



Web: www.DNActuary.com
Email: alrhodes@DNActuary.com
Telephone: 866-ACTUARY (228-8279)

March 25, 2002

Mr. David E. Francey
New York Compensation Managers, Inc.
6250 S. Bay Road - PO Box 3580
Syracuse, New York 13220

Re: Actuarial Analysis

Mr. Francey:

Enclosed are the results of an actuarial analysis prepared for Mercantile Self-Insurance Trust. The following Financial Profile is a summary of the results. Your comments and questions are welcome.

FINANCIAL PROFILE

Estimated required reserves as of 12/31/01	\$1,913,954
Projected losses for 2002	\$2,220,000
Expected claim payments for 2002	\$1,350,515

It has been a pleasure working on this assignment and we look forward to future opportunities to work together.

Regards,

AL J. Rhodes, ACAS, MAAA
President & Senior Actuary
DNActuary.com

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Executive Summary

Introduction

This actuarial analysis is prepared by DNActuary.com (DNA) for Mercantile Self-Insurance Trust (Mercantile). The conclusions represent a professional analysis and opinion of Mercantile's workers compensation loss experience. The scope of this analysis is:

1. *Evaluate estimated required reserves for claims occurring from 10/1/94 through 12/31/01.*
2. *Project losses for claims expected to occur during 2002.*
3. *Prepare a cash-flow schedule and net present value analysis of the expected payments.*
4. *Complete a confidence level analysis for claims expected to occur during 2002.*

Immediately following this introduction is a current **financial profile** of Mercantile and a **loss summary** of the results of this analysis. The **outline of basic methodology** section summarizes the actuarial techniques utilized. The **data** section discusses the sources of all data utilized for this analysis. The **qualifying statements** add important comments concerning the data and assumptions used to complete the analysis. The **analysis and methodology** section presents the step by step approach used to analyze Mercantile's loss experience. Additional sections provide supporting detail.

This report is intended for the use of Mercantile. If released to any third party it should be released only in its entirety. Please advise the authors at DNA of the release of this report to any other parties. DNA reserves the right to supplement this report with additional explanations and qualifications as it deems appropriate for the particular user.

Executive Summary

Financial Profile *Mercantile Self-Insurance Trust*

HISTORICAL LOSS COSTS

Estimated ultimate incurred losses (10/1/94-12/31/01)	\$4,313,874
Paid losses as of 12/31/01	2,399,920
Estimated required reserves	1,913,954
Case reserves	1,113,324
IBNR	800,630
Present value of reserves at 2%	\$1,844,409
Present value of reserves at 4%	1,780,460
Present value of reserves at 6%	1,721,474
Present value of reserves at 8%	1,666,912

PROJECTED LOSS COSTS

Projected losses for 2002	\$2,220,000
Present value of projected losses at 2%	\$2,120,970
Present value of projected losses at 4%	2,030,841
Present value of projected losses at 6%	1,948,511
Present value of projected losses at 8%	1,873,038

CASH FLOW

Expected claim payments for 2002	\$1,350,515
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Executive Summary

Loss Summary

The evaluation of ultimate losses requires the estimation of future contingent events. In estimating these losses, we have assumed historical patterns, with adjustments as noted, are indicative of future patterns. We have not anticipated any extraordinary changes in the legal, social or economic environment which might affect the frequency and cost of claims. To the extent actual future development is different than the historical patterns assumed in our analysis, the conclusions contained in this report will change. For these reasons, we can provide no guarantee that estimates will prove adequate or not excessive. However, all available information has been considered, and, given reliable data, a reasonable amount has been estimated.

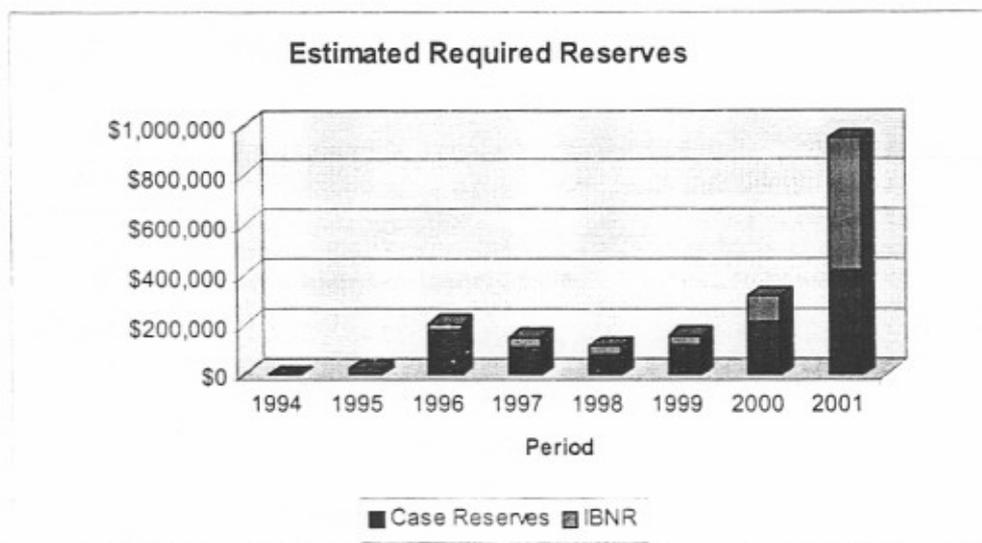
Estimated Required Reserves as of 12/31/01

Period	Selected Estimated Ultimate Incurred Losses	Reported Paid Losses	Estimated Required Reserves	Case Reserves	IBNR
1994	\$18,372	\$18,372	\$0	\$0	\$0
1995	\$256,563	\$231,840	\$24,723	\$11,168	\$13,555
1996	\$440,582	\$237,694	\$202,888	\$177,949	\$24,939
1997	\$721,906	\$573,341	\$148,565	\$106,063	\$42,502
1998	\$426,772	\$312,381	\$114,391	\$81,283	\$33,108
1999	\$468,613	\$310,144	\$158,469	\$114,536	\$43,933
2000	\$656,154	\$339,792	\$316,362	\$208,181	\$108,181
2001	\$1,324,912	\$376,356	\$948,556	\$414,144	\$534,412
Total	\$4,313,874	\$2,399,920	\$1,913,954	\$1,113,324	\$800,630

Estimated ultimate incurred losses are defined as the amount needed to provide for the cost of claims relating to events that occurred during each period. This includes the **estimated required reserves** which is the amount that will be required for future payments on (1) claims that have been reported and (2) claims that have occurred but have not been reported as of the evaluation date. The estimated required reserves are then segregated between **case reserves** and **incurred but not reported losses (IBNR)**. Case reserves are calculated as reported losses minus

paid losses. IBNR includes development on known claims as well as a provision for claims that have occurred but not been reported as of 12/31/01.

