

New Jersey Automobile Insurance Risk Exchange

P.O. Box 712, Stockholm, New Jersey 07460

(973) 209-4781

September 4, 2012

NJAIRE ANNUAL CASH SETTLEMENT

Dear NJAIRE Member Company,

I have enclosed your company's Statewide NJAIRE Annual Cash Settlement Reports evaluated as of First Quarter 2012.

- The first report is the Annual Cash Settlement Report for Form #4. This report summarizes your company's territorial reimbursement information for accident years 2002 - 2011.
- The second report is the Annual Cash Settlement True-up Report. The True-up Report takes the total amount for Form #4, adjusts it to reflect the 2011 monthly payments and quarterly disbursements, and re-evaluates the distribution of investment income for 2002 - 2011. This report also includes your company's share of the 2013 NJAIRE administrative expenses.

If the BALANCE on the True-up report is positive, payment is due from your company and an invoice is enclosed. Instructions for the remittance of funds are included on page 7. If the BALANCE on the True-up report is negative, you should expect a check from NJAIRE in approximately 10 weeks. The amount of this check will be equal to the BALANCE on the True-up report, provided all companies with positive balances are able to make their full payment. As in prior Annual Cash Settlements, in the event that some companies are unable to make their full payment, your company's NJAIRE Annual Cash Settlement reimbursement check will be reduced by an amount proportional to the total payments outstanding. Once all the outstanding payments are settled, you will receive a check for the balance of your company's Annual Cash Settlement reimbursement. To reduce administrative costs, NJAIRE may choose not to issue checks for amounts below one hundred dollars until all outstanding payments have been collected.

For your information, an explanation of the amounts and calculations used in this evaluation of the Annual Cash Settlement Report (including the Annual Cash Settlement True-up Report) follows:

Annual Cash Settlement Evaluations

Accident years 2002 - 2009

For accident year 2007 and prior, the NJAIRE Procedure Manual requires that each accident year be evaluated in full territory detail, and that each year be re-evaluated until NJAIRE determines that it is fully developed.

For accident years 2008 and subsequent, the NJAIRE Procedure Manual requires that each accident year be evaluated using statewide detail, and that each year be re-evaluated until NJAIRE determines that it is fully developed.

As a result, for Form #4, accident years 2002 - 2008 are being re-evaluated using claimant data and accident year 2009 is being evaluated for the first time using claimant information.

Accident years 2010 - 2011

For Form #4, accident year 2010 is being re-evaluated using exposure data and accident year 2011 is being evaluated for the first time using exposure information.

Data

The following table displays the account quarter submissions included for each accident year. All submissions processed through *August 13, 2012* are included.

Assessment data

Accident Year	Assessment base	Account Quarters
2002	Paid BI Claimants against the Zero Dollar Threshold	1Q02-1Q12
2003	Paid BI Claimants against the Zero Dollar Threshold	1Q03-1Q12
2004	Paid BI Claimants against the Zero Dollar Threshold	1Q04-1Q12
2005	Paid BI Claimants against the Zero Dollar Threshold	1Q05-1Q12
2006	Paid BI Claimants against the Zero Dollar Threshold	1Q06-1Q12
2007	Paid BI Claimants against the Zero Dollar Threshold	1Q07-1Q12
2008	Paid BI Claimants against the Zero Dollar Threshold	1Q08-1Q12
2009	Paid BI Claimants against the Zero Dollar Threshold	1Q09-1Q12
2010	Zero Dollar Threshold Earned Exposures	1Q10-4Q10
2011	Zero Dollar Threshold Earned Exposures	1Q11-4Q11

Assessment Allocation (Reimbursement) data

Accident Year	Reimbursement base	Account Quarters
2002	Paid BI Claimants against the Verbal Threshold	1Q02-1Q12
2003	Paid BI Claimants against the Verbal Threshold	1Q03-1Q12
2004	Paid BI Claimants against the Verbal Threshold	1Q04-1Q12
2005	Paid BI Claimants against the Verbal Threshold	1Q05-1Q12
2006	Paid BI Claimants against the Verbal Threshold	1Q06-1Q12
2007	Paid BI Claimants against the Verbal Threshold	1Q07-1Q12
2008	Paid BI Claimants against the Verbal Threshold	1Q08-1Q12
2009	Paid BI Claimants against the Verbal Threshold	1Q09-1Q12
2010	Verbal Threshold Earned Exposures	1Q10-4Q10
2011	Verbal Threshold Earned Exposures	1Q11-4Q11

