

MERCANTILE SELF INSURANCE TRUST

**WORKERS COMPENSATION LOSS
AND LOSS ADJUSTMENT EXPENSE RESERVES**

AS OF DECEMBER 31, 2004

RECEIVED
WORKERS' COMPENSATION BOARD
MAY 06 2005
SELF INSURANCE OFFICE

APRIL 25, 2005



April 25, 2005

Mr. David Francey
New York Compensation Managers, Inc.
6250 South Bay Road
P.O. Box 3580
Syracuse, NY 13220

Dear David:

Enclosed please find our report regarding the Mercantile Self Insurance Trust as December 31, 2004. As in the past, the report presents a range of indicated loss and loss adjustment expense reserves on an undiscounted and discounted basis. It also presents an indicated liability for future New York State assessments on self insurance trusts.

It has been a pleasure being of service to you again in this matter. If after reviewing this report you have any questions please feel free to call.

Sincerely,

Mark J. Sobel, FCAS, MAAA
Managing Principal
MJS/cv

MERCANTILE SELF INSURANCE TRUST

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MERCANTILE SELF INSURANCE TRUST

INTRODUCTION

Financial Risk Analysts, LLC has been retained by New York Compensation Managers, Inc. (NYCM) to provide indicated Workers Compensation loss and loss adjustment expense (LAE) reserves as of December 31, 2004 for the Mercantile Self Insurance Trust (the Trust). The Trust is a Workers Compensation insurance pool for New York based retailers. The Trust began providing coverage to its members on October 1, 1994.

The Trust provides statutory Workers Compensation and Employers Liability coverage to its member insureds. Contributions are based on the latest available rates promulgated by the New York Compensation Insurance Rating Board (NYCIRB). Rates are adjusted by each member's experience modification and other factors determined by the Trust administrators.

The Trust purchases specific excess reinsurance from Alea North America Insurance Company. Individual losses are limited to \$400,000 per accident. The 2004 excess policy has a corridor deductible of \$1.2 million in the layer \$600,000 excess of \$400,000 per accident. Administrative and claims handling services are provided by New York Compensation Managers, Inc.

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CONDITIONS & LIMITATIONS

GENERAL

Throughout this report and its exhibits the term "loss" is used to refer to losses inclusive of allocated loss adjustment expense (ALAE). Allocated loss adjustment expense provides for all expenses associated with the handling and settling of claims that can be directly attributable to a particular claim. Such expenses typically include independent medical exams, rehabilitation expenses, legal fees, investigatory expenses, expert witness fees, etc. Unallocated loss adjustment expenses, or ULAE, are expenses associated with the handling and settling of claims that cannot be specifically assigned to a particular claim. Such expenses are generally in the nature of overhead expenses and for this report are limited to State of New York assessments on self insurers. No costs associated with the Trust's program other than losses and loss adjustment expenses (LAE) have been considered in this report.

DATA

We have used data and other information provided to us by NYCM. This information consists of contributions, loss, exposure, and excess insurance information. In addition, we have relied on various oral representations made to us by the responsible employees of NYCM. Payroll data for trust years beginning January 1, 2000 are on an "earned" basis. Prior to this, the Trust issued coterminous policies and earned payroll was therefore equal to written payroll.

Although the data supplied have been reviewed for purposes of reasonability we have not independently audited or verified this information and we assume it to be accurate and complete. The results of our analysis will be contingent upon the reliability of the information supplied to us and such reliability is the responsibility of NYCM. Should NYCM become aware of any significant discrepancies in the data reported to us we should be notified of such discrepancies and this report will be amended, if necessary.

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In performing our analysis we have also relied on appropriate loss development data and other information obtained from the New York Compensation Insurance Rating Board (NYCIRB) to supplement the actual historical data provided to us. This has been necessary due to the lack of completely credible actuarial information from the Mercantile Self Insurance Trust.

UNCERTAINTY

Actuarial projections, by their nature, are estimates of future contingent events which cannot be known with certainty. The ultimate liability of the Trust for its retained losses will be subject to events that have yet to occur such as the size of future Workers Compensation awards, medical cost inflation, judicial interpretations as to liability, as well as the propensity for claimants to bring suit. No assumptions have been made in this report as to any extraordinary changes in the legal, social, or judicial environment that might affect future losses.

While we believe the results presented in this report are reasonable and reflect the use of accepted actuarial principles and standards of practice it is possible that actual future loss results of the Trust will differ, perhaps materially, from those projected herein. Nothing in this report should be construed as a warranty or guarantee as to the adequacy of the liability estimates contained herein.

EXCESS INSURANCE

The reserve estimates contained in this report are net of all excess insurance purchased by the Trust. We have made no attempt to analyze the security of the Trust's excess insurer nor have we made provision for any contingent liability that would be incurred by the Trust should its excess insurer be unable to perform on any of its obligations.

ASSET QUALITY

No attempt has been made to evaluate the quality of the invested or non invested assets supporting the loss and loss adjustment expense reserves of the Trust. It has been assumed that the Trust's loss and LAE reserves are supported by creditworthy assets with minimal risk of default and/or capital loss.

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DISTRIBUTION & USE

This report is intended solely for the use of the Trust in evaluating its Workers Compensation loss and loss adjustment expense reserves as of December 31, 2004. A copy of this report may also be provided to the Trust's auditor with the proviso that the report is copied in its entirety and that each party receiving a copy of this report agrees to not distribute the report to any other third party.

Distribution of this report to parties other than those referenced above is not authorized without the express written consent of Financial Risk Analysts, LLC.