Figure 1



These amounts reflect the per occurrence limits in effect for each period. **Allocated loss adjustment expenses** are included within the loss limitation for each period. Allocated loss adjustment expenses are those expenses assignable to specific claims, such as legal costs.

In the following chart, the estimated required reserves are discounted at various rates to a present value basis of 12/31/01.

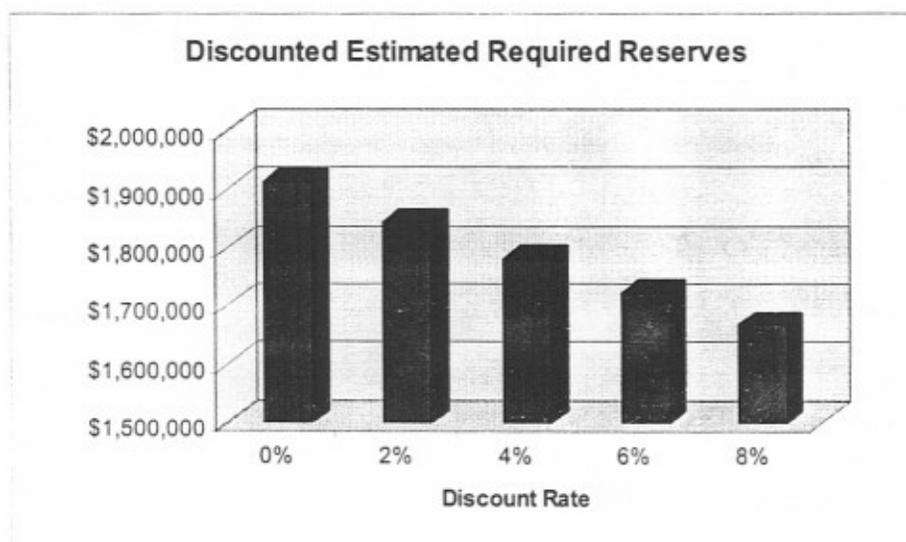
Net Present Value Analysis

Discount Rate	Discounted Estimated Required Reserves
0%	\$1,913,954
2%	\$1,844,409
4%	\$1,780,460
6%	\$1,721,474
8%	\$1,666,912

For example, if Mercantile can realize a 4.0% investment return (after taxes) on funds, it will need to invest approximately \$1,780,460 to fund the estimated liabilities of \$1,913,954. This

assumes that payments follow the pattern anticipated in this analysis, and losses are paid evenly through each period. The discount rates show ranges from 2.0% to 8.0%. This should not be interpreted as implying DNA considers this to be an achievable range of investment return. Each organization must evaluate what is an appropriate discount rate, based on its operating and financial strategies.

Figure 2



Projected losses are defined as the amount needed to provide for the cost of claims relating to events expected to occur during 2002. In recognition of the time value of money, projected losses are discounted to 1/1/2002.

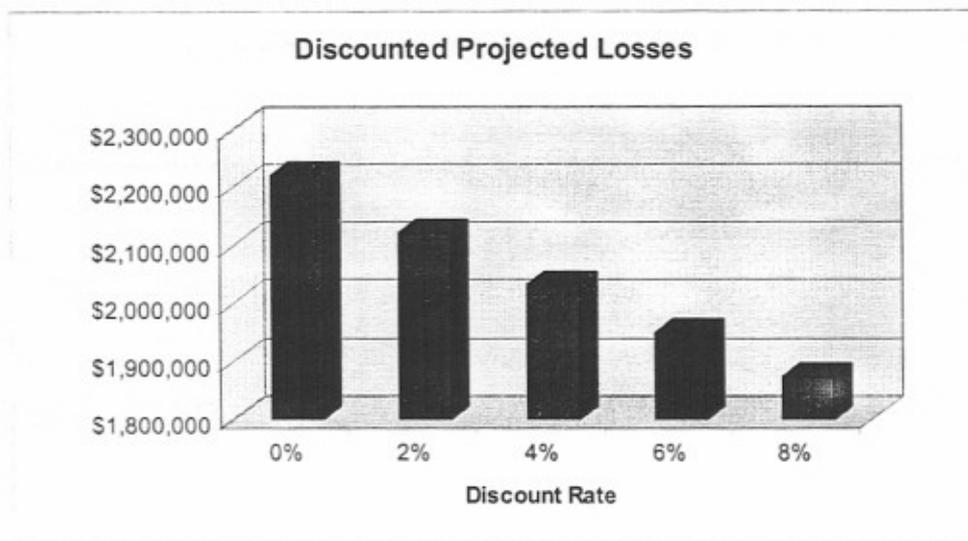
Net Present Value Analysis

Discount Rate	Discounted Projected Losses
0%	\$2,220,000
2%	\$2,120,970
4%	\$2,030,841
6%	\$1,948,511
8%	\$1,873,038

The estimation of losses expected to occur in a future period is difficult due to the unpredictability of internal and external influences. Therefore, a range is calculated which is

intended to depict a reasonable variance for the establishment of Mercantile's 2002 funding level. The effect of choosing a funding level greater than the expected loss amount is to increase the ability of the program to withstand loss costs greater than anticipated.

Figure 3



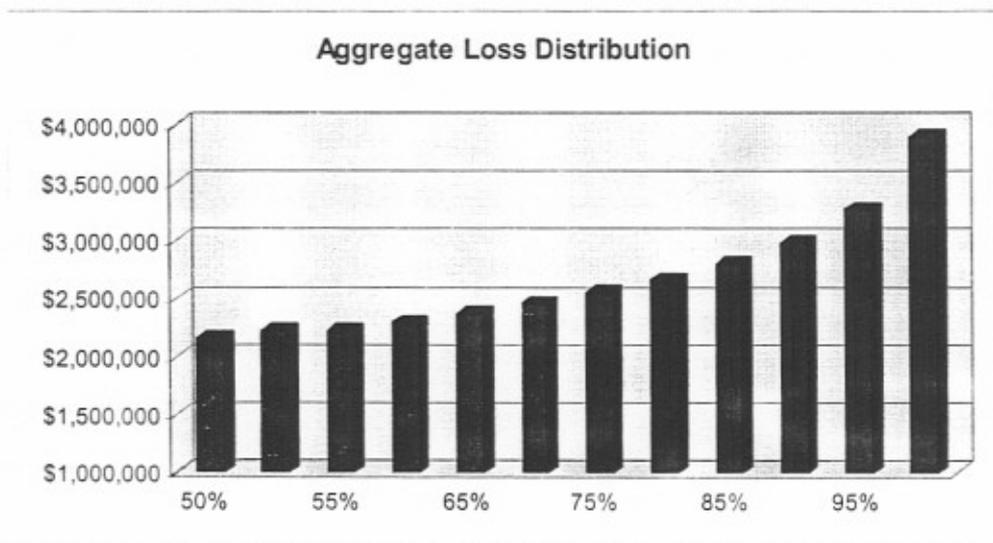
Projected 2002 Confidence Level Analysis

Confidence Level	Aggregate Loss Distribution	Risk Margin Index
50%	\$2,150,000	97%
Expected	\$2,220,000	100%
55%	\$2,220,000	100%
60%	\$2,290,000	103%
65%	\$2,370,000	107%
70%	\$2,460,000	111%
75%	\$2,550,000	115%
80%	\$2,660,000	120%
85%	\$2,800,000	126%
90%	\$2,980,000	134%
95%	\$3,270,000	147%
99%	\$3,890,000	175%

These amounts are not intended to establish an absolute maximum or minimum funding level.