Annual Cash Settlement Report

A) Assessments

Accident Years 2002 - 2008

Once again, accident years 2002 - 2008 are evaluated on a per claimant basis. The territorial assessments are derived by multiplying each Paid BI Claimant against the Zero Dollar Threshold by a per claimant charge. Per claimant charges for this year's settlement are attached. The charges were determined based on statewide assessments of \$53,000,000 for accident year 2002, \$45,200,000 for accident year 2003, \$39,800,000 for accident year 2004, \$37,200,000 for accident year 2005, \$33,600,000 for accident year 2006, \$30,200,000 for accident year 2007 and \$30,300,000 for accident year 2008.

The resulting territory assessments are summed to determine your company's total statewide Calculated Assessment. This number appears in the column titled Assessments at Present Rate on the Annual Cash Settlement Report (Column (5)).

Accident Year 2009

Please note that beginning with this evaluation, the evaluation basis for accident year 2009 will be claimants. More information regarding the transition from exposure to claimant evaluation is available in the NJAIRE Procedure Manual.

Each territory assessment is determined by multiplying each Paid BI Claimant against the Zero Dollar Threshold by a per claimant charge. The per claimant charge for this evaluation for 2009 was determined based on a statewide assessment of \$32,700,000.

The resulting territory assessments are summed to determine your company's total statewide Calculated Assessment. This number appears in the column titled Assessments at Present Rate on the Annual Cash Settlement Report (Column (5)).

Accident years 2010 - 2011

For accident years 2010 - 2011, assessments at present rate are calculated by multiplying the number of Zero Dollar Tort Threshold Earned Exposures for that accident year by the current assessment per exposure for that accident year. This number appears in the column titled Assessments at Present Rate on the Annual Cash Settlement Report (Column (5)).

The following table lists current assessment per exposure amounts by accident year:

<u>Accident Year</u>	<u>Assessment Per Exposure</u>
2010	\$105
2011	\$100

Please remember that NJAIRE is enabled to evaluate and adjust the assessment per exposure and/or per claimant charge retroactively. Therefore, a different assessment

per exposure and/or claimant charge may be used for each evaluation of an accident year.

B) Assessment Allocations

Accident Years 2002 - 2009

The following procedure is applied by accident year:

Within each territory, your company's number of Paid BI Claimants against the Verbal Threshold is divided by the number of Industry Paid BI Claimants against the Verbal Threshold for that territory. The resulting claimant percentage is then multiplied by the total Industry Assessments for that territory, generating your company's territory Assessment Allocation.

The territory Assessment Allocation totals are summed, and the final statewide result is shown on your company's Annual Cash Settlement Report (Column (6)).

Accident years 2010 - 2011

The following procedure is applied by accident year:

Your company's statewide number of Verbal Threshold Earned Exposures is divided by the statewide number of Industry Verbal Threshold Earned Exposures. The resulting exposure percentage is then multiplied by the total statewide Industry Assessments, generating your company's total Assessment Allocation. This result is shown on your company's Annual Cash Settlement Report (Column (6)).

C) Previous Financial Transactions

The amounts paid by (or paid to) your company as a result of previous evaluations of the Annual Cash Settlement are reflected in the Previous Financial Transactions column of your report (Column (7)). The amounts paid by your company in the 2011 monthly payments and the amounts paid to your company in the 2011 provisional disbursements are reflected in the Annual Cash Settlement True-up Report.

The amount due from (or owed to) your company on the Annual Cash Settlement Report is equal to your Assessments, minus your Reimbursements, minus your Previous Financial Action.