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SUMMARY & CONCLUSIONS

A. Loss and LAE Reserves as Of December 31, 2004

Based on the analysis contained herein the following are our expected loss reserve indications as of December 31, 2004 for losses and loss adjustment expenses:

	INDICATED OUTSTANDING LOSSES & LAE as of DECEMBER 31, 2004 (\$000)							
	Undiscounted		Discounted					
			At 3.0%		At 4.0%		At 5.0%	
	Low	High	Low	High	Low	High	Low	High
Losses & ALAE	\$8,298	\$9,473	\$7,593	\$8,659	\$7,385	\$8,420	\$7,196	\$8,202
New York State Assessments	\$1,308	\$1,520	\$1,186	\$1,377	\$1,150	\$1,336	\$1,118	\$1,298
Total Outstanding Loss & LAE	\$9,606	\$10,994	\$8,778	\$10,037	\$8,535	\$9,756	\$8,314	\$9,500

Expected loss indications are synonymous with the term “best estimate” and refer to the most likely outcome from within a range of reasonable outcomes. Best estimate reserves generally reflect a statistical confidence level of between 50% and 55%. A 55% confidence level means there is a 55% likelihood that actual losses will be less than or equal to the estimate. Alternatively, there is a 45% likelihood that actual losses will exceed the estimate. Due to the possibility actual losses will exceed the best estimate the Trust may wish to consider booking additional amounts on its financial statements, over and above our recommendations, for loss and loss expense reserves.

Our liability indications are intended to provide for all Workers Compensation losses incurred by the Trust during the period October 1, 1994 through December 31, 2004 under the terms and conditions of its policy provisions.

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The reserve indications include a provision for the following:

- Losses on claims that have occurred but that are not yet known and not yet reported to the Trust. These claims are part of the reserve provision known as *IBNR* or *Incurred But Not Reported*.
- Case reserves as established by NYCM for known, recorded claims.
- Future loss development on known, recorded claims. This is also considered a part of the IBNR reserve.
- Anticipated second injury fund recoveries under New York Workers Compensation Law Section 15(8)
- New York State assessments on self insurance trusts

The loss reserve indications presented on a discounted basis include a reduction for anticipated future investment income to be earned on the assets underlying the loss reserves. An interest rate of 3.0%, 4.0% and 5.0% per annum has been used to discount the liabilities. The interest rates have been selected by New York Compensation Managers.

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ANALYSIS

Summary

Exhibit 2 presents a summary of the results of our analysis; separately for indemnity plus allocated loss adjustment expense and medical plus incidents. Results are based on four commonly used actuarial methodologies - Incurred Loss Development, Paid Loss Development, Incurred Bornhuetter-Ferguson and Paid Bornhuetter-Ferguson. A description of each of the four methods follows.

- **Incurred Loss Development Method (Exhibit 5)**

The incurred loss development method is a method in which incurred losses are projected to an ultimate level based on historical development patterns. An analysis of the changes in accident year incurred losses between various valuation points provides a basis for estimating future changes. Assuming that reporting patterns and reserving practices have remained reasonably stable, this method can be used to provide reasonable estimates of ultimate losses. We relied primarily on the Trust's historical experience for purposes of selecting incurred loss development factors. Incurred loss development factors are presented on Exhibits 6.1 and 6.3.

- **Paid Loss Development Method (Exhibit 5)**

This method is similar to the incurred loss development method except that paid losses are used instead of incurred losses. Paid losses are projected to an ultimate level based on historical paid loss development patterns. This method assumes that loss settlement and payment patterns have remained reasonably stable over time. Unlike the incurred method, the paid loss development method is not dependent on reasonably consistent reserving practices. Paid loss development factors have been derived primarily from the Trust's historical experience. Paid loss development factors are presented on Exhibits 6.2 and 6.4.

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- **Bornhuetter-Ferguson Incurred Loss Method (Exhibits 3.1 & 3.3)**

This approach is essentially a credibility weighted average of two other reserving methods; the incurred loss development method and the expected loss method. The expected loss method simply sets the indicated reserve equal to the difference between expected losses and paid losses. It produces very stable results but fails to incorporate actual results as they emerge.

The Bornhuetter-Ferguson method blends the incurred loss development method and the expected loss method by splitting expected losses into two distinct pieces; expected reported losses and expected unreported losses. As an accident year matures, the expected incurred losses are replaced with actual reported losses plus expected unreported losses. Thus, as the year matures, the initial expected incurred loss estimate becomes less important while the actual reported loss experience increases in importance. In order to use this method, one must estimate both the initial expected losses and the expected loss reporting pattern.

Initial expected losses are derived on Exhibits 4.1 and 4.2. A pure premium represents the expected losses per \$100 of payroll. Loss reporting patterns are the reciprocal of the development factors presented on Exhibits 6.1 and 6.3. Historical pure premiums are adjusted to current benefit and cost levels using data available from the NYCIRB.

- **Bornhuetter-Ferguson Paid Loss Method (Exhibits 3.2 & 3.4)**

The Bornhuetter-Ferguson paid loss method is similar to the Bornhuetter-Ferguson incurred loss method except that expected losses are split between expected paid and unpaid losses. Initial expected losses are the same as for the incurred Bornhuetter-Ferguson method. Loss payment patterns are the reciprocal of the development factors shown on Exhibits 6.2 and 6.4.

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ADDITIONAL ASSUMPTIONS

Investment Income

Exhibits 8.1 and 8.2 present the derivation of the investment income factors used to discount the outstanding losses. An expected 3.0%, 4.0%, and 5.0% per annum investment return on fund monies has been used. The loss payout patterns are based on the paid loss development factors shown on Exhibit 5.

The use of discounted liabilities assumes that all investment earnings on the Trust's assets are made available to pay claims. To the extent the Trust has any deficit as of December 31, 2004 it may not be appropriate to use fully discounted liabilities.