Rather, they are an estimate of the statistical range of loss dollars reasonably expected to be generated by Mercantile during 2002. Since the actual costs of claims may vary markedly from year to year, prudent funding would recognize the potential for higher loss costs in a given year.

Figure 4



Executive Summary

Outline of Basic Methodology

1. Loss development factors are applied to the most recently evaluated losses to estimate the ultimate value of losses for each of the historical periods. This analysis is completed using reported losses and paid losses. A third technique is used which generates a ratio of expected additional loss development to reserves based on reported and paid loss development patterns. The estimates from each of these methods are compared and a selection of ultimate losses is made.
2. Trend factors are applied to the estimated ultimate incurred losses. These factors adjust losses to reflect changes in the level of claim costs from the time when the losses originally occurred to the time period for the projection. Inflation sensitive exposures, such as payroll, are trended from each of the prior periods to the level of the time period for the projection.
3. The adjusted ultimate incurred losses are divided by the adjusted exposures for each prior period to calculate a pure loss rate. Each of these pure loss rates is an estimate of the pure loss rate that may be required to pay losses for the projection period. These estimates are the main input in the selection of the pure loss rate to be used for the projection.
4. Projected losses are calculated by multiplying the selected pure loss rate by projected exposures.
5. Paid losses are then subtracted from the estimated ultimate incurred losses to calculate the estimated required reserves.
6. A payout schedule is completed in which the expected future payments are allocated to the period in which they are expected to be paid. The future payments are then discounted.
7. An aggregate loss distribution is generated which calculates the confidence intervals around the projected losses in which the actual losses will lie.

Executive Summary

Data

The loss and exposure data used in this report is supplied by Mercantile. It is our understanding that Mercantile has provided us with all information which would materially affect this analysis. The historical data is assumed to be accurate and complete and should be reconciled with internal records. We have used Mercantile's own loss and exposure data to the extent this data is credible and available. All supplementary data reflects the characteristics of Mercantile's exposure to risk, to the extent possible.

Additional sources of data include National Council on Compensation Insurance (NCCI), Best's Casualty Loss Reserve Development Series, United States Department of Commerce and insurance company information.

Executive Summary

Qualifying Statements

1. We have relied without audit or verification on historical data and qualitative information supplied by Mercantile. It is our understanding that Mercantile has provided us with all information which would materially affect the loss estimates, and that all information furnished to us has been accurate and complete.
2. We have assumed that historical operations (distribution of exposures by geographic area and nature of operations) are representative of current and future operations.
3. We have assumed that there has been no significant benefit level changes other than those reflected in this analysis.
4. We have assumed there are no factors which would cause patterns in the underlying data to be unrepresentative of the current or future situation.
5. We have assumed the alternative data sources used to develop losses and used to trend losses and exposures reflects the characteristics of Mercantile's exposure to risk, to the extent possible.
6. We are not aware of any change in the reserving philosophy concerning Mercantile's claims. Most often a change in philosophy occurs when there is a change in claim administrators. A change in reserving philosophy would render prior data patterns inapplicable leading us to modify our methods and apply more weight to industry factors.
7. Changes in any of the information or assumptions upon which DNA's estimates of ultimate losses are based will require a reevaluation of the results of this report and possibly a revision of these projections.

This report should be released only in its entirety. DNA actuaries will be available for consultation should any individual reviewing this report have questions or require further analysis.

Analysis and Methodology

Analysis of Loss Experience

This section presents the detailed methodology used in analyzing Mercantile's loss experience. The tables referenced in this narrative are located in Section 3.

A purely mechanical method of loss reserving is not possible due to several decisions that require judgment based on the available data, changes in operations, external changes and the credibility of various reserving methods. The impact of external influences such as inflation, the judicial environment and regulatory changes have been considered.

Table 1 The ultimate cost of claims incurred for a specific time period is usually not known until several years after the close of that period. Therefore, loss development factors are used to project the additional cost expected on claims associated with current and past loss periods. These factors quantify the late developing aspects of certain losses, such as claims involving medical complications not recognized in the early stages of treatment or verdict values for litigated claims which are different than the amount which was reserved to pay the claims. They also account for losses that occurred during the period but are not reported until a later date, commonly referred to as incurred but not reported losses, or IBNRs.

Mercantile's database is large enough to permit the calculation of unique loss development factors. Unique factors allow for a more accurate reflection of Mercantile's specific loss development patterns. Theoretically, the use of unique factors as opposed to industry averages produces a more accurate projection of ultimate incurred losses.

The calculation of development factors and selection of factors to be applied is shown in Table 1, beginning with reported losses as of different evaluation dates. For example, in Part A the table shows losses incurred during 1999 evaluated as of 12, 24 and 36 months after the beginning of that period. This format also allows us to analyze development characteristics which are unique to Mercantile.

Part B displays the rates by which losses develop from period to period (age-to-age factors). For example, the 12 to 24 age-to-age factor for 1999 is 1.467. This is the 24 month incurred amount of \$482,507 divided by the 12 month incurred amount of \$328,880. The age-to-age factor of

1.467 means that the known value of losses increased by 46.7 percent during the 12 to 24 month interval. A loss development factor less than 1.000 indicates that the value of reported losses declined, possibly due to a claim being settled for an amount less than was previously reserved.

Part B shows several averages of age-to-age factors from one evaluation to the next.

1. The **average** is the average of all age-to-age factors in the column.
2. The **weighted average** weighs the factors for individual years by the magnitude of losses for that given year.

In the line labeled selected at the end of Part B, the various averages are evaluated along with a New York benchmark and the factors selected as most representative of the expected loss development are shown. Computation of loss development factors (Part C) is based on the selected age-to-age factors. The 12 month to ultimate loss development factor, for instance, is found by multiplying the 12 to 24 month age-to-age factor by the 24 to ultimate loss development factor.

Table 2 The development factors applied to reported losses are selected based on the time that has passed between the beginning of the loss period and the date of the most recent evaluation. In most cases, the closer the evaluation date is to the policy period effective date, the larger the loss development factor needed. Conversely, as the policy period matures, the loss development factor approaches 1.000. The expected ultimate losses for each year are estimated by multiplying the development factors by recently valued reported losses for those years.

