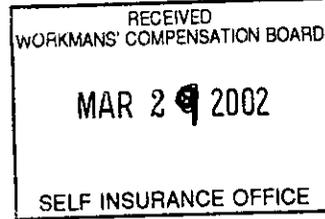


SGRisk, Inc.

Actuaries and Consultants

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Community Residence Insurance Saving Plan

Valuation as of November 30, 2001

February 19, 2002

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We Make Sense From Your Statistics!

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INTRODUCTION

The Community Residence Insurance Savings Plan Self-Insurance Trust (Trust) commenced operations in December of 1995 and has been administered by Program Risk Management, Inc. (PRM) since its establishment. Until May 1, 2001, Gallagher Bassett Services, Inc. (GBS) acted as claims third party administrator (TPA). After May 1, 2001, PRM assumed the role of claims TPA for both pending and newly reported claims. PRM then began a complete claims review process during which it substantially strengthened individual case reserves.

SGRisk, Inc. (SGRisk) was asked to evaluate, as of November 30, 2001, reserves for losses and allocated loss adjustment expenses (ALAE). PRM asked SGRisk to blend past experience with PRM's expectation regarding future loss emergence. Discounted reserves are presented at a variety of interest rates. PRM specifically requested that SGRisk not evaluate reserves for future loss-based assessments. SGRisk neither evaluated unallocated loss adjustment expenses nor did it assess the collectibility of the Trust's excess insurance.

DATA AND METHODOLOGY

Data

Data used in the evaluation was provided by PRM and was relied upon without audit or verification other than to inspect it for reasonableness and consistency with data previously provided. Specifically, PRM provided the following items:

- Fiscal period loss data evaluated as of October 31, 2001.
- Amounts pertaining to large claims included in the loss data.
- Information on claims handling procedures of PRM.

Methodology

Ultimate losses, including ALAE, were estimated by fiscal year. Five methods were used to project ultimate losses:

- Incurred Loss Development Method,
- Paid Loss Development Method,
- Budgeted Loss Method,
- Incurred Loss Bornhuetter-Ferguson Method, and
- Paid Loss Bornhuetter-Ferguson Method.

Incurred Loss Development Method. Incurred losses were projected to estimated ultimate values by multiplying the incurred losses by loss development factors. Loss development factors are based on incurred loss development experienced by the Trust. Selected loss development factors reasonably reflect our expectation of future incurred loss emergence taking into consideration recent qualitative changes in claims processing.

Paid Loss Development Method. This method is identical to the incurred loss development method except loss development factors are based on the Trust's cumulative paid losses. Selected loss development factors plausibly reflect an anticipated contraction in paid loss emergence.

Budgeted Loss Method. Estimates of ultimate loss are the greater of actual incurred loss and expected loss. Expected loss is calculated by multiplying total payroll by an expected loss rate. Expected loss rates are calculated by adjusting an estimate of the most recent year's loss cost per one hundred dollars of payroll for trend and benefit changes.

Incurred Loss Bornhuetter-Ferguson Method. The Incurred Loss Bornhuetter-Ferguson Method produces estimates that are a weighted average of the results of the Incurred Loss Development Method and Budgeted Loss Method. Implied loss development factors from the Incurred Loss Development Method are used to derive the weights.

Paid Loss Bornhuetter-Ferguson Method. The Paid Loss Bornhuetter-Ferguson Method produces estimates that are a weighted average of the results of the Paid Loss Development Method and Budgeted Loss Method. Implied loss development factors from the Paid Loss Development Method are used to derive the weights.

Selected Ultimate Losses and ALAE. Because of case reserve strengthening by PRM, referred to in the beginning of this report, consideration was given to the prior year's ultimate loss projection. This methodology is described in a footnote on *Exhibit 1*.

Incurred But Not Reported (IBNR). The nominal IBNR liability is the difference between incurred and selected ultimate losses. The total reserve is the sum of case and IBNR reserves.

Discounted Reserve. Discounted reserves are calculated by discounting liability cash flows at a variety of different interest rates.

Paid loss patterns were based on the experience of the Trust, i.e., the relationship of the Trust's paid losses for each accident year to the selected ultimate losses for that year. Cash flows were assumed to take place midyear.

Interest rates of 5%, 6%, 8% and 10% were used to calculate the present value of the modeled cash flows. The present values appear on *Exhibit 7*.

The risk-free interest rate, as measured by the long-term average of the 90-day Treasury yield, is approximately 5%. Six percent represents a typical assumed rate of return used by many self-insurers in today's economic environment and was used to discount loss and ALAE reserves at the Trust's prior year end.