Second Injury Fund Recoveries (Section 15(8))

All of our analysis has been performed using data excluding second injury fund recoveries received by the Trust. An adjustment has been made to the indicated outstanding losses to reduce them for anticipated second injury fund recoveries as established by the Trust administrator.

New York State Assessments

We included a provision as of December 31, 2004 for future assessments levied on self insurance trusts by the State of New York. The New York Workers Compensation Board levies assessments for administration (Section 151), Reopened Cases (Section 25-A), the Second Injury Fund (Section 15-8) and the administration of other departments relating to occupational situations (Section 151-IDP). In addition, the Special Funds Conservation Committee requires an assessment.

All assessments are levied after the end of the calendar year as a percent of paid indemnity losses. Since current indemnity loss reserves are the estimated amount of future benefits to be paid it is reasonable to assume assessments will be levied as those benefits are paid. We used a 33.1% assessment rate in our analysis.

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A further adjustment is required in order to remove ALAE from the indemnity plus ALAE liability estimates. We allocated 69% of the indemnity plus ALAE reserves to pure indemnity based on the Trust's historical experience. This produces a net rate of 22.8% to be applied to the indemnity plus ALAE reserves.

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WORKERS COMPENSATION
INDICATED DISCOUNTED OUTSTANDING LOSSES
AS OF DECEMBER 31, 2004

Policy Year (1)	Outstanding Losses		Discount Factor			Discounted Outstanding Losses					
						3.0%		4.0%		5.0%	
	Low (2)	High (3)	3.0% (4)	4.0% (5)	5.0% (6)	Low (7)=(2)x(4)	High (8)=(3)x(4)	Low (9)=(2)x(5)	High (10)=(3)x(5)	Low (11)=(2)x(6)	High (12)=(3)x(6)
Indemnity Plus ALAE											
1995	2,865	4,960	0.905	0.877	0.850	2,593	4,489	2,513	4,350	2,435	4,216
1996	-14,111	-13,414	0.898	0.868	0.840	-12,672	-12,046	-12,248	-11,643	-11,853	-11,268
1997	0	0	0.897	0.868	0.840	0	0	0	0	0	0
1998	22,079	89,494	0.898	0.869	0.841	19,827	80,366	19,187	77,770	18,568	75,264
1999	10,738	92,236	0.899	0.870	0.842	9,653	82,920	9,342	80,245	9,041	77,663
2000	77,912	139,826	0.902	0.874	0.848	70,277	126,123	68,095	122,208	66,069	118,572
2001	115,114	199,327	0.903	0.875	0.849	103,948	179,992	100,725	174,411	97,732	169,229
2002	830,750	1,006,661	0.900	0.871	0.844	747,675	905,995	723,583	876,802	701,153	849,622
2003	1,620,879	1,979,365	0.907	0.880	0.855	1,470,137	1,795,284	1,426,374	1,741,841	1,385,852	1,692,357
2004	3,062,839	3,158,656	0.908	0.881	0.857	2,781,058	2,868,060	2,698,361	2,782,776	2,624,853	2,706,968
TOTAL	5,729,065	6,657,111				5,192,496	6,031,183	5,035,932	5,848,760	4,893,850	5,682,623
Medical Plus Incidents											
Policy Year (1)	Outstanding Losses		Discount Factor			Discounted Outstanding Losses					
						3.0%		4.0%		5.0%	
	Low (2)	High (3)	3.0% (4)	4.0% (5)	5.0% (6)	Low (7)=(2)x(4)	High (8)=(3)x(4)	Low (9)=(2)x(5)	High (10)=(3)x(5)	Low (11)=(2)x(6)	High (12)=(3)x(6)
1995	1,821	2,117	0.904	0.875	0.849	1,646	1,914	1,593	1,852	1,546	1,797
1996	1,143	2,640	0.901	0.872	0.845	1,030	2,379	997	2,302	966	2,231
1997	0	0	0.923	0.901	0.880	0	0	0	0	0	0
1998	8,869	16,011	0.924	0.901	0.880	8,195	14,794	7,991	14,426	7,805	14,090
1999	19,272	21,241	0.921	0.898	0.876	17,750	19,563	17,306	19,074	16,882	18,607
2000	27,078	41,577	0.921	0.897	0.875	24,939	38,292	24,289	37,295	23,693	36,380
2001	68,905	112,126	0.916	0.891	0.868	63,117	102,707	61,394	99,904	59,810	97,325
2002	227,981	344,207	0.921	0.898	0.877	209,971	317,015	204,727	309,098	199,939	301,870
2003	627,289	676,339	0.923	0.900	0.879	578,988	624,261	564,560	608,705	551,387	594,502
2004	1,586,404	1,599,914	0.942	0.924	0.908	1,494,393	1,507,119	1,465,837	1,478,321	1,440,455	1,452,722
TOTAL	2,568,762	2,816,172				2,400,029	2,628,044	2,348,694	2,570,977	2,302,483	2,519,524
Total Indemnity, Medical, Incidents-All Years											
	8,297,827	9,473,283				7,592,525	8,659,227	7,384,626	8,419,737	7,196,333	8,202,147

(2),(3) Exhibit 1.2

(4),(5),(6) Exhibits 8.1 & 8.2

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INDICATED OUTSTANDING LOSSES - NET OF SECTION 15(8) RECOVERIES AS OF DECEMBER 31, 2004

