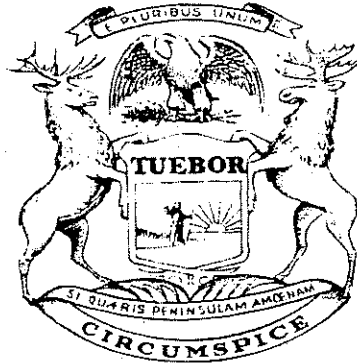


State of Michigan
Department of
Labor & Economic Growth
Office of Financial and Insurance Services



Financial Examination
of

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
Livonia, Michigan

As of June 30, 2006

State of Michigan

DEPARTMENT OF
LABOR & ECONOMIC GROWTH

OFFICE OF FINANCIAL AND INSURANCE SERVICES

Certified Copy

Filed as a Public Document

June 27, 2007

A handwritten signature in black ink that reads "Linda A. Watters". The signature is written in a cursive style with a long horizontal flourish at the end.

Linda A. Watters
Commissioner
Office of Financial and Insurance Services

REPORT OF EXAMINATION OF

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
Livonia, Michigan

As of June 30, 2006

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Exhibit 1 - Actuarial Certification

In accordance with Section 222 of the Michigan Insurance Code, the Office of Financial and Insurance Services produced 35 copies of this report at a total cost of \$36.75 or \$1.05 per copy. This cost is funded by assessment fees charged to the insurance companies.

Ms. Linda A. Watters
Commissioner
Office of Financial and Insurance Services
State of Michigan
Lansing, Michigan

Commissioner:

In accordance with instructions and pursuant to statutory requirements, we have examined the financial condition, management and operations of:

Michigan Catastrophic Claims Association
17584 Laurel Park Drive North
Livonia, Michigan

a legislatively created property and casualty association, hereinafter referred to as the "Association." Our examination report follows.

SCOPE OF EXAMINATION

The Office of Financial and Insurance Services (OFIS) conducted an examination of the Association for the period from July 1, 2002 to June 30, 2006. We conducted the examination in accordance with guidelines and procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (NAIC) and the laws, rules and regulations prescribed by OFIS.

We reviewed and incorporated certain workpapers of the Association's independent auditors, PricewaterhouseCoopers, LLP, into our examination workpapers where appropriate.

To determine the adequacy of the Association's reserves and related actuarial items, we hired the actuarial consulting services of Bartlett Actuarial Group, LTD. The analysis, performed by William N. Bartlett, FCAS, MAAA, FCA, consisted of the tests necessary to certify the adequacy of the reserves and related actuarial items. The actuarial certification is shown in the report of examination as Exhibit 1 and the detailed report is on file at our offices. We have tested the underlying data provided to the actuary for completeness and accuracy.

We verified and determined the Association's assets and liabilities as of June 30, 2006. We performed a limited review of the period between the previous examination and this June 30, 2006 examination. This review consisted mainly of an analytical review of the changes in the balance sheet, a review of the minutes of the board of directors, and a review of any items we deemed necessary. We also performed a limited market conduct review.

Our examination included a review of the following matters that have an impact on the Association's financial condition or conformity with related laws:

- Conflict of Interest
- Fidelity Bond and Other Insurance
- Accounts and Records

In addition, we reviewed transactions occurring subsequent to June 30, 2006 as deemed appropriate. Comment on the findings of our examination is limited to matters involving a departure from laws, rules or regulations; a significant change in the amount of an item; or a necessary explanation. Any other adjustments or comments were discussed with Association personnel and may appear in a letter to management that was prepared in conjunction with this report of examination.

HISTORY AND PURPOSE

The Association is organized under Act No. 136, Public Acts of 1978, being Section 3104 of the Michigan Insurance Code (Code), as amended. The Association was created by the Michigan Legislature as a means of spreading costs across all Michigan motorists for providing unlimited personal injury protection benefits for each loss attributable to an accident, which occurs on or after July 1, 1978. The Association is an unincorporated nonprofit association and has all of its dealings with insurance companies, not the general public.