Projecting ultimate losses and ALAE is an inexact process – a broad range exists around any estimate. While selected ultimate losses and ALAE promulgated in this report fall within what PRM believes to be a reasonable range, SGRisk makes no representation with respect to their accuracy. Estimates do not include provision for loss-based assessments or unallocated loss adjustment expenses. The collectibility of excess insurance was not assessed.

ANALYSIS AND RESULTS

Exhibit 1 summarizes the results of the evaluation. It gives details of the reported losses and ALAE, the results of each projection method, the selected ultimate losses and ALAE, and reserves, by fiscal year. *Exhibits 2 to 6* present details of the various loss projection methods. *Exhibit 7* gives predicted loss and ALAE liability cash flows and shows the calculation of discounted reserves at various interest rates.

Table 1 gives the average loss and ALAE cost per one hundred dollars of payroll implied by the ultimate loss and ALAE selections in *Exhibit 1*.

(1) Fiscal Year	(2) Average Cost Per Exposure
12/15/95-11/30/1996	1.32
12/1/96-11/30/97	1.04
12/1/97-11/30/98	1.27
12/1/98-11/30/99	1.07
12/1/99-11/30/00	1.24
12/1/00-11/30/01	1.17

Table 1. Average loss and ALAE cost per one hundred dollars of payroll.

Table 2 gives point estimates of the selected liabilities by fiscal year.

(1) Fiscal Year	(2) Case Reserve	(3) IBNR	(4) Total Reserve (2)+(3)
12/15/95-11/30/96	130,601	79,198	209,799
12/1/96-11/30/97	529,014	129,767	658,781
12/1/97-11/30/98	412,171	313,818	725,989
12/1/98-11/30/99	808,596	579,227	1,387,823
12/1/99-11/30/00	1,383,858	818,605	2,202,463
12/1/00-11/30/01	1,295,510	2,463,147	3,758,657
	4,559,750	4,383,762	8,943,512

Table 2. Summary of nominal unpaid loss and ALAE liability as of November 30, 2001.

In computing discounted loss and ALAE reserves, paid loss patterns were based on the experience of the Trust, i.e., the relationship of the Trust's paid losses for each accident year to the selected ultimate losses for that year. Cash flows were assumed to take place midyear.

Interest rates of 5%, 6%, 8% and 10% were used to calculate the present value of the modeled cash flows. The present values appear on *Exhibit 7*.

The risk free interest rate, as measured by the long-term average of the 90-day Treasury yield, is approximately 5%. Six percent represents a typical assumed rate of return used by many self-insurers in today's economic environment and was used to discount loss and ALAE reserves at the Trust's prior year end. Discounted reserves are shown in *Table 3* for 5% and 6%.

(1)	(2)	(3)
Fiscal Year	<u>Discounted Reserves</u>	
	5.000%	6.000%
12/15/95-11/30/96	163,991	156,779
12/1/96-11/30/97	514,492	492,123
12/1/97-11/30/98	570,629	546,826
12/1/98-11/30/99	1,106,324	1,063,499
12/1/99-11/30/00	1,794,800	1,732,832
12/1/00-11/30/01	3,151,938	3,059,033
	<u>7,302,174</u>	<u>7,051,093</u>

Table 3. Summary of discounted unpaid loss and ALAE liability as of November 30, 2001.

Estimates do not include provision for loss-based assessments¹ or unallocated loss adjustment expenses. Excess insurance is assumed to be valid and collectible.

¹ The Workers' Compensation Board anticipates reserves for this liability to be 35% to 40% of the indemnity reserve.

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Summary of Ultimate Losses and ALAE

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Fund Year	Paid	Case Reserve	Incurred (2)+(3)	Ultimate Losses and ALAE					11/30/2000	Selected ¹	IBNR (11)-(4)	Total Reserve (3)+(12)
				Method 1: Incurred (Exhibit 2)	Method 2: Paid (Exhibit 3)	Method 3: Budgeted (Exhibit 4)	Method 4: Incurred B-F (Exhibit 5)	Method 5: Paid B-F (Exhibit 6)				
12/15/1995-11/30/1996	848,521	130,601	979,122	1,094,975	1,094,975	979,122	1,082,717	1,068,899	1,034,444	1,058,320	79,198	209,799
12/1/1996-11/30/1997	1,068,362	529,014	1,595,376	1,758,392	1,595,376	1,947,877	1,691,184	1,712,262	1,729,674	1,725,143	129,767	658,761
12/1/1997-11/30/1998	2,082,693	412,171	2,474,864	2,981,772	3,249,625	2,663,246	2,866,418	2,974,245	2,636,553	2,788,682	313,818	725,989
12/1/1998-11/30/1999	1,707,638	808,596	2,516,232	3,421,856	3,423,036	3,621,185	3,474,610	3,522,335	2,717,590	3,095,459	579,227	1,387,823
12/1/1999-11/30/2000	1,603,591	1,383,858	2,987,449	4,848,486	4,642,121	3,965,921	4,509,723	4,199,510	3,161,658	3,806,054	818,605	2,202,463
12/1/2000-11/30/2001	654,029	1,295,510	1,949,539	4,790,936	4,280,191	5,004,515	4,917,605	4,893,835	#N/A	4,412,688	2,463,147	3,758,657
	7,942,832	4,559,750	12,502,582	18,896,417	18,285,324	18,181,868	18,542,257	18,371,087		16,886,344	4,383,762	8,943,512