Policy Year (1)	Indicated Ultimate Losses		Paid Losses (4)	Anticipated Section 15(8) Recoveries (5)	Indicated Outstanding Losses	
	Low (2)	High (3)			Low (6)=(2)-(4)-(5)	High (7)=(3)-(4)-(5)
Indemnity Plus ALAE						
1995	141,832	143,927	112,492	26,475	2,865	4,960
1996	367,966	368,663	332,876	49,201	-14,111	-13,414
1997	375,835	375,835	375,835	0	0	0
1998	213,703	281,118	191,624	0	22,079	89,494
1999	304,546	386,044	246,796	47,012	10,738	92,236
2000	441,179	503,093	346,489	16,778	77,912	139,826
2001	1,008,886	1,093,099	808,407	85,365	115,114	199,327
2002	2,010,597	2,186,508	1,013,710	166,137	830,750	1,006,661
2003	2,933,474	3,291,960	1,242,558	70,037	1,620,879	1,979,365
2004	3,638,635	3,734,452	575,796	0	3,062,839	3,158,656
TOTAL	11,436,653	12,364,699	5,246,583	461,005	5,729,065	6,657,111
Medical Plus Incidents						
Policy Year (1)	Indicated Ultimate Losses		Paid Losses (4)	Anticipated Section 15(8) Recoveries (5)	Indicated Outstanding Losses	
	Low (2)	High (3)			Low (6)=(2)-(4)-(5)	High (7)=(3)-(4)-(5)
1995	124,493	124,789	122,052	620	1,821	2,117
1996	187,345	188,842	181,888	4,314	1,143	2,640
1997	244,069	244,069	244,069	0	0	0
1998	184,273	191,415	175,404	0	8,869	16,011
1999	286,504	288,473	262,126	5,106	19,272	21,241
2000	330,561	345,060	303,483	0	27,078	41,577
2001	667,265	710,486	598,052	308	68,905	112,126
2002	1,226,470	1,342,696	997,289	1,200	227,981	344,207
2003	1,858,125	1,907,175	1,230,836	0	627,289	676,339
2004	2,244,509	2,258,019	658,105	0	1,586,404	1,599,914
TOTAL	7,353,614	7,601,024	4,773,304	11,548	2,568,762	2,816,172
Total Indemnity, Medical, Incidents-All Years						
	18,790,267	19,965,723	10,019,887	472,553	8,297,827	9,473,283

(2),(3) Exhibit 2

(4) Exhibit 5

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INDICATED ULTIMATE LOSSES SUMMARY OF RESULTS

Policy Year (1)	Indicated Ultimate Losses				Selected Ultimate Losses	
	Incurred LDF (2)	Paid LDF (3)	Incurred BF (4)	Paid BF (5)	Low (6)	High (7)
Indemnity Plus ALAE						
1995	141,832	116,992	143,927	121,757	141,832	143,927
1996	367,966	360,172	368,663	362,576	367,966	368,663
1997	398,658	422,814	405,765	434,308	375,835	375,835
1998	213,703	224,200	244,414	281,118	213,703	281,118
1999	342,549	304,546	379,171	386,044	304,546	386,044
2000	441,179	466,028	464,137	503,093	441,179	503,093
2001	1,173,824	1,228,779	1,093,099	1,008,886	1,008,886	1,093,099
2002	2,186,508	1,795,280	2,010,597	1,555,126	2,010,597	2,186,508
2003	3,538,685	3,245,561	3,291,960	2,933,474	2,933,474	3,291,960
2004	3,472,781	3,534,236	3,638,635	3,734,452	3,638,635	3,734,452
TOTAL	12,277,685	11,698,608	12,040,368	11,320,834	11,436,653	12,364,699
Medical Plus Incidents						
Policy Year (1)	Indicated Ultimate Losses				Selected Ultimate Losses	
	Incurred LDF (2)	Paid LDF (3)	Incurred BF (4)	Paid BF (5)	Low (6)	High (7)
1995	124,789	124,493	124,512	124,142	124,493	124,789
1996	188,842	187,345	188,256	186,745	187,345	188,842
1997	252,611	255,052	251,745	253,777	244,069	244,069
1998	184,273	186,981	187,442	191,415	184,273	191,415
1999	288,473	286,504	288,403	286,595	286,504	288,473
2000	337,085	345,060	330,561	332,250	330,561	345,060
2001	686,550	710,486	669,948	667,265	667,265	710,486
2002	1,342,696	1,309,440	1,296,176	1,226,470	1,226,470	1,342,696
2003	1,931,445	1,883,179	1,907,175	1,858,125	1,858,125	1,907,175
2004	2,269,698	2,250,719	2,258,019	2,244,509	2,244,509	2,258,019
TOTAL	7,606,462	7,539,259	7,502,237	7,371,293	7,353,614	7,601,024

(2),(3) Exhibit 5

(4) Exhibits 3.1 and 3.3

(5) Exhibits 3.2 and 3.4

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INDICATED ULTIMATE LOSSES BORNHUETTER-FERGUSON INCURRED LOSS METHOD INDEMNITY PLUS ALAE

Policy Period (1)	Initial Expected Losses (2)	Expected Percent Reported (3)	Reported Losses	
			Actual (4)	Expected (5)=(2)x(3)
1995	243,824	98.0%	139,051	238,948
1996	390,792	96.2%	353,813	375,942
1997	526,785	94.3%	375,738	496,758
1998	617,198	92.4%	197,507	570,291
1999	732,884	90.6%	310,280	663,993
2000	609,356	86.3%	380,655	525,874
2001	586,196	86.3%	1,012,790	505,887
2002	1,244,635	81.4%	1,779,095	1,013,133
2003	2,740,544	69.3%	2,450,613	1,899,197
2004	3,773,782	44.7%	1,551,734	1,686,881
TOTAL	11,465,996		8,551,276	7,976,904

Policy Period (1)	Expected Percent Unreported (6)=1.0-(3)	Expected Unreported Losses (7)=(2)x(6)	Indicated Ultimate Losses (8)=(4)+(7)
1995	2.0%	4,876	143,927
1996	3.8%	14,850	368,663
1997	5.7%	30,027	405,765
1998	7.6%	46,907	244,414
1999	9.4%	68,891	379,171
2000	13.7%	83,482	464,137
2001	13.7%	80,309	1,093,099
2002	18.6%	231,502	2,010,597
2003	30.7%	841,347	3,291,960
2004	55.3%	2,086,901	3,638,635
TOTAL		3,489,092	12,040,368

(2) Exhibit 4.1. Periods prior to 2004 from 12/31/03 analysis.