We have attached reports displaying the Industry Total Assessments and Paid BI Claimants against the Verbal Threshold by territory for accident years 2002 – 2009, and the Industry Total Assessments and Earned Verbal Threshold Exposures for accident years 2010 and 2011. These, along with your quarterly Compiled Figures Reports and your previous Annual Cash Settlement Reports, will enable you to verify your company's Annual Cash Settlement should you wish to do so.

The Interest Income Due from/Owed to Your Company on the Annual Cash Settlement Report reflects the time value (interest) of the money either owed to or due from your company.

Please see Section 1 of the attached summary, "Explanation of Calculations", for a description of the figures on the Annual Cash Settlement Report.

Annual Cash Settlement True-up Report

Part A, the Annual Cash Settlement True-up, adjusts the Annual Cash Settlement amount for Form #4 due from (or owed to) your company to reflect the 2011 monthly payments and the 2011 quarterly disbursements. The time value (interest) of money is also reflected on the net amount due from (or owed to) your company as a result of the 2011 monthly payments and quarterly disbursements.

Part B, the Investment Income Redistribution, reflects the differences between the method of calculating your company's share of the investment income in the provisional quarterly reimbursements, and the method of calculating your company's true-up share annually.

For the 2011 Quarterly Reimbursements, your company received a share of the Investment Income based on your company's share of the Industry Earned Verbal Threshold Exposures. Now, in the Annual Cash Settlement True-up, the Investment Income is redistributed based on your company's share of the total Industry Reimbursement amount for accident year 2011. It also re-evaluates and redistributes the 2002 - 2010 investment income based on how your company's share of the total Industry Reimbursement amount for the accident year has changed due to the development of that accident year.

The Investment Income redistributed here is the amount earned on funds while they were held by NJAIRE awaiting disbursement.

The Total Industry Reimbursement amounts for accident years 2002 - 2011 appear on the report labeled Annual Cash Settlement Industrywide Total Assessments. This will enable you to verify your company's share of the Investment Income Redistribution.

Column (3) reflects the time value (interest) of the money either owed to or due from your company.

Part C, Administrative Expense, reflects your company's share of the total 2013 NJAIRE administrative expense (\$1,246,541).

Please see Section 2 of the attached summary, "Explanation of Calculations", for a description of the figures on the Annual Cash Settlement True-up Report.

Remittance of Funds

If the total calculated Annual Cash Settlement amount is positive on the True-up Report, please send a check for this amount, payable to New Jersey Automobile Insurance Risk Exchange, to:

New Jersey Automobile Insurance Risk Exchange
P.O. Box 51062
Newark, NJ 07101-5162

You may also submit payments via wire or ACH. For instructions on both of these payment methods please contact an ISO representative. Contact information is contained on page 9 of this document.

Payment should be made within 20 days of receipt of this letter. Please note that late payments will be subject to the Incentive Assessment Program as outlined in Chapter 6 of the NJAIRE Procedure Manual.

Financial Information

We have enclosed, for your information, the financial information for all companies participating in the Twenty-Seventh NJAIRE Annual Cash Settlement.

For accident years 2002 - 2009:

The Statewide Reimbursement Report contains by company, the following: statewide BI claimants against the Zero Dollar Tort Threshold, statewide BI claimants against the Verbal Threshold, statewide Earned Verbal Threshold Exposures, statewide Verbal Threshold claimant percentages (2002 - 2009), statewide Earned Zero Dollar Tort Threshold Exposures, assessment allocations by territory summed to statewide totals, and what was owed to or due from companies by territory summed to statewide totals.

For accident years 2010 - 2011:

The Statewide Reimbursement Report contains by company, the following: statewide BI claimants against the Zero Dollar Tort Threshold, statewide BI claimants against the Verbal Threshold, statewide Earned Verbal Threshold Exposures, statewide Earned Verbal Threshold exposure percentages (2010 - 2011), statewide Earned Zero Dollar Tort Threshold Exposures, statewide assessment allocations, and what was owed to or due from companies.

We have also enclosed an exhibit displaying the member companies and their company numbers.