Table 2 indicates, for example, that losses reported for 1999, evaluated at \$424,680 on 12/31/01, may be expected to ultimately cost \$473,094 due to development and IBNR.

Tables 3 & 4 A paid loss approach attempts to eliminate distortions that can occur in the incurred loss development method as a result of changes in claims handling procedures or reserving adequacy. Inherent in a paid loss development technique is the assumption there is no change in claims settlement practices (timing of payments).

Since the paid loss technique is similar in basic methodology to the reported procedure, a detailed description is not included in this report.

Table 5 A third method of calculating ultimate losses for each period uses the current case

reserves. Part A shows the ratio of expected additional incurred loss development to case reserves calculated from the selected incurred and paid loss development factors.

In Part B, the ratios are applied to current reserves to estimate expected additional development for each period. The sum of known incurred losses and the calculated additional development is the indicated ultimate loss amount.

Table 6 Multiple procedures are utilized to prepare estimates that best represent the expected ultimate incurred losses. The estimates using the three methods are compared, and as might be expected produce different results. A weighted average yields the selected estimated ultimate incurred losses for each period.

Table 7 Severity trend factors are applied to adjust historical incurred losses to more accurately reflect the expected cost level for the period being projected. For workers compensation, this adjustment has two parts.

1. The **benefit level change factor** for workers compensation quantifies increases in benefit levels attributable to changes in state workers compensation laws.
2. The **inflation trend factor** for workers compensation consists of two elements: medical costs and average wages on which indemnity benefits are based.

Benefit level change factors are developed from New York benchmarks. The factor of 1.000 for 1999 indicates changes in workers compensation laws have resulted in no change in benefit levels.

Inflation trend factors are based 30 percent on medical cost inflation as measured by the Consumer Price Index of medical costs and 70 percent on changes in average wages as measured by the United States Department of Commerce for the retail industry. Inflation factors have been calculated to adjust losses from historical periods to the midpoint of the projected period. In this set of factors, the factor of 1.126 for 1999 indicates an increased average loss cost of 12.6 percent for losses expected to occur during the projected period over the cost for losses that occurred during 1999.

Benefit level change factors and inflation trend factors are multiplied by estimated ultimate incurred losses for each period to calculate adjusted losses, as shown in Part A.

Having developed Mercantile's historical workers compensation losses and adjusted them to reflect projected cost levels, the next step is to trend historical exposures to appropriate expected levels for the projected period. The exposure base selected for Mercantile's workers compensation losses is payroll. In Part B, historical payrolls are adjusted to anticipated average wage levels for the projected period.

Table 8 The next step is to calculate pure loss rates based on the historical experience of Mercantile. This procedure utilizes past experience to determine a factor which, when applied to payroll, produces an estimate of ultimate incurred losses. The pure loss rate can be defined as the expected dollar loss cost per \$100 of payroll.

In Part A, adjusted losses are divided by adjusted exposures to yield pure loss rates based on the unique experience of each historical period. Each of the calculated pure loss rates is an estimate of the pure loss rate which could be charged for the projected period. A pure loss rate of \$1.85 per \$100 of payroll has been selected for the projected period.

In Part B, the selected pure loss rate of \$1.85 per \$100 of payroll is multiplied by the projected payroll to forecast losses of \$2,220,000. Since the actual payroll may differ from the estimated payroll, a discrepancy may arise to the extent of the difference between actual and estimated payrolls.

Analysis and Methodology

Cash-Flow Analysis

In this section, the estimated ultimate incurred losses are used to determine estimated required reserves. These reserves are then discounted in recognition of the time value of money.

Table 9 This table contains a summary of estimated required reserves. Estimated required reserves are calculated by subtracting paid losses from the estimated ultimate incurred losses. These outstanding liabilities represent case reserves plus IBNR.

Tables 10 & 11 Table 10 is an estimated schedule of payments for the completed periods. Table 11 is an estimated schedule of payments for the projected losses.

Payout percentages are used to allocate the estimated reserves to the periods in which they are expected to be paid. The estimated reserves are then discounted to reflect the timing of future loss payments at annual rates of investment interest of 2.0%, 4.0%, 6.0% and 8.0%. DNA has not determined the appropriateness of these discount rates for Mercantile. The discounting procedure assumes all losses will be paid in the middle of the year.

Two variations are introduced when estimating expected payouts on a discounted present value basis. First, the timing of future payments could differ from the estimated payout due to random variations in the payments of large claims. Second, the future yield on the underlying assets is susceptible to significant changes in economic conditions. Therefore, while the recognition given future investment earnings is important, discounting does add an additional uncertainty to an already projected amount. Due to this uncertainty, we can not provide assurance that the amount and timing of actual claim payments will not deviate materially from our projections.

Analysis and Methodology

Aggregate Loss Probability Distribution

In this section, confidence intervals around the projected losses are discussed.

Table 12 A statistical model can be used to estimate amounts for confidence levels around the projected losses. Confidence levels are useful for determining funding requirements within a self-insured retention, defining an adequate amount to achieve a desired level of confidence that a particular liability is adequately funded, negotiation of proper collateralization for a program requiring security, determination of a cost effective aggregate stop-loss and determination of an appropriate maximum for a retrospectively rated insurance program.

The model utilized to calculate the distribution is based on the historical loss experience and a lognormal statistical distribution. A useful feature of this distribution is that it is positively skewed. For this reason it is widely used within the insurance industry.

The aggregate loss distribution column indicates the aggregate losses at various confidence levels. For example, an aggregate loss amount of \$2,220,000 should be adequate to pay all losses that occur during 2002 55% of the time. This means that 55 out of 100 times, losses will be less than or equal to \$2,220,000. Larger dollar amounts relate to higher probability levels. For example, there is a 75% chance that losses will not exceed \$2,550,000. The risk margin index shows percentage differences from the expected loss level.

A limitation of the statistical model is that a concept known as parameter risk is not included in the calculation of the aggregate distribution. Parameter risk is the risk associated with the possible incorrect estimate of the projected losses. There is always the possibility that the estimate of projected loss is wrong. However, we have made our best estimate of the assumptions regarding the exposure to loss.

Table 13 Loss and exposure trend factors are calculated based on information compiled by the U.S. Department of Commerce.