(3) Reciprocal of development factor from Exhibit 6.1.

(4) Exhibit 5

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INDICATED ULTIMATE LOSSES BORNHUETTER-FERGUSON PAID LOSS METHOD INDEMNITY PLUS ALAE

Policy Period (1)	Initial Expected Losses (2)	Expected Percent Paid (3)	Paid Losses	
			Actual (4)	Expected (5)=(2)x(3)
1995	243,824	96.2%	112,492	234,559
1996	390,792	92.4%	332,876	361,092
1997	526,785	88.9%	375,835	468,312
1998	617,198	85.5%	191,624	527,704
1999	732,884	81.0%	246,796	593,636
2000	609,356	74.3%	346,489	452,752
2001	586,196	65.8%	808,407	385,717
2002	1,244,635	56.5%	1,013,710	703,219
2003	2,740,544	38.3%	1,242,558	1,049,628
2004	3,773,782	16.3%	575,796	615,126
TOTAL	11,465,996		5,246,583	5,391,745

Policy Period (1)	Expected Percent Unpaid (6)=1.0-(3)	Expected Unpaid Losses (7)=(2)x(6)	Indicated Ultimate Losses (8)=(4)+(7)
1995	3.8%	9,265	121,757
1996	7.6%	29,700	362,576
1997	11.1%	58,473	434,308
1998	14.5%	89,494	281,118
1999	19.0%	139,248	386,044
2000	25.7%	156,604	503,093
2001	34.2%	200,479	1,008,886
2002	43.5%	541,416	1,555,126
2003	61.7%	1,690,916	2,933,474
2004	83.7%	3,158,656	3,734,452
TOTAL		6,074,251	11,320,834

(2) Exhibit 4.1. Periods prior to 2004 from 12/31/03 analysis.

(3) Reciprocal of development factor from Exhibit 6.2.

(4) Exhibit 5

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INDICATED ULTIMATE LOSSES BORNHUETTER-FERGUSON INCURRED LOSS METHOD MEDICAL PLUS INCIDENTS

Policy Period (1)	Initial Expected Losses (2)	Expected Percent Reported (3)	Reported Losses	
			Actual (4)	Expected (5)=(2)x(3)
1995	104,497	98.5%	122,945	102,930
1996	167,483	97.6%	184,236	163,463
1997	225,765	96.6%	244,069	218,089
1998	258,244	95.7%	176,338	247,140
1999	287,875	94.8%	273,434	272,906
2000	239,725	93.4%	314,739	223,903
2001	438,059	93.4%	641,036	409,147
2002	962,945	87.6%	1,176,771	843,540
2003	1,812,975	80.1%	1,546,393	1,452,193
2004	2,240,683	61.6%	1,397,597	1,380,261
TOTAL	6,738,251		6,077,558	5,313,572

Policy Period (1)	Expected Percent Unreported (6)=1.0-(3)	Expected Unreported Losses (7)=(2)x(6)	Indicated Ultimate Losses (8)=(4)+(7)
1995	1.5%	1,567	124,512
1996	2.4%	4,020	188,256
1997	3.4%	7,676	251,745
1998	4.3%	11,104	187,442
1999	5.2%	14,969	288,403
2000	6.6%	15,822	330,561
2001	6.6%	28,912	669,948
2002	12.4%	119,405	1,296,176
2003	19.9%	360,782	1,907,175
2004	38.4%	860,422	2,258,019
TOTAL		1,424,679	7,502,237

(2) Exhibit 4.2. Periods prior to 2004 from 12/31/03 analysis.

(3) Reciprocal of development factor from Exhibit 6.3

(4) Exhibit 5

MERCANTILE SELF INSURANCE TRUST**WORKERS COMPENSATION
INDICATED ULTIMATE LOSSES
BORNHUETT-FERGUSON PAID LOSS METHOD
MEDICAL PLUS INCIDENTS**

Policy Period (1)	Initial Expected Losses (2)	Expected Percent Paid (3)	Paid Losses	
			Actual (4)	Expected (5)=(2)x(3)
1995	104,497	98.0%	122,052	102,407
1996	167,483	97.1%	181,888	162,626
1997	225,765	95.7%	244,069	216,057
1998	258,244	93.8%	175,404	242,233
1999	287,875	91.5%	262,126	263,406
2000	239,725	88.0%	303,483	210,958
2001	438,059	84.2%	598,052	368,846
2002	962,945	76.2%	997,289	733,764
2003	1,812,975	65.4%	1,230,836	1,185,686
2004	2,240,683	29.2%	658,105	654,279
TOTAL	6,738,251		4,773,304	4,140,262

Policy Period (1)	Expected Percent Unpaid (6)=1.0-(3)	Expected Unpaid Losses (7)=(2)x(6)	Indicated Ultimate Losses (8)=(4)+(7)
1995	2.0%	2,090	124,142
1996	2.9%	4,857	186,745
1997	4.3%	9,708	253,777
1998	6.2%	16,011	191,415
1999	8.5%	24,469	286,595
2000	12.0%	28,767	332,250
2001	15.8%	69,213	667,265
2002	23.8%	229,181	1,226,470
2003	34.6%	627,289	1,858,125
2004	70.8%	1,586,404	2,244,509
TOTAL		2,597,989	7,371,293

(2) Exhibit 4.2. Periods prior to 2004 from 12/31/03 analysis.

