$- property acquired in satisfaction of debt)	-	-	-	-
6. Contract loans	-	-	-	-
7. Derivatives	-	-	-	-
8. Receivable for securities	4,797	0.023	4,797	0.023
9. Securities lending	275,233	1.340	275,233	1.340
10. Cash and short-term investments	290,442	1.414	290,442	1.414
11. Other invested assets	1,678,268	8.174	1,678,268	8.174
12. Total invested assets	\$ 20,535,760	100.000 %	\$ 20,535,760	100.000 %

Michigan Catastrophic Claims Association

Schedule of Investment Risks Interrogatories

June 30, 2018

(000s omitted)

- Reporting entity's admitted assets as reported: \$20,555,020
- The 10 largest exposures to a single issuer/borrower/investment, by investment category, excluding (i) U.S. government securities, U.S. government agency securities, and those U.S. government money market funds listed in Part Six of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* as exempt; (ii) property occupied by the Association; (iii) policy loans; and (iv) investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940, at June 30, 2018 are as follows:

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Publicly Traded Equity Securities - Prudential Core Conservative Fund	Common Stock	\$ 2,986,791	14.531 %
2.02	Publicly Traded Equity Securities - Federated Inst Fund	Common Stock	2,394,964	11.651 %
2.03	Publicly Traded Equity Securities - Vanguard Inst Index Fund	Common Stock	1,627,658	7.919 %
2.04	Publicly Traded Equity Securities - Mondrian Int'l Equity Fund	Common Stock	1,608,047	7.823 %
2.05	Publicly Traded Equity Securities - Prudential PGIM Lng Dur Gvt/C	Common Stock	1,135,654	5.525 %
2.06	Publicly Traded Equity Securities - LGIMA S&P 500 SL Fund	Common Stock	998,189	4.856 %
2.07	Publicly Traded Equity Securities - LGIMA MSCI EAFE SL Fund	Common Stock	582,195	2.832 %
2.08	Publicly Traded Equity Securities - LGIMA S&P 600 SL Fund	Common Stock	524,130	2.550 %
2.09	Publicly Traded Equity Securities - LGIMA S&P 400 SL Fund	Common Stock	505,016	2.457 %
2.10	Publicly Traded Equity Securities - Aberdeen Emerging Markets Equity Fund	Common Stock	194,770	0.948 %

- Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation:

Bonds				Preferred Stock			
	Rating	Amount	Percent		Rating	Amount	Percent
3.01	NAIC-1	\$ 1,944,085	9.458 %	3.07	P/RP-1	\$ -	- %
3.02	NAIC-2	413,842	2.013	3.08	P/RP-2	-	-
3.03	NAIC-3	2,117	0.010	3.09	P/RP-3	-	-
3.04	NAIC-4	-	-	3.10	P/RP-4	-	-
3.05	NAIC-5	-	-	3.11	P/RP-5	-	-
3.06	NAIC-6	269	0.001	3.12	P/RP-6	-	-

- Assets held in foreign investments:
 - Are assets held in foreign investments less than 2.5% of admitted assets? Yes
- Aggregate foreign investment exposure categorized by NAIC sovereign designation:

Not applicable.
- Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation

Not applicable.

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Schedule of Investment Risks Interrogatories (Continued)

June 30, 2018

(000s omitted)

7. Aggregate unhedged foreign currency exposure:

Not applicable.

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

Not applicable.

9. Largest unhedged foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

Not applicable.

10. The 10 largest non-sovereign (i.e. non-governmental) foreign issues:

Not applicable.

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of admitted assets? Yes

12. Aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of admitted assets? Yes

13. Amounts and percentages of admitted assets held in the 10 largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of admitted assets? No

	Name of Issuer	Amount	Percentage
13.02	Publicly Traded Equity Securities - Prudential Core Conservative Fund	\$ 2,987,350	14.533 %
13.03	Publicly Traded Equity Securities - U.S. Tips Index Fund	2,986,791	14.531 %
13.04	Publicly Traded Equity Securities - Federated Inst Fund	2,394,964	11.651 %
13.05	Publicly Traded Equity Securities - Vanguard Inst Index Fund	1,627,658	7.919 %
13.06	Publicly Traded Equity Securities - Mondrian Int'l Equity Fund	1,608,047	7.823 %
13.07	Publicly Traded Equity Securities - Prudential PGIM Lng Dur Gvt/C	1,135,654	5.525 %
13.08	Publicly Traded Equity Securities - LGIMA S&P 500 SL Fund	998,189	4.856 %
13.09	Publicly Traded Equity Securities - LGIMA MSCI EAFE SL Fund	582,195	2.832 %
13.10	Publicly Traded Equity Securities - LGIMA S&P 600 SL Fund	524,130	2.550 %
13.11	Publicly Traded Equity Securities - LGIMA S&P 400 SL Fund	505,016	2.457 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of admitted assets? Yes

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of admitted assets? Yes

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of total admitted assets? Yes

Michigan Catastrophic Claims Association

Schedule of Investment Risks Interrogatories (Continued)

June 30, 2018

(000s omitted)

17. Aggregate mortgage loans having the following loan-to-value ratios as determined by the most current appraisal as of the annual statement date:

Not applicable.

18. Amounts and percentages of the reporting entity's total admitted assets in each of the five largest investments in real estate:

18.01 Are assets held in real estate less than 2.5% of admitted assets? Yes

19. Aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in mezzanine real estate loans less than 2.5% of admitted assets? Yes

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
20.01	Securities lending (do not include assets held as collateral for such transactions)	\$ 573,895	2.792 %	\$ 583,262	\$ 582,226	\$ 502,054
20.02	Repurchase agreements	-	- %	-	-	-
20.03	Reverse repurchase agreements	-	- %	-	-	-
20.04	Dollar repurchase agreements	-	- %	-	-	-
20.05	Dollar reverse purchase agreements	-	- %	-	-	-

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

The Association does not have any of these types of warrants.

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

The Association does not have collars, swaps, or forwards.

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

The Association does not have futures contracts.