It is important to note that the amounts owed to or due from companies on the Reimbursement Reports are exclusive of any adjustments for interest income, investment income, administrative expense assessment and any deferred assessment, or repayment of such deferred assessment, due to a very high per claimant charge (Please see NJAIRE Procedure Manual for additional information regarding deferred assessments). Monthly payments and quarterly disbursements are not reflected here either. The amounts owed or due in the Reimbursement Report are the amounts that appear in columns (8) and (9) on the Form #4 reports of each individual company's Statewide Annual Cash Settlement Report.

Questions

If you have any questions concerning the calculation of your company's Annual Cash Settlement, please contact:

Michael McAuley
Insurance Services Office, Inc.
(201) 469-2323
mmcauley@iso.com

or

njairecentralprocessor@iso.com

Sincerely,



Michael J. McAuley
Business Associate
ISO
NJAIRE Central Processor

cc: Mr. Don Foth, NJAIRE General Manager

Explanation of Calculations - Section 1

Annual Cash Settlement Report

Form #4

- Columns (1) and (2) are provided for information only. These are your company's statewide total reported Paid BI Claimants against policies in which the insured chose the Zero Dollar Threshold (Column 1) and which the insured chose the Verbal Threshold (Column 2).
- Columns (3) and (4) are provided for information only. These are your company's statewide total reported Zero Dollar Tort Threshold Earned Exposures (Column 3) and your company's statewide total reported Verbal Tort Threshold Earned Exposures (Column 4).
- Column (5) is your company's total calculated assessment for all territories.
- Column (6) is your company's total calculated reimbursement for all territories.
- Column (7) is the net amount of all previous annual calculated reimbursements and assessments. If an amount is positive, it was paid to NJAIRE. If an amount is negative, it was paid to your company by NJAIRE.
- Columns (8) and (9) are the calculated assessment (Column (5)) minus the calculated reimbursement (Column (6)) minus the previous financial action (Column (7)). If the resulting amount is positive, it is placed in Column (8), the Amount Due From Company. If the amount is negative, its absolute value is placed in Column (9), the Amount Owed to Company.
- Columns (10) and (11) are the amounts in Columns (8) and (9) respectively, multiplied by an interest factor. They account for the time value of these funds.

The TOTAL CALCULATED ANNUAL CASH SETTLEMENT on the Form #4 report is the sum of Columns (8) and (10) minus the sum of columns (9) and (11).

Explanation of Calculations - Section 2

Annual Cash Settlement True-up Report

A) Annual Cash Settlement True-up

- Column (1) is the total calculated Annual Cash Settlement due from (or, if negative, owed to) your company from the Form #4 Annual Cash Settlement Report.
- Column (2) shows the Monthly Payment and Quarterly Reimbursement amounts from the four calendar quarters of the most recent accident year being evaluated. The total reflects the net amount paid to (or, if negative, received from) your company as a result of the monthly and quarterly financial transactions.
- Column (3) is the total in Column (2) multiplied by an interest factor. This accounts for the time value of these funds.
- Column (4) is the sum of columns (1) to (3), and represents the Annual Cash Settlement amount adjusted for the transactions which have already taken place.

B) Investment Income Redistribution

- Column (1) shows the years for which Investment Income is being redistributed.
- Column (2) first shows the net difference between the most recent accident year's investment income owed to your company based on the current Annual Cash Settlement and that year's investment income previously distributed to your company on a quarterly basis. (The share due to your company is calculated as your company's statewide reimbursement for the most recent year being evaluated, divided by the Industry total statewide reimbursement for that year, and multiplied by the total investment income earned in that year.) This amount is due from your company if positive, and owed to your company if negative.

Then, for each earlier year, it shows the net difference between the investment income for that year evaluated as of the last Annual Cash Settlement and the investment income for that year re-evaluated as of this Annual Cash Settlement. These amounts are due from your company if positive, and owed to your company if negative.

- Column (3) shows the difference in Column (2) multiplied by an interest factor.
- Column (4) shows the sums of columns (2) and (3).

C) Administrative Expense

This amount represents each participating company's share of the administrative expense for the upcoming year.

The BALANCE is the total amount due from or owed to your company as a result of this Annual Cash Settlement. If the amount is positive, an invoice is enclosed for that amount.