(3) Reciprocal of development factor from Exhibit 6.4

(4) Exhibit 5

MERCANTILE SELF INSURANCE TRUST

Exhibit 4.1

2004 INITIAL EXPECTED LOSSES-INDEMNITY

Policy Period (1)	Ultimate Losses			Payroll (00) (5)	Loss Cost (6)=(4)/(5)	Net Trend To 7/1/04 (7)	Benefit Level Factor (8)	On Level Loss Cost (9)
	Incurring LDF (2)	Paid LDF (3)	Selected (4)					
1997	398,658	422,814	375,835	304,532	1.23	0.874	1.000	1.08
1998	213,703	224,200	218,952	285,167	0.77	0.891	1.000	0.69
1999	342,549	304,546	323,548	312,816	1.03	0.908	1.000	0.94
2000	441,179	466,028	453,604	258,347	1.76	0.926	1.000	1.63
2001	1,173,824	1,228,779	1,201,302	540,787	2.22	0.944	1.000	2.10
2002	2,186,508	1,795,280	1,990,894	1,305,841	1.52	0.962	1.000	1.46
2003	3,538,685	3,245,561	3,392,123	2,108,111	1.61	0.981	1.000	1.58
TOTAL	8,295,106	7,687,208	7,956,258	5,115,601	1.55			1.49
Mean								1.35
Latest 3								1.71
Latest 5								1.54
Best 3								1.56
Selected								1.60
2004 Payroll								2,358,614
2004 Initial Expected Losses								3,773,782

(2),(3) Exhibit 4

(5) Exhibit 7

(7),(8) Per latest Industry data

MERCANTILE SELF INSURANCE TRUST

Exhibit 4.2

2004 INITIAL EXPECTED LOSSES-MEDICAL

Policy Period	Ultimate Losses			Payroll (00)	Loss Cost	Net Trend To 7/1/04	Benefit Level Factor	On Level Loss Cost
	Incurred LDF	Paid LDF	Selected					
(1)	(2)	(3)	(4)	(5)	(6)=(4)/(5)	(7)	(8)	(9)
1997	252,611	255,052	244,069	304,532	0.80	0.862	1.015	0.70
1998	184,273	186,981	185,627	285,167	0.65	0.880	1.000	0.57
1999	288,473	286,504	287,489	312,816	0.92	0.899	1.000	0.83
2000	337,085	345,060	341,073	258,347	1.32	0.918	1.000	1.21
2001	686,550	710,486	698,518	540,787	1.29	0.938	1.000	1.21
2002	1,342,696	1,309,440	1,326,068	1,305,841	1.02	0.958	1.000	0.98
2003	1,931,445	1,883,179	1,907,312	2,108,111	0.90	0.979	1.000	0.88
TOTAL	5,023,133	4,976,702	4,990,156	5,115,601	0.97			0.93
Mean								0.91
Latest 3								1.02
Latest 5								1.02
Best 3								1.02
Selected								0.95
2004 Payroll								2,358,614
2004 Initial Expected Losses								2,240,683

(2),(3) Exhibit 4

(5) Exhibit 7

(7),(8) Per latest Industry data

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION PROJECTED ULTIMATE LOSSES LOSS DEVELOPMENT METHODS

<u>Policy Period</u> (1)	<u>Incurred Losses</u> (2)	<u>LDF</u> (3)	<u>Projected Ultimate Losses</u> (4)=(2)x(3)	<u>Paid Losses</u> (5)	<u>LDF</u> (6)	<u>Projected Ultimate Losses</u> (7)=(5)x(6)
Indemnity Plus ALAE						
1995	139,051	1.020	141,832	112,492	1.040	116,992
1996	353,813	1.040	367,966	332,876	1.082	360,172
1997	375,738	1.061	398,658	375,835	1.125	422,814
1998	197,507	1.082	213,703	191,624	1.170	224,200
1999	310,280	1.104	342,549	246,796	1.234	304,546
2000	380,655	1.159	441,179	346,489	1.345	466,028
2001	1,012,790	1.159	1,173,824	808,407	1.520	1,228,779
2002	1,779,095	1.229	2,186,508	1,013,710	1.771	1,795,280
2003	2,450,613	1.444	3,538,685	1,242,558	2.612	3,245,561
2004	1,551,734	2.238	3,472,781	575,796	6.138	3,534,236
TOTAL	8,551,276		12,277,685	5,246,583		11,698,608
Medical Plus Incidents						
1995	122,945	1.015	124,789	122,052	1.020	124,493
1996	184,236	1.025	188,842	181,888	1.030	187,345
1997	244,069	1.035	252,611	244,069	1.045	255,052
1998	176,338	1.045	184,273	175,404	1.066	186,981
1999	273,434	1.055	288,473	262,126	1.093	286,504
2000	314,739	1.071	337,085	303,483	1.137	345,060
2001	641,036	1.071	686,550	598,052	1.188	710,486
2002	1,176,771	1.141	1,342,696	997,289	1.313	1,309,440
2003	1,546,393	1.249	1,931,445	1,230,836	1.530	1,883,179
2004	1,397,597	1.624	2,269,698	658,105	3.420	2,250,719
TOTAL	6,077,558		7,606,462	4,773,304		7,539,259