Section 3, Table 1

Mercantile Self-Insurance Trust

Workers Compensation

Incurred Loss Development Factor Calculation

(Losses are Limited to \$350,000 per Occurrence)

A. Reported Incurred Losses								
Period	Months After Inception Date							
	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months
1994	\$2,391	\$10,961	\$10,961	\$30,315	\$19,105	\$19,105	\$18,372	\$18,372
1995	\$157,716	\$240,870	\$275,707	\$266,174	\$254,059	\$258,604	\$243,008	
1996	\$113,131	\$414,530	\$424,005	\$419,656	\$394,363	\$415,643		
1997	\$507,980	\$557,199	\$626,126	\$659,597	\$679,404			
1998	\$417,405	\$443,140	\$485,548	\$393,664				
1999	\$328,880	\$482,507	\$424,680					
2000	\$536,000	\$547,973						
2001	\$790,500							

B. Age-to-Age Factors								
Period	Months After Inception Date							
	12 to 24 Months	24 to 36 Months	36 to 48 Months	48 to 60 Months	60 to 72 Months	72 to 84 Months	84 to 96 Months	96 to Ultimate
1994	4.584	1.000	2.766	0.630	1.000	0.962	1.000	
1995	1.527	1.145	0.965	0.954	1.018	0.940		
1996	3.664	1.023	0.990	0.940	1.054			
1997	1.097	1.124	1.053	1.030				
1998	1.062	1.096	0.811					
1999	1.467	0.880						
2000	1.022							
Average (1995-2001)	1.640	1.053	0.955	0.975	1.036	0.940		
Wtd Avg	1.307	1.046	0.971	0.979	1.039	0.941		
NY Benchmark	1.510	1.194	1.109	1.053	1.041	1.032	1.028	1.135
Selected	1.300	1.080	1.020	1.020	1.010	1.005	1.005	1.050

C. Age-to-Ultimate Factors								
Cumulative	12 to Ultimate	24 to Ultimate	36 to Ultimate	48 to Ultimate	60 to Ultimate	72 to Ultimate	84 to Ultimate	96 to Ultimate
		1.564	1.203	1.114	1.092	1.071	1.060	1.055

Note: 1994 is 10/1/94-12/31/94.

Section 3, Table 2

Mercantile Self-Insurance Trust

Workers Compensation

Estimated Ultimate Incurred Losses - Incurred Method

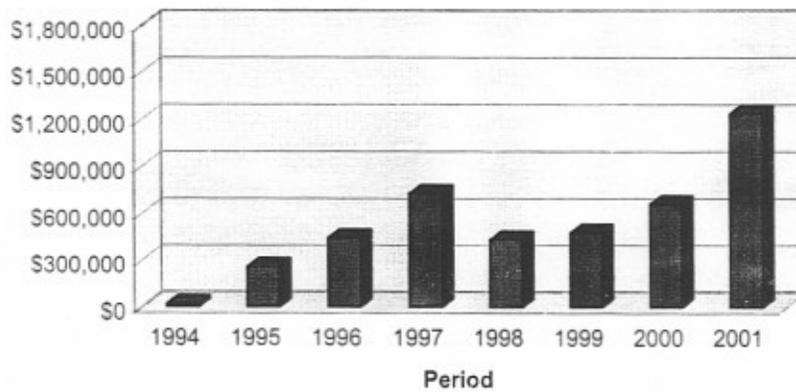
(Losses are Limited to \$350,000 per Occurrence)

Period	Evaluation Date	Reported Incurred Losses	Months of Loss Development	Loss Development Factor ^{1,2}	Estimated Ultimate Incurred Losses
1994	12/31/01	\$18,372	87	1.000	\$18,372
1995	12/31/01	\$243,008	84	1.055	\$256,373
1996	12/31/01	\$415,643	72	1.060	\$440,582
1997	12/31/01	\$679,404	60	1.071	\$727,642
1998	12/31/01	\$393,664	48	1.092	\$429,881
1999	12/31/01	\$424,680	36	1.114	\$473,094
2000	12/31/01	\$547,973	24	1.203	\$659,212
2001	12/31/01	\$790,500	12	1.564	\$1,236,342
Total		\$3,513,244			\$4,241,498

¹ Table 1.

² A loss development factor of 1.000 is used if all claims are closed.

Estimated Ultimate Incurred Losses - Incurred Method



Section 3, Table 3

Mercantile Self-Insurance Trust

Workers Compensation

Paid Loss Development Factor Calculation

(Losses are Limited to \$350,000 per Occurrence)

A. Reported Paid Losses								
Period	Months After Inception Date							
	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months
1994	\$1,677	\$6,859	\$7,146	\$14,346	\$17,743	\$18,118	\$18,372	\$18,372
1995	\$25,368	\$51,323	\$167,993	\$207,289	\$215,614	\$224,892	\$231,840	
1996	\$53,172	\$171,482	\$244,087	\$284,315	\$309,098	\$237,694		
1997	\$219,430	\$359,827	\$423,416	\$466,540	\$573,341			
1998	\$180,542	\$241,882	\$303,350	\$312,381				
1999	\$107,193	\$252,253	\$310,144					
2000	\$167,351	\$339,792						
2001	\$376,356							

B. Age-to-Age Factors								
Period	Months After Inception Date							
	12 to 24 Months	24 to 36 Months	36 to 48 Months	48 to 60 Months	60 to 72 Months	72 to 84 Months	84 to 96 Months	96 to Ultimate
1994	4.090	1.042	2.008	1.237	1.021	1.014	1.000	
1995	2.023	3.273	1.234	1.040	1.043	1.031		
1996	3.225	1.423	1.165	1.087	0.769			
1997	1.640	1.177	1.102	1.229				
1998	1.340	1.254	1.030					
1999	2.353	1.229						
2000	2.030							
Average (1995-2001)	2.102	1.671	1.133	1.119	0.906	1.031		
Wtd Avg	1.886	1.344	1.121	1.147	0.886	1.030	1.000	
NY Benchmark	2.298	1.412	1.229	1.158	1.101	1.068	1.053	1.375
Selected	2.200	1.300	1.100	1.100	1.050	1.025	1.020	1.100

C. Age-to-Ultimate Factors								
Cumulative	12 to Ultimate	24 to Ultimate	36 to Ultimate	48 to Ultimate	60 to Ultimate	72 to Ultimate	84 to Ultimate	96 to Ultimate
		4.182	1.901	1.462	1.329	1.208	1.150	1.122

Section 3, Table 4

Mercantile Self-Insurance Trust

Workers Compensation

Estimated Ultimate Incurred Losses - Paid Method

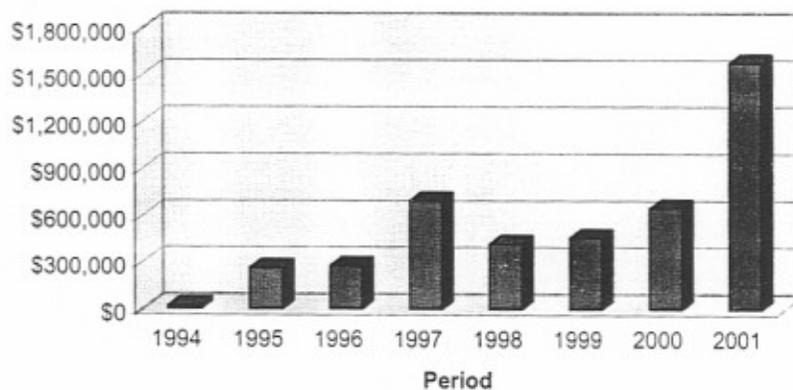
(Losses are Limited to \$350,000 per Occurrence)

Period	Evaluation Date	Reported Paid Losses	Months of Loss Development	Loss Development Factor ^{1,2}	Estimated Ultimate Incurred Losses
1994	12/31/01	\$18,372	87	1.000	\$18,372
1995	12/31/01	\$231,840	84	1.122	\$260,124
1996	12/31/01	\$237,694	72	1.150	\$273,348
1997	12/31/01	\$573,341	60	1.208	\$692,596
1998	12/31/01	\$312,381	48	1.329	\$415,154
1999	12/31/01	\$310,144	36	1.462	\$453,431
2000	12/31/01	\$339,792	24	1.901	\$645,945
2001	12/31/01	\$376,356	12	4.182	\$1,573,921
Total		\$2,399,920			\$4,332,891

¹ Table 3.