All insurers that sell automobile or motorcycle coverage in Michigan are required to be members of the Association. The Association is funded by an annual premium assessment to its member companies on each of their policies covering automobiles and motorcycles written in Michigan. The assessment funds a pool of money for medical costs exceeding \$375,000 resulting from an auto accident. The Association will indemnify member companies against ultimate loss in excess of \$375,000 for each occurrence, sustained under personal protection insurance coverage issued to residents of the state of Michigan. These loss reimbursements are unlimited for medical and rehabilitation loss payments. The threshold started at \$250,000 on July 1, 1978, and continued at that level until July 1, 2002, when it was raised to \$300,000. The threshold was increased to \$375,000 as of June 30, 2006, and will continue to increase gradually on an incremental basis until a \$500,000 level is reached on July 1, 2011. Thereafter, beginning July 1, 2013, the threshold will be increased each odd numbered year by six percent or the consumer price index, whichever is less.

MANAGEMENT AND CONTROL

Membership

Each insurer engaged in writing automobile insurance coverage that provides the personal protection insurance required by Sections 3101 or 3103 of the Code will, as a condition of its authority to transact insurance, be a member of the Association and will be bound by the plan of

operation of the Association. Member companies may withdraw from the Association only upon ceasing to write insurance that provides the security required by Sections 3101 or 3103 of the Code. A terminated member company will continue to be bound by the plan of operation, and all unpaid premiums will be payable as of the effective date of the withdrawal. An unsatisfied liability of an insolvent member will be assumed by and apportioned among the remaining members of the Association. If a member company is merged, consolidated or reinsured (100 percent), the member and the successors in interest of the member will remain liable for the member's obligations.

Board of Directors

The board of directors has the responsibility for the administration and management of the Association consistent with the provisions of the Code and the plan of operation.

The board consists of five member companies of the Association, appointed by the Commissioner to serve as directors, and the Commissioner or a designated representative of the Commissioner serving as an ex-officio member of the board without vote. The directors consist of members who, on the basis of total written car years of insurance during the preceding calendar year, can reasonably be expected to contribute, in aggregate, not less than 40 percent of the total premium charged by the Association during the following calendar year.

A director holds office for the term for which appointed and until a successor is appointed and qualified, or until resignation. All directors appointed to serve terms (other than a vacancy) will be appointed for a four-year term.

At any meeting of the board of directors, four members of the board will constitute a quorum for the transaction of business. The acts of a majority of the directors present at a meeting at which a quorum is present, will be the acts of the board. Each member of the board will have one vote, and the chair will retain the right to vote on all issues.

Directors serving as of June 30, 2006 are as follows:

<u>Name</u>	<u>Member Company</u>
Bernard J. Buselmeier	GMAC Insurance Company
Richard E. Dunning	Fremont Insurance Company
Judith M. Feldmeier	Auto Club Insurance Association
Mark Odland	State Farm Mutual Automobile Insurance Company
Ronald Simon	Auto-Owners Insurance Company
Judith A. Weaver, Ex-Officio	OFIS

Committees

The plan of operation of the Association provides that the chair of the board will appoint various standing committees. Such committees may, but need not, consist of members of the Association. The Association has actuarial, audit, claims, investment and personnel committees at June 30, 2006.

Officers

The board of directors elects a chair and may elect a vice chair along with any other officers deemed necessary at its annual meeting.

Officers serving as of June 30, 2006 are as follows:

<u>Name</u>	<u>Title</u>
Richard E. Dunning	Chair
Ronald Simon	Vice-Chair
Gloria Freeland	General Manager
James D. Lunsted	Controller

TERRITORY AND PLAN OF OPERATION

The Association provides indemnification to insurers writing automobile and motorcycle policies in Michigan under the terms of Section 3104 of Michigan's no-fault statute. The plan of operation provides for the economical, fair and non-discriminatory administration of the Association and for prompt and efficient provision of indemnity.