¹Mean of average of columns (5) through (9) excluding lowest and highest value and column (10), except fund year 12/1/2000-11/30/2001. Fund year 12/1/2000-11/30/2001 is product of average loss cost of \$1.17 per hundred and earned payroll in hundreds of dollars.

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Calculation of Ultimate Losses and ALAE
Method 1: Incurred Loss Development Method

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Fund Year	Paid	Case Reserve	Incurred (2)+(3)	Factor to Ultimate	Indicated Ultimate Losses (4)*(5)	Selected Ultimate Losses
12/15/1995-11/30/1996	848,521	130,601	979,122	1.118	1,094,975	1,094,975
12/1/1996-11/30/1997	1,066,362	529,014	1,595,376	1.164	1,857,073	1,758,392
12/1/1997-11/30/1998	2,062,693	412,171	2,474,864	1.235	3,057,382	2,981,772
12/1/1998-11/30/1999	1,707,636	808,596	2,516,232	1.360	3,421,856	3,421,856
12/1/1999-11/30/2000	1,603,591	1,383,858	2,987,449	1.623	4,848,486	4,848,486
12/1/2000-11/30/2001	654,029	1,295,510	1,949,539	2.457	4,790,936	4,790,936
	7,942,832	4,559,750	12,502,582		19,070,708	18,896,417

**Community Residence Insurance Saving Plan
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Calculation of Ultimate Losses and ALAE
Method 1: Incurred Loss Development Method

Fund Year	Incurred Losses and ALAE					
	12	24	36	48	60	72
12/15/1995-11/30/1996	#N/A	519,388	573,425	635,225	972,018	979,122
12/1/1996-11/30/1997	637,676	801,675	1,097,561	1,412,679	1,595,376	
12/1/1997-11/30/1998	836,573	1,254,893	2,061,514	2,474,864		
12/1/1998-11/30/1999	1,058,077	2,027,341	2,516,232			
12/1/1999-11/30/2000	1,626,957	2,987,449				
12/1/2000-11/30/2001	1,949,539					

	12-24	24-36	36-48	48-60	60-72	72-Ult
12/15/1995-11/30/1996	#N/A	1.104	1.108	1.530	1.007	
12/1/1996-11/30/1997	1.257	1.369	1.287	1.129		
12/1/1997-11/30/1998	1.500	1.643	1.201			
12/1/1998-11/30/1999	1.916	1.241				
12/1/1999-11/30/2000	1.836					
Average	1.627	1.339	1.198	1.330	1.007	
Harmonic	1.582	1.311	1.194	1.300	1.007	
Weighted	1.761	1.374	1.219	1.209	1.007	
Truncated	1.668	1.305	1.201	1.330	1.007	
Industry	1.514	1.193	1.101	1.061	1.041	1.196
Selected	1.514	1.193	1.101	1.061	1.041	1.118

	12-Ult	24-Ult	36-Ult	48-Ult	60-Ult	72-Ult
Selected	2.457	1.623	1.360	1.235	1.164	1.118

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Calculation of Ultimate Losses and ALAE
Method 2: Paid Loss Development Method

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Fund Year	Paid	Case Reserve	Incurred (2)+(3)	Factor to Ultimate	Indicated Ultimate Losses (2)*(5)	Selected Ultimate Losses
12/15/1995-11/30/1996	848,521	130,601	979,122	1.290	1,094,975	1,094,975
12/1/1996-11/30/1997	1,066,362	529,014	1,595,376	1.418	1,511,625	1,595,376
12/1/1997-11/30/1998	2,062,693	412,171	2,474,864	1.624	3,348,996	3,249,625
12/1/1998-11/30/1999	1,707,636	808,596	2,516,232	2.005	3,423,036	3,423,036
12/1/1999-11/30/2000	1,603,591	1,383,858	2,987,449	2.895	4,642,121	4,642,121
12/1/2000-11/30/2001	654,029	1,295,510	1,949,539	6.544	4,280,191	4,280,191
	7,942,832	4,559,750	12,502,582		18,300,944	18,285,324