(2),(3) Exhibits 6.1 and 6.3

(5),(6) Exhibits 6.2 and 6.4

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INCURRED LOSS DEVELOPMENT HISTORY INDEMNITY PLUS ALAE

Accident Year	Months of Development									
	<u>12</u>	<u>24</u>	<u>36</u>	<u>48</u>	<u>60</u>	<u>72</u>	<u>84</u>	<u>96</u>	<u>108</u>	<u>120</u>
1995	84,112	124,598	129,980	120,372	105,536	116,043	107,593	107,594	111,931	139,051
1996	73,195	314,125	319,486	318,002	278,442	288,357	293,935	362,024	353,813	
1997	279,627	295,368	283,293	319,211	349,192	375,076	376,876	375,738		
1998	239,023	222,226	223,182	219,718	215,350	191,436	197,507			
1999	320,408	408,981	281,007	297,171	294,147	310,280				
2000	297,179	300,671	249,912	379,976	380,655					
2001	488,783	707,627	948,655	1,012,790						
2002	787,814	1,476,447	1,779,095							
2003	1,587,976	2,450,613								
2004	1,551,734									

Accident Year	Development Factors									
	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>	<u>84-96</u>	<u>96-108</u>	<u>108-120</u>	<u>120-Ult.</u>
1995	1.481	1.043	0.926	0.877	1.100	0.927	1.000	1.040	1.242	
1996	4.292	1.017	0.995	0.876	1.036	1.019	1.232	0.977		
1997	1.056	0.959	1.127	1.094	1.074	1.005	0.997			
1998	0.930	1.004	0.984	0.980	0.889	1.032				
1999	1.276	0.687	1.058	0.990	1.055					
2000	1.012	0.831	1.520	1.002						
2001	1.448	1.341	1.068							
2002	1.874	1.205								
2003	1.543									
Mean	1.657	1.011	1.097	0.970	1.031	0.996	1.076	1.009	1.242	
3 Yr. Mean	1.622	1.126	1.215	0.991	1.006	1.019	1.076			
5 Yr. Mean	1.431	1.014	1.151	0.988	1.031					
Best 3 Industry	1.422	1.013	1.084	0.991	1.055					
	1.737	1.375	1.153	1.083	1.056	1.031	1.019	1.007	1.010	1.082
Selected	1.550	1.175	1.060	1.000	1.050	1.020	1.020	1.020	1.020	1.020
Cumulative	2.238	1.444	1.229	1.159	1.159	1.104	1.082	1.061	1.040	1.020

MERCANTILE SELF INSURANCE TRUST
**WORKERS COMPENSATION
PAID LOSS DEVELOPMENT HISTORY
INDEMNITY PLUS ALAE**

Accident Year	Months of Development									
	12	24	36	48	60	72	84	96	108	120
1995	5,967	15,104	59,946	84,409	88,864	94,491	98,709	103,412	107,687	112,492
1996	28,607	97,392	154,647	184,840	209,467	224,471	266,845	287,059	332,876	
1997	95,716	173,581	213,402	241,159	288,994	366,536	376,643	375,835		
1998	74,245	112,835	164,037	169,094	172,778	188,985	191,624			
1999	74,320	131,733	197,062	228,644	240,251	246,796				
2000	72,206	138,031	225,193	260,382	346,489					
2001	190,835	469,568	631,727	808,407						
2002	275,483	678,741	1,013,710							
2003	538,400	1,242,558								
2004	575,796									

Accident Year	Development Factors									
	12-24	24-36	36-48	48-60	60-72	72-84	84-96	96-108	108-120	120-Ult.
1995	0.153	3.969	1.408	1.053	1.063	1.045	1.048	1.041	1.045	
1996	3.404	1.588	1.195	1.133	1.072	1.189	1.076	1.160		
1997	1.814	1.229	1.130	1.198	1.268	1.028	0.998			
1998	1.520	1.454	1.031	1.022	1.094	1.014				
1999	1.773	1.496	1.160	1.051	1.027					
2000	1.912	1.631	1.156	1.331						
2001	2.461	1.345	1.280							
2002	2.464	1.494								
2003	2.308									
Mean	1.979	1.776	1.194	1.131	1.105	1.069	1.041	1.101	1.045	
3 Yr. Mean	2.411	1.490	1.199	1.135	1.130	1.077	1.041			
5 Yr. Mean	2.184	1.484	1.151	1.147	1.105					
Best 3	2.227	1.481	1.149	1.127	1.076					
Industry	2.808	1.840	1.352	1.209	1.132	1.080	1.058	1.042	1.034	1.353
Selected	2.350	1.475	1.165	1.130	1.090	1.055	1.040	1.040	1.040	1.040
Cumulative	6.138	2.612	1.771	1.520	1.345	1.234	1.170	1.125	1.082	1.040

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION INCURRED LOSS DEVELOPMENT HISTORY MEDICAL PLUS INCIDENTS

Accident Year	Months of Development									
	<u>12</u>	<u>24</u>	<u>36</u>	<u>48</u>	<u>60</u>	<u>72</u>	<u>84</u>	<u>96</u>	<u>108</u>	<u>120</u>
1995	46,697	75,273	112,548	109,484	107,257	118,299	111,237	113,036	115,894	122,945
1996	76,441	132,655	134,443	137,997	134,954	146,234	184,836	188,297	184,236	
1997	217,555	242,718	230,478	246,877	246,863	251,100	243,690	244,069		
1998	205,231	175,900	192,094	194,217	198,546	176,163	176,338			
1999	243,074	278,310	237,991	242,928	242,424	273,434				
2000	275,731	270,802	267,577	319,270	314,739					
2001	346,024	529,804	594,525	641,036						
2002	762,775	987,850	1,176,771							
2003	1,294,243	1,546,393								
2004	1,397,597									