GROWTH OF THE ASSOCIATION

The data below depicts the growth of the balance sheet from December 31, 1978 to June 30, 2006. The Association switched to a fiscal year-end in 1989.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
1978*	\$ 14,202,160	\$ 11,467,020	\$ 2,735,140
1979	\$ 46,602,535	\$ 45,870,678	\$ 731,857
1980*	\$ 83,965,034	\$ 90,243,228	\$ (6,278,194)
1981	\$ 132,465,887	\$ 109,637,847	\$ 22,828,040
1982	\$ 183,233,927	\$ 164,374,667	\$ 18,859,260
1983	\$ 233,601,243	\$ 212,018,309	\$ 21,582,934
1984	\$ 285,029,729	\$ 348,523,962	\$ (63,494,233)
1985	\$ 374,007,022	\$ 457,018,304	\$ (83,011,282)
1986*	\$ 473,995,507	\$ 624,113,588	\$ (150,118,081)
1987	\$ 621,984,059	\$ 903,276,474	\$ (281,292,415)
1988	\$ 828,108,320	\$ 1,128,065,861	\$ (299,957,541)
6/30/89	\$ 967,007,814	\$ 1,472,425,438	\$ (505,417,624)
6/30/90	\$1,306,712,104	\$ 2,197,294,959	\$ (890,582,855)
6/30/91	\$1,858,129,962	\$ 2,658,690,631	\$ (800,560,669)
6/30/92*	\$2,559,957,527	\$ 3,078,987,154	\$ (519,029,627)
6/30/93	\$3,369,956,275	\$ 3,573,890,981	\$ (203,934,706)
6/30/94	\$4,149,485,391	\$ 4,171,228,739	\$ (21,743,348)
6/30/95	\$4,987,495,283	\$ 4,321,310,232	\$ 666,185,051
6/30/96	\$5,793,582,687	\$ 4,108,019,298	\$ 1,685,563,389
6/30/97	\$6,518,373,341	\$ 4,059,088,440	\$ 2,459,284,901
6/30/98	\$5,878,523,486	\$ 4,300,755,945	\$ 1,577,767,541
6/30/99	\$6,105,153,311	\$ 4,738,983,186	\$ 1,366,170,125
6/30/00	\$6,178,835,599	\$ 5,424,742,852	\$ 754,092,747
6/30/01	\$6,261,367,227	\$ 6,541,595,398	\$ (280,228,171)
6/30/02*	\$6,324,697,118	\$ 7,295,566,688	\$ (970,869,570)
6/30/03	\$6,825,426,561	\$ 9,080,956,381	\$(2,255,529,820)
6/30/04	\$7,562,035,649	\$ 9,285,616,143	\$(1,723,580,494)
6/30/05	\$8,485,968,376	\$10,575,619,009	\$(2,089,650,633)
6/30/06*	\$9,306,727,256	\$10,923,679,957	\$(1,616,952,701)

* Per Report of Examination.

GROWTH OF THE ASSOCIATION
(Continued)

The data below depicts the growth in claim activity from June 30, 1979 (end of first 12 months of operations) to June 30, 2006.

<u>Inception to</u> <u>Date as of:</u>	<u>Claims</u> <u>Reported</u>	<u>Claims</u> <u>Closed</u>	<u>Claims</u> <u>Open</u>	<u>Annual</u> <u>Reported</u>	<u>Annual</u> <u>Closed</u>
06/30/1979	61	0	61	61	0
06/30/1980	202	10	192	141	10
06/30/1981	393	23	370	191	13
06/30/1982	616	69	547	223	46
06/30/1983	839	93	746	223	24
06/30/1984	1,135	129	1,006	296	36
06/30/1985	1,448	205	1,243	313	76
06/30/1986	1,829	334	1,495	381	129
06/30/1987	2,360	423	1,937	531	89
06/30/1988	2,919	528	2,391	559	105
06/30/1989	3,643	679	2,964	724	151
06/30/1990	4,331	882	3,449	688	203
06/30/1991	5,126	1,107	4,019	795	225
06/30/1992	5,965	1,513	4,452	839	406
06/30/1993	6,973	1,990	4,983	1,008	477
06/30/1994	7,696	2,254	5,442	723	264
06/30/1995	8,550	2,736	5,814	854	482
06/30/1996	9,296	3,334	5,962	746	598
06/30/1997	10,133	3,854	6,279	837	520
06/30/1998	10,989	4,466	6,523	856	612
06/30/1999	11,948	5,050	6,898	959	584
06/30/2000	12,991	5,602	7,389	1,043	552
06/30/2001	13,921	6,127	7,794	930	525
06/30/2002	14,906	6,685	8,221	985	558
06/30/2003	16,316	7,256	9,060	1,410	571
06/30/2004	17,620	7,736	9,884	1,304	480
06/30/2005	18,895	8,408	10,487	1,275	672
06/30/2006	20,039	9,405	10,634	1,144	997