² A loss development factor of 1.000 is used if all claims are closed.

Estimated Ultimate Incurred Losses - Paid Method



Section 3, Table 5

Mercantile Self-Insurance Trust

Workers Compensation

Estimated Ultimate Incurred Losses - Case Method
(Losses are Limited to \$350,000 per Occurrence)

A. Calculation of Estimated Loss Development to Case Reserves					
	(1)	(2)	(3)	(4)	(5)
Period	Incurring Loss Development Factor	Estimated Losses Reported to Date ¹	Paid Loss Development Factor	Estimated Losses Paid to Date ²	Ratio of Expected Loss Development to Case Reserves ³
1994	1.000	100.0%	1.000	100.0%	0.000
1995	1.055	94.8%	1.122	89.1%	0.912
1996	1.060	94.3%	1.150	87.0%	0.781
1997	1.071	93.4%	1.208	82.8%	0.623
1998	1.092	91.6%	1.329	75.2%	0.512
1999	1.114	89.8%	1.462	68.4%	0.477
2000	1.203	83.1%	1.901	52.6%	0.554
2001	1.564	63.9%	4.182	23.9%	0.903

B. Estimated Ultimate Incurred Losses						
	(6)	(7)	(8)	(9)	(10)	(11)
Period	Reported Incurred Losses	Reported Paid Losses	Case Reserves ⁴	Ratio of Expected Loss Development to Case Reserves	Expected Loss Development ⁵	Estimated Ultimate Incurred Losses ⁶
1994	\$18,372	\$18,372	\$0	0.000	\$0	\$18,372
1995	\$243,008	\$231,840	\$11,168	0.912	\$10,185	\$253,193
1996	\$415,643	\$237,694	\$177,949	0.781	\$138,978	\$554,621
1997	\$679,404	\$573,341	\$106,063	0.623	\$66,077	\$745,481
1998	\$393,664	\$312,381	\$81,283	0.512	\$41,617	\$435,281
1999	\$424,680	\$310,144	\$114,536	0.477	\$54,634	\$479,314
2000	\$547,973	\$339,792	\$208,181	0.554	\$115,332	\$663,305
2001	\$790,500	\$376,356	\$414,144	0.903	\$373,972	\$1,164,472
Total	\$3,513,244	\$2,399,920	\$1,113,324		\$800,795	\$4,314,039

¹ 1.00/(1).

² 1.00/(3).

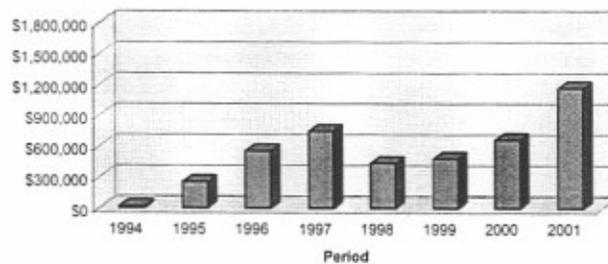
³ [1.00-(2)]/[1-(4)].

⁴ (6)-(7).

⁵ (8)x(9).

⁶ (6)+(10).

Estimated Ultimate Incurred Losses - Case Method



Section 3, Table 6

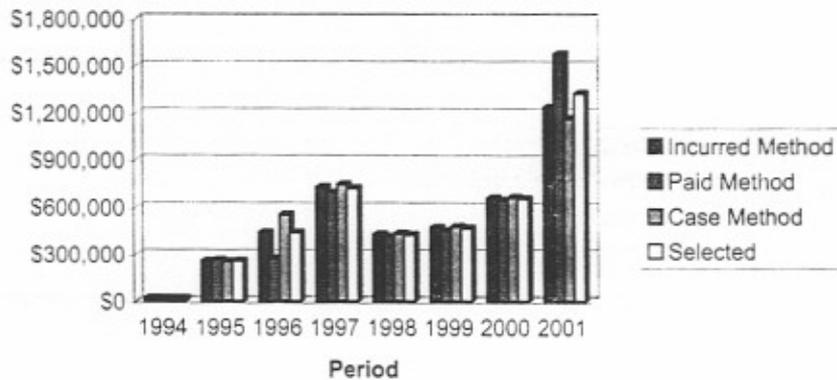
Mercantile Self-Insurance Trust

Workers Compensation

Selected Estimated Ultimate Incurred Losses
(Losses are Limited to \$350,000 per Occurrence)

Period	Estimated Ultimate Incurred Losses (Incurred Method)	Estimated Ultimate Incurred Losses (Paid Method)	Estimated Ultimate Incurred Losses (Case Method)	Selected Estimated Ultimate Incurred Losses
1994	\$18,372	\$18,372	\$18,372	\$18,372
1995	\$256,373	\$260,124	\$253,193	\$256,563
1996	\$440,582	\$273,348	\$554,621	\$440,582
1997	\$727,642	\$692,596	\$745,481	\$721,906
1998	\$429,881	\$415,154	\$435,281	\$426,772
1999	\$473,094	\$453,431	\$479,314	\$468,613
2000	\$659,212	\$645,945	\$663,305	\$656,154
2001	\$1,236,342	\$1,573,921	\$1,164,472	\$1,324,912
Total	\$4,241,498	\$4,332,891	\$4,314,039	\$4,313,874

Selected Estimated Ultimate Incurred Losses



Section 3, Table 7

Mercantile Self-Insurance Trust

Workers Compensation

Trend Adjustments to 2002 Level

(Losses are Limited to \$350,000 per Occurrence)

A. Loss Trend Adjustments				
Period	Estimated Ultimate Incurred Losses	Benefit Level Change Factor ¹	Inflation Trend Factor ²	Adjusted Losses
1994	\$18,372	0.986	1.357	\$20,000
1995	\$256,563	0.978	1.315	\$330,000
1996	\$440,582	0.983	1.267	\$550,000
1997	\$721,906	1.005	1.220	\$890,000
1998	\$426,772	1.000	1.169	\$500,000
1999	\$468,613	1.000	1.126	\$530,000
2000	\$656,154	1.000	1.081	\$710,000
2001	\$1,324,912	1.000	1.040	\$1,380,000
Total	\$4,313,874			\$4,910,000

B. Exposure Trend Adjustments			
Period	Payroll	Payroll Adjustment Factor ²	Adjusted Payroll
1995	\$3,915,733	1.332	\$5,220,000
1996	\$24,546,292	1.282	\$31,470,000
1997	\$25,993,972	1.229	\$31,950,000
1998	\$28,898,147	1.172	\$33,870,000
1999	\$30,136,085	1.127	\$33,960,000
2000	\$34,973,186	1.082	\$37,840,000
2001	\$80,029,220	1.041	\$83,310,000
Total	\$228,492,635		\$257,620,000

¹ Based on New York benchmarks.