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Calculation of Ultimate Losses and ALAE
Method 2: Paid Loss Development Method

Fund Year	Paid Losses and ALAE					
	12	24	38	48	60	72
12/15/1995-11/30/1996	#N/A	340,871	471,290	530,102	656,570	848,521
12/1/1996-11/30/1997	249,717	617,631	807,370	887,767	1,066,362	
12/1/1997-11/30/1998	346,545	902,466	1,477,233	2,062,693		
12/1/1998-11/30/1999	386,589	1,166,014	1,707,636			
12/1/1999-11/30/2000	709,623	1,603,591				
12/1/2000-11/30/2001	654,029					
	12-24	24-36	36-48	48-60	60-72	72-Ult
12/15/1995-11/30/1996	#N/A	1.383	1.125	1.239	1.292	
12/1/1996-11/30/1997	2.473	1.307	1.100	1.201		
12/1/1997-11/30/1998	2.604	1.637	1.396			
12/1/1998-11/30/1999	3.016	1.465				
12/1/1999-11/30/2000	2.260					
Average	2.588	1.448	1.207	1.220	1.292	
Harmonic	2.560	1.438	1.193	1.220	1.292	
Weighted	2.557	1.493	1.292	1.209	1.292	
Truncated	2.539	1.424	1.125	1.220	1.292	
Industry	2.261	1.444	1.235	1.145	1.098	1.551
Selected	2.261	1.444	1.235	1.145	1.098	1.290
	12-Ult	24-Ult	36-Ult	48-Ult	60-Ult	72-Ult
Selected	6.544	2.895	2.005	1.624	1.418	1.290

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Calculation of Ultimate Losses and ALAE
Method 3: Budgeted Loss Method

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fund Year	Earned Exposure	Expected Loss Rate ¹	Indicated Ultimate Losses (2)*(3)	Paid	Case Reserve	Incurred (5)+(6)	Selected Ultimate Losses
12/15/1995-11/30/1996	799,371	1.17	935,264	848,521	130,601	979,122	979,122
12/1/1996-11/30/1997	1,664,852	1.17	1,947,877	1,066,362	529,014	1,595,376	1,947,877
12/1/1997-11/30/1998	2,201,030	1.21	2,663,246	2,062,693	412,171	2,474,864	2,663,246
12/1/1998-11/30/1999	2,896,948	1.25	3,621,185	1,707,636	808,596	2,516,232	3,621,185
12/1/1999-11/30/2000	3,074,357	1.29	3,965,921	1,603,591	1,383,858	2,987,449	3,965,921
12/1/2000-11/30/2001	3,762,793	1.33	5,004,515	654,029	1,295,510	1,949,539	5,004,515
	14,399,351		18,138,008	7,942,832	4,559,750	12,502,582	18,181,866

¹Estimated loss cost for 12/1/2000-11/30/2001 of \$1.33 per one-hundred of payroll adjusted for trend and benefit level changes.

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Calculation of Ultimate Losses and ALAE
Method 4: Incurred Loss Bornhuetter-Ferguson Method

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Fund Year	Paid	Case Reserve	Incurred (2)+(3)	Expected Losses (Exhibit 4)	Emergence Factor ¹	Emergence (5)*(6)	Indicated Ultimate Losses (4)+(7)	Selected Ultimate Losses
12/15/1995-11/30/1996	848,521	130,601	979,122	979,122	0.106	103,595	1,082,717	1,082,717
12/1/1996-11/30/1997	1,066,362	529,014	1,595,376	1,947,877	0.093	180,583	1,775,959	1,691,184
12/1/1997-11/30/1998	2,062,693	412,171	2,474,864	2,663,246	0.170	452,758	2,927,622	2,866,418
12/1/1998-11/30/1999	1,707,636	808,596	2,516,232	3,621,185	0.265	958,378	3,474,610	3,474,610
12/1/1999-11/30/2000	1,603,591	1,383,858	2,987,449	3,965,921	0.384	1,522,274	4,509,723	4,509,723
12/1/2000-11/30/2001	654,029	1,295,510	1,949,539	5,004,515	0.593	2,968,066	4,917,605	4,917,605
	7,942,832	4,559,750	12,502,582	18,181,866		6,185,654	18,688,236	18,542,257

¹1-column (4)/Exhibit 2, column (7).