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
BALANCE SHEET
As of June 30, 2006

ASSETS

Bonds	\$ 3,586,870,737
Common Stocks	5,858,882,419
Cash and Short-Term Investments	(178,866,472)
Investment Income Due and Accrued	39,139,995
Uncollected Premiums and Agents' Balances in the Course of Collection	514,215
Electronic Data Processing Equipment and Software	172,370
Miscellaneous Accounts Receivable	<u>13,992</u>
Total Assets	<u>\$ 9,306,727,256</u>

LIABILITIES, CAPITAL AND SURPLUS

Losses	\$10,640,609,000
Loss Adjustment Expenses	22,116,000
Other Expenses	2,839,615
Unearned Premiums	252,084,000
Premium Refunds Payable	6,026,240
Miscellaneous Accounts Payable	<u>5,102</u>
Total Liabilities	\$10,923,679,957
Unassigned Funds	<u>(1,616,952,701)</u>
Total Liabilities, Capital and Surplus	<u>\$ 9,306,727,256</u>

**MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
STATEMENT OF INCOME**

For the Year Ending June 30, 2006

UNDERWRITING INCOME

Premiums Earned	<u>\$967,228,414</u>
Less:	
Losses Incurred	\$967,927,754
Loss Expenses Incurred	3,030,958
Other Underwriting Expenses Incurred	<u>914,984</u>
Total Underwriting Deductions	<u>\$971,873,696</u>
Net Underwriting Gain (Loss)	<u>\$ (4,645,282)</u>

INVESTMENT INCOME

Net Investment Income Earned	\$355,037,466
Net Realized Capital Gain	<u>17,338,186</u>
Net Investment Income	<u>\$372,375,652</u>

OTHER INCOME

Miscellaneous Income	<u>\$ 113</u>
Net Income	<u>\$367,730,483</u>

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
STATEMENT OF CAPITAL AND SURPLUS
For the Year Ending June 30, 2006

Capital and Surplus as of June 30, 2005	<u>\$(2,089,650,633)</u>
Net Income	\$ 367,730,483
Change in Net Unrealized Capital Gains	99,415,801
Change in Non-Admitted Assets	<u>5,551,648</u>
Net Change in Capital and Surplus for the Year	<u>\$ 472,697,932</u>
Capital and Surplus as of June 30, 2006	<u>\$(1,616,952,701)</u>

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ending June 30, 2006

OPERATIONS

Premiums Collected Net of Reinsurance	\$ 1,002,093,040
Net Investment Income	356,599,458
Miscellaneous Income	<u>113</u>
Total	<u>\$ 1,358,692,611</u>
Less:	
Benefit and Loss Related Payments	\$ 647,302,754
Commissions, Expenses Paid	<u>2,887,450</u>
Total	<u>\$ 650,190,204</u>
 Net Cash From Operations	 <u>\$ 708,502,407</u>

INVESTMENTS

Proceeds From Investments Sold, Matured or Repaid	\$14,542,493,931
Cost of Investments Acquired	<u>15,548,708,337</u>
 Net Cash From Investments	 <u>\$ (1,006,214,406)</u>

FINANCING AND MISCELLANEOUS SOURCES

Cash Applied	\$ <u>(165,968)</u>
Net Cash From Financing and Miscellaneous Sources	<u>\$ (165,968)</u>
 Net Increase (Decrease) in Cash and Short-Term Investments	 \$ (297,877,967)
Cash and Short-Term Investments at June 30, 2005	<u>119,011,495</u>
Cash and Short-Term Investments at June 30, 2006	<u>\$ (178,866,472)</u>

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These statutory-basis financial statements have been prepared on the basis of accounting practices prescribed or permitted by the NAIC and OFIS. The Association has a permitted practice from OFIS to discount unpaid losses and loss adjustment expenses on a non-tabular basis. The Association is also not required to include a risk margin when determining loss and loss adjustment expenses. These permitted practices reduce the Association's statutory deficit from \$(43,022,263,701) to \$(1,616,952,701) at June 30, 2006.