² See Table 13.

Section 3, Table 8

Mercantile Self-Insurance Trust

Workers Compensation

Calculation of Projected Losses

(Losses are Limited to \$350,000 per Occurrence)

A. Pure Loss Rates Projected From Historical Data

Period	Adjusted Losses	Adjusted Payroll	Pure Loss Rate
			(Per \$100 Adjusted Payroll)
1995	\$330,000	\$5,220,000	\$6.32
1996	\$550,000	\$31,470,000	\$1.75
1997	\$890,000	\$31,950,000	\$2.79
1998	\$500,000	\$33,870,000	\$1.48
1999	\$530,000	\$33,960,000	\$1.56
2000	\$710,000	\$37,840,000	\$1.88
2001	\$1,380,000	\$83,310,000	\$1.66
Total	\$4,890,000	\$257,620,000	\$1.90

3 Year Average = \$1.70

5 Year Average = \$1.87

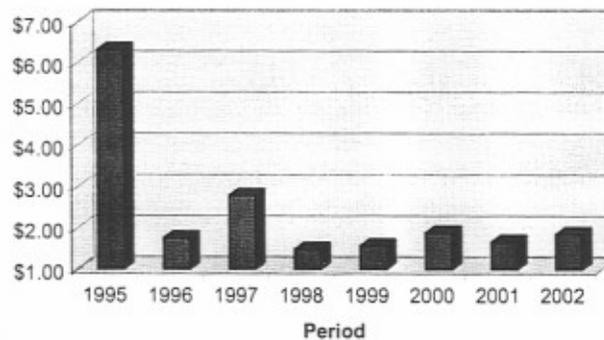
7 Year Average = \$2.49

Selected Pure Loss Rate = \$1.85

B. Projected Losses

Period	Projected Pure Loss Rate	Projected Payroll	Projected Losses
2002	\$1.85	\$120,000,000	\$2,220,000

Pure Loss Rates



Section 3, Table 9

Mercantile Self-Insurance Trust

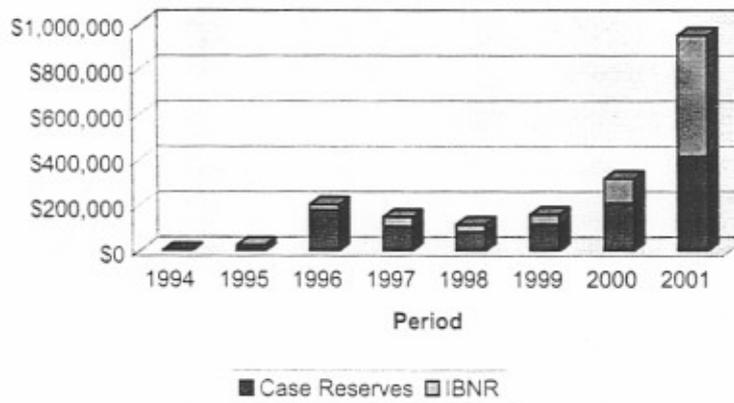
Workers Compensation

Estimated Required Reserves as of 12/31/01

(Losses are Limited to \$350,000 per Occurrence)

Period	Selected Estimated Ultimate Incurred Losses	Reported Paid Losses	Estimated Required Reserves	Case Reserves	IBNR
1994	\$18,372	\$18,372	\$0	\$0	\$0
1995	\$256,563	\$231,840	\$24,723	\$11,168	\$13,555
1996	\$440,582	\$237,694	\$202,888	\$177,949	\$24,939
1997	\$721,906	\$573,341	\$148,565	\$106,063	\$42,502
1998	\$426,772	\$312,381	\$114,391	\$81,283	\$33,108
1999	\$468,613	\$310,144	\$158,469	\$114,536	\$43,933
2000	\$656,154	\$339,792	\$316,362	\$208,181	\$108,181
2001	\$1,324,912	\$376,356	\$948,556	\$414,144	\$534,412
Total	\$4,313,874	\$2,399,920	\$1,913,954	\$1,113,324	\$800,630

Estimated Required Reserves



Section 3, Table 10

Mercantile Self-Insurance Trust

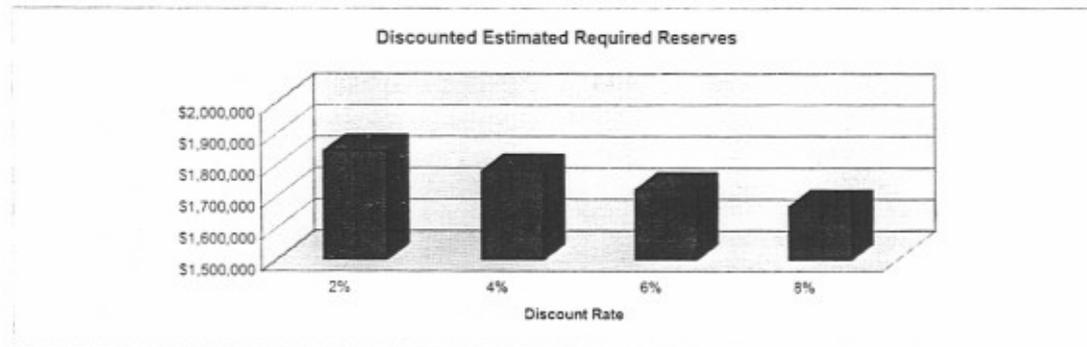
Workers Compensation

Cash-Flow and Present Value Analysis

(Losses are Limited to \$350,000 per Occurrence)