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Calculation of Ultimate Losses and ALAE
Method 5: Paid Loss Bornhuetter-Ferguson Method

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Fund Year	Paid	Case Reserve	Incurred (2)+(3)	Expected Losses (Exhibit 4)	Emergence Factor ¹	Emergence (5)*(6)	Indicated Ultimate Losses (2)+(7)	Selected Ultimate Losses
12/15/1995-11/30/1996	848,521	130,601	979,122	979,122	0.225	220,378	1,068,899	1,068,899
12/1/1996-11/30/1997	1,066,362	529,014	1,595,376	1,947,877	0.332	645,900	1,712,262	1,712,262
12/1/1997-11/30/1998	2,062,693	412,171	2,474,864	2,663,246	0.365	972,756	3,035,449	2,974,245
12/1/1998-11/30/1999	1,707,636	808,596	2,516,232	3,621,185	0.501	1,814,699	3,522,335	3,522,335
12/1/1999-11/30/2000	1,603,591	1,383,858	2,987,449	3,965,921	0.655	2,595,919	4,199,510	4,199,510
12/1/2000-11/30/2001	654,029	1,295,510	1,949,539	5,004,515	0.847	4,239,806	4,893,835	4,893,835
	7,942,832	4,559,750	12,502,582	18,181,866		10,489,459	18,432,291	18,371,087

¹1-column (2)/Exhibit 3, column (7).

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Discounted Reserve

(1) Fund Year	(2) Total Reserve (Exhibit 1)	(3)(a) 0-12	(3)(b) 12-24	(3)(c) 24-38	(3)(d) 38-48	(3)(e) 48-60	(3)(f) 60-72	(3)(g) Undiscounted Paid 72-84 84-96		(3)(h) 98-108	(3)(i) 108-120	(3)(j) 120-132	(3)(k) 132-144	(3)(l) 144-156	(3)(m) 156-Ult
12/15/1995-11/30/1998	209,799	29,217	22,479	17,783	14,390	11,864	9,938	8,434	7,241	88,455					
12/1/1996-11/30/1997	658,781	103,996	77,259	59,442	47,025	38,052	31,373	28,275	22,302	19,148	233,908				
12/1/1997-11/30/1998	725,989	132,038	93,762	69,856	53,593	42,398	34,308	28,285	23,689	20,107	17,264	210,890			
12/1/1998-11/30/1999	1,387,823	296,656	198,454	140,924	104,694	80,550	63,724	51,565	42,513	35,805	30,221	25,948	316,968		
12/1/1999-11/30/2000	2,202,463	568,136	349,776	233,989	188,158	123,441	94,974	75,134	60,798	50,125	41,981	35,632	30,594	373,725	
12/1/2000-11/30/2001	3,758,657	1,175,387	664,021	410,252	274,446	194,887	144,783	111,395	88,125	71,310	58,792	49,239	41,793	35,884	438,342
	8,943,512	2,303,429	1,405,750	932,048	660,307	491,192	379,098	301,088	244,888	284,751	382,166	321,709	389,356	409,809	438,342

(4) Discount Factor

(a) 5.000%	0.978	0.929	0.885	0.843	0.803	0.765	0.728	0.694	0.681	0.629	0.599	0.571	0.543	0.518
(b) 6.000%	0.971	0.918	0.864	0.816	0.789	0.728	0.685	0.648	0.609	0.575	0.542	0.512	0.483	0.455
(c) 8.000%	0.962	0.891	0.825	0.784	0.707	0.655	0.606	0.561	0.520	0.481	0.446	0.413	0.382	0.354
(d) 10.000%	0.953	0.867	0.788	0.718	0.651	0.592	0.538	0.489	0.445	0.404	0.368	0.334	0.304	0.276

(1) Fund Year	(5)(a) 5.000%	(5)(b) Discounted Reserve 8.000% 8.000%		(5)(c) 8.000%	(5)(d) 10.000%
12/15/1995-11/30/1996	163,991	156,779	143,888	132,898	
12/1/1996-11/30/1997	514,492	492,123	452,329	418,157	
12/1/1997-11/30/1998	570,629	546,826	504,661	488,627	
12/1/1998-11/30/1999	1,106,324	1,063,499	987,780	923,188	
12/1/1999-11/30/2000	1,794,800	1,732,832	1,623,147	1,529,308	
12/1/2000-11/30/2001	3,151,938	3,059,033	2,893,785	2,751,348	
	7,302,174	7,051,093	6,605,570	6,223,307	