Investments

Short-term investments are stated at amortized cost, which approximates fair value.

Bonds not backed by other loans are stated at amortized cost using the interest method.

Common stocks are stated at market value.

Loan-backed securities are stated at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions were obtained from the Association's investment advisors and nationally recognized data services, and are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all securities.

Premiums

Premium assessments are levied on a fiscal year basis ending June 30. 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 3101 and 3103 of the Code. Beginning July 1, 2003, as a result of the enactment of Public Act 662 of 2002, the assessment for vehicles defined as historic vehicles is 20 percent of the premium assessment charged per car. Member companies have the option of paying premium assessments on a monthly or annual basis.

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

Any deficits are assessable to member companies. Excesses or deficiencies from previous periods may be adjusted in subsequent premium assessments to member companies. 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 deems advisable.

2. FEDERAL INCOME TAXES

The Association is a tax-exempt organization under Section 501(c)(6) of the Internal Revenue Code.

3. RETIREMENT PLANS

The Association participates in the pension plan for insurance organizations. Substantially all of the Association's employees are covered by this non-contributory qualified defined benefit pension plan. The benefits are based on years of service and the employee's compensation during the last ten years of employment.

The Association also has a 401(k) savings plan with the Benefits Connection Group. Employees may contribute up to six percent of compensation on a before-tax basis. The Association matches 75 percent of the up to six percent of employee contributions. The employees may make additional contributions beyond six percent, which are not matched by the Association.

4. LEASES

The Association leases office space and equipment under various non-cancelable operating agreements that expire through January 29, 2012. Rental expense for fiscal year 2006 was approximately \$250,114. The minimum aggregate rental commitments range from \$217,365 in fiscal year 2007 to \$228,277 in 2011.

5. CONTINGENCIES

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. The Association believes that all liabilities for pending legal actions have been adequately included in its established loss reserves.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. It is reasonably possible that some of the foregoing matters could be decided unfavorably against the Association. Although the amount cannot be ascertained, the Association believes that any resulting liability should not materially affect the financial position or results of operations of the Association.

EXAMINATION FINDINGS AND RECOMMENDATIONS

1. Claims System

The Association's claims system captures only the total payments made by the member insurance companies. There is no detail of payment by category. The Association conducted a cost component study of 500 claims, for the fiscal year ended June 30, 2003, to determine the categories of claim payments and what percentage of total costs were being paid to each category. This study was used by the actuarial committee to assist in establishing certain economic assumptions used by the actuarial consultants. Data from the study was used in establishing the June 30, 2006 loss reserves. The results indicated the following top four percentage costs: home care payments to family members (25.6); institutional care (23.9); home care payments to outside agencies including those owned by the families (14.3); and hospital care (13.4). These percentages indicate that \$617,537,907 (63.8 percent of losses incurred) was for home attendant and institutional care in fiscal year 2006. The costs for care can be on a 24-hour, 7-day per week basis.

The Association intends to have a new claims system in place within the next two years that will capture payment data on a more detailed level than currently collected. The Association has been instructed by the board of directors to send out a request for proposals for the new claims system. It is anticipated that implementing a new claims system will help the Association in its attempt to determine what is driving claim costs at a given time. Identifying these factors will allow the Association to review best practices regarding those portions of long-term care that cost the most.

We recommend the Association continue to work towards developing and implementing the new claims system. Until the new system is in place, the Association should conduct a cost component study on at least a biennial basis to provide the actuaries with current data for accurate loss development estimates.

