

To: Our NYCM Agents & Brokers

From: Chris Mason

Subject: Our Changing Environment

We work in an ever evolving environment. Last year we saw reform legislation that impacted all WC providers. At NYCM we happily anticipated continued profitability in our Special Trades trust. That trust is now “fully funded” at a rate that even exceeds the new, recently passed legislative mandates. Our Auto trust has also made significant progress toward being “fully funded”. We expected to dramatically grow both of our trusts in 2008.

As the 2008 year developed, changes happened that we did not anticipate. It began with the closure of all the CRM trusts along with serious negative implications for some members of those specific trusts. Then came some new difficult legislative action that was partially inspired by what happened at CRM. Finally, First Cardinal, a leader in the industry, has announced that they will close most of their existing trusts.

So, what is an agent to do and what is NYCM’s position on all of these changes? In this letter we will try to answer some of your questions.

Issue: What is the long term viability of WC trusts?

Financially, trusts have a key advantage over the traditional insurance carriers – they do not require large amounts of capital. We do not need \$1 of surplus for every \$2.5 in member contribution. This means we do not have to pay a return on capital and the associated increase in expenses required to do this. In all market environments we should always be more affordable to our members, especially when the market is “hard” or “normal”.

Our second strength is that we at NYCM specialize in two specific classes of business. Our pricing and underwriting appetite is very consistent, no matter what cycle of the market we are in at the moment. We also tailor services such as loss control and other member offerings to the specific industry groups that we serve.

We are a member driven service provider.

Issue: The recently passed legislation is too restrictive and makes the trust model impractical given the reality of how the real world functions.

Reform legislation was badly needed. The new law will ensure that those still in the trust business will be financially stronger than ever before. Yes, there are a number of provisions within the new law that pose some challenges but we think these can be overcome. The Group Self Insurance Association of New York is already in discussions with the WC Board regarding portions of the legislation. The new law also calls for the establishment of a Task Force comprised of Trust members, administrators, business and labor.

That Task Force will work out how the new law will be implemented. The trust industry will be an active participant in those discussions.

We are very optimistic that the core financial provisions of the law can be maintained as we work out some of the daily operational impediments imposed by the new law.

Issue: The new legislative provisions of how trusts must pay and account for WC Board assessments present a serious roadblock.

As a trust we would prefer that assessments be based on member written contribution. It looks like assessments in the future will be partially based on written contribution and some on paid indemnity claims. No matter how the assessment is levied, the cost to the trust should remain relatively the same. We have to pay our share of the WC Board's expenses and the expenses of specific statewide funds based on our market share. The number is the number and how we allocate it (claims/contribution) should not have an adverse impact on our financial condition.

Our Special Trades and Auto trusts recently received notice that the WC Board will have no additional assessments against the trust for the remainder of the trust year. In fact, the Special Trades trust now has a \$300,000 credit and the Auto trust a \$6000 credit.

We can work with the new regulations.

Issue: There is concern regarding inter-trust liability. Now the healthy trusts will have to pay for the losses of the poorly administered trusts.

We think this is old news. This has always been the case. The Board has had the statutory authority to levy an assessment on all self insured entities, whether a group or individual self-insured to cover the cash flow needed to pay claims from self insured entities in default. The key point here is that the assessment is temporary until monies come in from the members of defaulted trusts. Recent legislation imposes strict timetables within which the Workers Compensation Board must assess members of failed groups. Thanks to the new legislation, the assessment issues we faced this year should be less of a worry in the future than what it has been in the past.

We have just received a bulletin from the WC Board discussing this very topic. The Board is seeing a high level of recoveries from billed trust members. They expect to minimize what they will borrow from the Uninsured Employers Fund in 2008-09 in order to utilize those funds in 2009-10. They also point out that the assessments for the 2009-10 year could be as low as what was assessed in the 2007-08 year. The sky is not falling and the situation is not near as dire as initially predicted.

Going forward one of the things that will be under consideration is the establishment of a new guarantee fund for trusts. In this way, the Board can draw on funds from the guarantee fund to cover cash flow needs until billed monies are collected. This depository will be funded much like the standard insurance market by paying a percent of our written contribution into the fund. It will also allow greater predictability of Trust expenses; predictability, which heretofore was non existent.

Our Special Trades and Auto trusts have been able to cover these assessments and still show improving financial results for their trust members.

Issue: Trusts and economic models. What works.

Each trust administrator comes to their decisions from different vantage points, depending on the specific situation of the individual trusts that they administer.

Some of the trusts are in lower hazard classes of business. The average account contribution tends to be on the low side and there are multiple markets vying for the business. The most recent WC legislative reform of 2007 saw significant rate decreases in these classes of business. It would not be uncommon to see rates drop 20 to 30 percent. In this environment it may be difficult to allow a trust to effectively compete against the standard insurance market. The economic model does not work over the business cycle.

We think the trust world works best for higher hazard classes of business where there is a negative market perception of insurability. There are good accounts in difficult classes. By providing quality coverage and services to these members we can provide value during all market cycles while maintaining financial viability. Our specialization also helps us reduce member costs.

Issue: Staying close to friends.

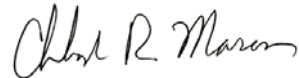
We have spent over ten years building a quality book of business in all classes of contracting and three plus years in our auto book. We have great accounts in tough classes. They have been true to us in both good and difficult times. The same can be said of our hundreds of agency brokers who have depended on us to provide quality services and competitive pricing to some of their best customers.

We have all been in a partnership for the common good of our members. NYCM doesn't think it would be right to arbitrarily dismiss loyal customers from the trust model that has provided excellent savings and outstanding service. It's just not the right thing to do.

It's best to work within the system to resolve our differences before we make a radical decision that is not in the best interest of our trusted members.

We understand that this letter is just touching the highlights of the many thoughts and questions that are on your minds. Please call or write us with your specific concerns. We do want to hear from you.

Yours truly,



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