A. Expected Future Payments										
Period	Expected Payment Period									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
1994	\$0									\$0
1995	\$13,140	\$6,766	\$4,817							\$24,723
1996	\$80,744	\$64,920	\$33,427	\$23,797						\$202,888
1997	\$63,856	\$33,712	\$27,105	\$13,956	\$9,936					\$148,565
1998	\$50,351	\$27,525	\$14,532	\$11,684	\$6,016	\$4,283				\$114,391
1999	\$45,221	\$49,848	\$27,250	\$14,386	\$11,567	\$5,956	\$4,240			\$158,469
2000	\$125,591	\$54,439	\$60,009	\$32,805	\$17,319	\$13,925	\$7,170	\$5,104		\$316,362
2001	\$397,226	\$218,670	\$94,872	\$104,579	\$57,170	\$30,182	\$24,267	\$12,495	\$8,895	\$948,556
Total	\$776,129	\$456,080	\$262,012	\$201,207	\$102,008	\$54,346	\$35,677	\$17,599	\$8,895	\$1,913,954

B. Expected Future Payments - Discounted Basis										
Discount Rate	Expected Payment Period									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
2%	\$768,482	\$442,732	\$249,357	\$187,734	\$93,311	\$48,738	\$31,368	\$15,170	\$7,517	\$1,844,409
4%	\$761,057	\$430,022	\$237,541	\$175,399	\$85,504	\$43,801	\$27,649	\$13,114	\$6,373	\$1,780,460
6%	\$753,843	\$417,909	\$226,494	\$164,086	\$78,480	\$39,444	\$24,429	\$11,368	\$5,421	\$1,721,474
8%	\$746,830	\$406,355	\$216,153	\$153,695	\$72,149	\$35,591	\$21,634	\$9,881	\$4,624	\$1,666,912



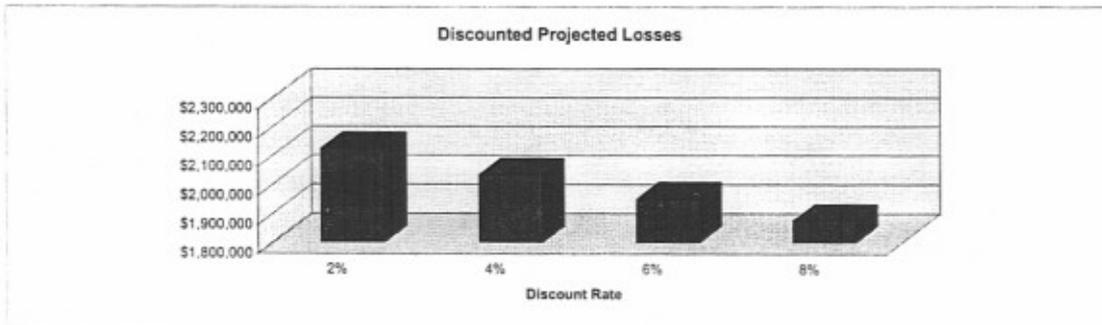
Section 3, Table 11

Mercantile Self-Insurance Trust

Workers Compensation
Cash-Flow and Present Value Analysis
(Losses are Limited to \$350,000 per Occurrence)

A. Expected Future Payments											
Period	Expected Payment Period										Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
2002	\$574,386	\$689,132	\$379,710	\$164,590	\$181,430	\$99,182	\$52,362	\$42,100	\$21,677	\$15,432	\$2,220,000

B. Expected Future Payments - Discounted Basis											
Discount Rate	Expected Payment Period										Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
2%	\$568,727	\$668,963	\$361,370	\$153,569	\$165,962	\$88,947	\$46,038	\$36,289	\$18,319	\$12,786	\$2,120,970
4%	\$563,232	\$649,759	\$344,246	\$143,478	\$152,075	\$79,937	\$40,579	\$31,371	\$15,532	\$10,632	\$2,030,841
6%	\$557,893	\$631,457	\$328,237	\$134,225	\$139,583	\$71,986	\$35,853	\$27,195	\$13,210	\$8,872	\$1,948,511
8%	\$552,703	\$613,998	\$313,251	\$125,725	\$128,322	\$64,953	\$31,751	\$23,638	\$11,269	\$7,428	\$1,873,038



Section 3, Table 12

Mercantile Self-Insurance Trust

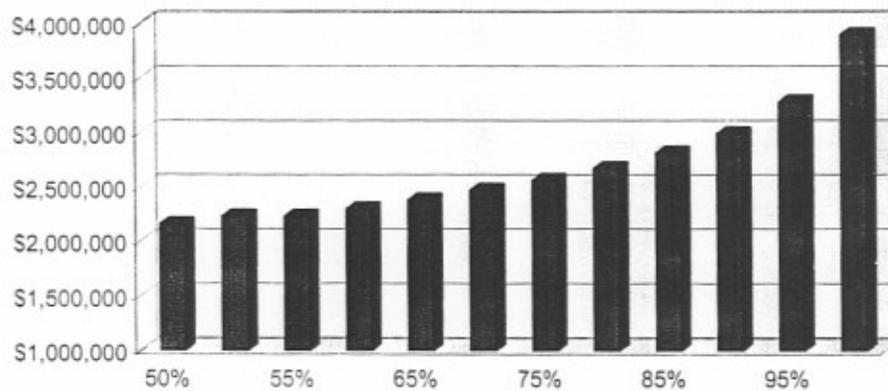
Workers Compensation

Projected 2002 Confidence Level Analysis

(Losses are Limited to \$350,000 per Occurrence)

Confidence Level	Aggregate Loss Distribution	Risk Margin Index
50%	\$2,150,000	97%
Expected	\$2,220,000	100%
55%	\$2,220,000	100%
60%	\$2,290,000	103%
65%	\$2,370,000	107%
70%	\$2,460,000	111%
75%	\$2,550,000	115%
80%	\$2,660,000	120%
85%	\$2,800,000	126%
90%	\$2,980,000	134%
95%	\$3,270,000	147%
99%	\$3,890,000	175%

Aggregate Loss Distribution



Section 3, Table 13

Mercantile Self-Insurance Trust

*Workers Compensation
Trend Factor Compilations*

A. Average Hourly Earnings, Retail		
Year	Index ¹	Factor
1994	\$7.49	1.367
1995	\$7.69	1.332
1996	\$7.99	1.282
1997	\$8.33	1.229
1998	\$8.74	1.172
1999	\$9.09	1.127
2000	\$9.46	1.082
2001	\$9.84	1.041
2002	\$10.24	1.000

B. Medical Care, CPI		
Year	Index ¹	Factor
1994	211.0	1.334
1995	220.5	1.276
1996	228.2	1.233
1997	234.6	1.199
1998	242.1	1.162
1999	250.6	1.123
2000	260.8	1.079
2001	271.0	1.038
2002	281.4	1.000

C. Inflation Trend			
Period	Indemnity Trend	Medical Trend	Inflation Trend Factors
1994	1.367	1.334	1.357
1995	1.332	1.276	1.315
1996	1.282	1.233	1.267
1997	1.229	1.199	1.220
1998	1.172	1.162	1.169
1999	1.127	1.123	1.126
2000	1.082	1.079	1.081
2001	1.041	1.038	1.040
2002	1.000	1.000	1.000

¹ Source: U.S. Department of Commerce.