2. Investment Returns

The Association uses the services of eight investment management firms, with each firm receiving a dollar amount to invest in accordance with the investment guidelines of the Association. A representative from each firm is present at investment committee meetings either in person or via telephone. The representatives discuss actual versus expected returns with the committee members. An investment consultant was retained in 2006 due to the continued growth of the portfolio, the increasing complexity of the asset mix, and to provide additional resources to the investment committee. The investment committee relies on the investment consultant for advice in developing the investment guidelines that are provided to these eight investment managers. The investment consultant monitors the investment managers' performance and reports to the investment committee in addition to assisting in the development of investment guidelines. The consultant recently completed a study of investment risks versus returns that was presented to and accepted by the board of directors in December 2006. The board's plan is to increase investment income using the

study results. A one percent increase in annual investment returns for bonds, stocks and short-term investments would result in \$98,934,870 of additional income based on June 30, 2006 numbers. This would reduce the Association's deficit by six percent. The total investment return in fiscal year 2006 was 4.27 percent.

The investment managers are under contract, with each receiving a percentage of the portfolio market value. Fees paid to each of the eight managers in fiscal year 2006 ranged from \$340,000 to \$3,000,000. Total fees paid were \$9,713,000. The investment committee did terminate a manager during the examination period, and another manager after the examination period (but during our on-site testing), due to poor performance.

We recommend the Association continue with its efforts to improve investment returns. The portfolio is very large and can generate significant investment income. As noted previously, an increase in investment returns will reduce the Association's deficit, thereby decreasing the assessment passed along to Michigan automobile policyholders.

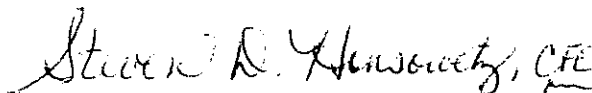
CONCLUSION

As of our June 30, 2006 examination, we determined the Association to have admitted assets of \$9,306,727,256, liabilities of \$10,923,679,957, and capital and surplus of \$(1,616,952,701).

We appreciate the cooperation and assistance extended by the officers and employees of the Association.

In addition to the undersigned, Timothy Defever, Robert Macdowall, CFE, and Jessica Sterling, examiners of OFIS; and Bartlett Actuarial Group, LTD, consulting actuaries, participated in the examination.

Respectfully submitted,



Steven D. Honsowetz, CFE

Examiner-in-Charge

Office of Financial and Insurance Services

STATEMENT OF ACTUARIAL OPINION

Annual Statement of
Michigan Catastrophic Claims Association

For Year Ended June 30, 2006

IDENTIFICATION

I, William N. Bartlett, am a Principal with Bartlett Actuarial Group, Ltd. I am a Fellow of the Casualty Actuarial Society and a member in good standing of the American Academy of Actuaries. I have been engaged by the Michigan Office of Financial and Insurance Services to render this opinion in support of a financial condition examination of Michigan Catastrophic Claims Association ("the Association").

SCOPE

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Association as filed with state regulatory officials, as of June 30, 2006. In addition, I have examined the Statement of Actuarial Opinion and supporting actuarial analysis completed by the Association's appointed actuary, Mr. Roger Hayne, FCAS, MAAA.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data as presented in the Association's Annual Statement as of June 30, 2006. I evaluated that data for reasonableness and consistency. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

OPINION

In my opinion, the amounts carried in Exhibit A on account of the items identified:

- A. meet the requirements of the insurance laws of Michigan,
- B. are computed in accordance with accepted loss reserving standards and principles, and
- C. make a reasonable provision for all unpaid loss and loss expense obligations of the Association under the terms of its contracts and agreements.

RELEVANT COMMENTS

a. Risk of Material Adverse Deviation

I have adopted the materiality standard of \$1,066,272,500 chosen by the Association's appointed actuary in his Statement of Actuarial Opinion. This standard appears reasonable in light of the Association's loss experience and the nature of the business the Association writes. The chosen materiality standard is approximately 10% of discounted reserves.

Due to the nature of the business written by the Association, I believe there is a significant risk of material adverse deviation. The Association reimburses member insurers for all expenses incurred above the attachment point without limit. Payments can extend over a lifetime to qualifying claimants. In addition, the Association discounts its carried reserves, as permitted by the Michigan Office of Financial and Insurance Services. Due to these items, the Association is subject to changes in economic conditions. Since the Association was created by the legislature, it is also subject to judicial and legislative changes.

b. Other Disclosures in Exhibit B

Discounting and Salvage and Subrogation

According to the appointed actuary's Statement of Actuarial Opinion, the Association discounts loss and loss adjustment expense reserves and does not reduce loss and loss expense reserves for anticipated salvage and subrogation.

Pools and Associations

According to the appointed actuary's Statement of Actuarial Opinion, the Association does not participate in any voluntary or involuntary pooling arrangements or associations.

Asbestos and Environmental Exposure

According to the appointed actuary's Statement of Actuarial Opinion, the Association has not provided coverage that could reasonably be expected to produce material levels of asbestos or other environmental liability claims activity. In my opinion, there is a remote chance of material liability.

Extended Loss and Expense Reserves

According to the appointed actuary's Statement of Actuarial Opinion, the Association does not write extended loss and expense contracts and therefore carries no extended loss and expense reserves.

c. Reinsurance

According to the appointed actuary's Statement of Actuarial Opinion, the Association knows of no significant reinsurance collectibility problems and is not involved in any disputes with reinsurers over coverage or other relevant issues.

According to the appointed actuary's Statement of Actuarial Opinion, the Association is not involved in any reinsurance transaction that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

d. NAIC IRIS Tests

The Association's booked reserves do not produce exceptional values for IRIS tests Two-Year Reserve Development to Surplus, or Estimated Reserve Deficiency to Surplus. The Association's statutory surplus is negative. Therefore, an exceptional value is produced for the One-Year Reserve Development to Surplus. I do not feel this is a concern due to legislation allowing the Association

the ability to charge member companies future assessments to reflect deficiencies in past assessments.

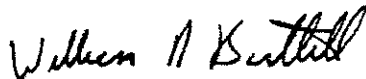
e. **Methods and Assumptions**

There have been no changes in actuarial methods, procedures, or assumptions in the supporting reserve analysis.

ACTUARIAL REPORT

An actuarial report and any underlying actuarial workpapers supporting the findings expressed in this Statement of Actuarial Opinion have been provided to the Michigan Office of Financial and Insurance Services.

Regards,



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January 26, 2007

Exhibit A: SCOPE

Loss Reserves:

A. Reserve for Unpaid Losses (Page 3, Line 1)	\$10,640,609,000
B. Reserve for Unpaid Loss Adjustment Expenses (Page 3, Line 3)	\$22,116,000
C. Reserve of Unpaid Losses - Direct and Assumed (Schedule P, Part I, Totals from Cols. 13 and 15)	\$51,995,586,000
D. Reserve for Unpaid Loss Adjustment Expenses - Direct and Assumed (Schedule P, Part I, Totals from Cols. 17, 19, and 21)	\$72,450,000
E. The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	\$0
F. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	\$0

Premium Reserves:

G. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
H. Reserve for Net Unearned Premiums for Long Duration Contracts	\$0
I. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	\$0

Exhibit B: DISCLOSURES

The loss and loss adjustment expense reserves shown above reflect the following items:

1. Materiality Standard expressed in \$US	\$1,066,272,500
2. Surplus as regards policyholders	\$(1,616,952,701)
3. Anticipated salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$0
4. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	
a. Nontabular Discount	\$41,405,311,000
b. Tabular Discount	\$0
5. The net reserves for losses and expenses for the Association's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus, and Other Funds page, Losses and Loss Adjustment Expenses lines	\$0
6. The net reserves for losses and loss adjustment expenses that the Association carries for the following liabilities included on the Liabilities, Surplus, and Other Funds page, Losses and Loss Adjustment Expenses lines	
a. Asbestos, as disclosed in the Notes to Financial Statements	\$0
b. Environmental, as disclosed in the Notes to Financial Statements	\$0
7. The total claims-made extended loss and expense reserve (Schedule P Interrogatories)	
a. Amount reported as loss reserves	\$0
b. Amount reported as unearned premium reserves	\$0
8. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	\$0