Accident Year	Development Factors									
	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>	<u>84-96</u>	<u>96-108</u>	<u>108-120</u>	<u>120-Ult.</u>
1995	1.612	1.495	0.973	0.980	1.103	0.940	1.016	1.025	1.061	
1996	1.735	1.013	1.026	0.978	1.084	1.264	1.019	0.978		
1997	1.116	0.950	1.071	1.000	1.017	0.970	1.002			
1998	0.857	1.092	1.011	1.022	0.887	1.001				
1999	1.145	0.855	1.021	0.998	1.128					
2000	0.982	0.988	1.193	0.986						
2001	1.531	1.122	1.078							
2002	1.295	1.191								
2003	1.195									
Mean	1.274	1.088	1.053	0.994	1.044	1.044	1.012	1.002	1.061	
3 Yr. Mean	1.340	1.100	1.097	1.002	1.011	1.078	1.012			
5 Yr. Mean	1.230	1.050	1.075	0.997	1.044					
Best 3	1.212	1.067	1.057	0.995	1.068					
Industry	1.361	1.134	1.075	1.049	1.034	1.031	1.020	1.014	1.021	1.167
Selected	1.300	1.095	1.065	1.000	1.015	1.010	1.010	1.010	1.010	1.015
Cumulative	1.624	1.249	1.141	1.071	1.071	1.055	1.045	1.035	1.025	1.015

MERCANTILE SELF INSURANCE TRUST
**WORKERS COMPENSATION
 PAID LOSS DEVELOPMENT HISTORY
 MEDICAL PLUS INCIDENTS**

Accident Year	Months of Development									
	<u>12</u>	<u>24</u>	<u>36</u>	<u>48</u>	<u>60</u>	<u>72</u>	<u>84</u>	<u>96</u>	<u>108</u>	<u>120</u>
1995	23,183	38,137	93,392	106,433	106,635	107,890	110,619	112,498	115,706	122,052
1996	41,762	108,299	117,265	127,685	129,836	133,654	173,936	180,787	181,888	
1997	130,356	188,099	204,506	211,107	236,640	242,595	242,725	244,069		
1998	128,976	152,721	161,446	166,141	169,379	171,888	175,404			
1999	96,106	175,113	191,287	221,757	229,797	262,126				
2000	122,026	230,256	255,191	283,061	303,483					
2001	210,072	468,857	545,356	598,052						
2002	352,432	794,295	997,289							
2003	550,771	1,230,836								
2004	658,105									

Accident Year	Development Factors									
	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>	<u>84-96</u>	<u>96-108</u>	<u>108-120</u>	<u>120-Ult.</u>
1995	1.645	2.449	1.140	1.002	1.012	1.025	1.017	1.029	1.055	
1996	2.593	1.083	1.089	1.017	1.029	1.301	1.039	1.006		
1997	1.443	1.087	1.032	1.121	1.025	1.001	1.006			
1998	1.184	1.057	1.029	1.019	1.015	1.020				
1999	1.822	1.092	1.159	1.036	1.141					
2000	1.887	1.108	1.109	1.072						
2001	2.232	1.163	1.097							
2002	2.254	1.256								
2003	2.235									
Mean	1.922	1.287	1.094	1.045	1.044	1.087	1.021	1.018	1.055	
3 Yr. Mean	2.240	1.176	1.122	1.042	1.060	1.107	1.021			
5 Yr. Mean	2.086	1.135	1.085	1.053	1.044					
Best 3	2.118	1.121	1.079	1.042	1.023					
Industry	2.438	1.279	1.143	1.094	1.062	1.042	1.032	1.021	1.018	1.260
Selected	2.235	1.165	1.105	1.045	1.040	1.025	1.020	1.015	1.010	1.020
Cumulative	3.420	1.530	1.313	1.188	1.137	1.093	1.066	1.045	1.030	1.020

MERCANTILE SELF INSURANCE TRUST

PAYROLL
(\$00)

<u>Policy Period</u> (1)	<u>Total Payroll</u> (2)
1997	304,532
1998	285,167
1999	312,816
2000	258,347
2001	540,787
2002	1,305,841
2003	2,108,111
2004	2,358,614
TOTAL	7,474,215

(2) Payroll provided by New York Compensation Managers

MERCANTILE SELF INSURANCE TRUST

WORKERS COMPENSATION DISCOUNT FACTOR CALCULATION INDEMNITY PLUS ALAE

End of Year (1)	Cumulative Percent Paid (2)	Incremental Percent Paid (3)	Present Value Of Payments Discounted At 5.0% (4)	Present Value Of Payments Discounted At 4.0%	Present Value Of Payments Discounted At 3.0%
1	16.3%	16.3%	0.842	0.869	0.898
2	38.3%	22.0%	0.857	0.881	0.908
3	56.5%	18.2%	0.855	0.880	0.907
4	65.8%	9.3%	0.844	0.871	0.900
5	74.3%	8.5%	0.849	0.875	0.903
6	81.0%	6.7%	0.848	0.874	0.902
7	85.5%	4.5%	0.842	0.870	0.899
8	88.9%	3.4%	0.841	0.869	0.898
9	91.4%	2.5%	0.840	0.868	0.897
10	92.9%	1.5%	0.840	0.868	0.898
11	94.3%	1.3%	0.850	0.877	0.905
12	95.4%	1.1%	0.863	0.887	0.913
13	96.4%	1.0%	0.876	0.899	0.922
14	97.3%	0.9%	0.891	0.911	0.931
15	98.1%	0.8%	0.906	0.923	0.941
16	98.8%	0.7%	0.920	0.935	0.950
17	99.4%	0.6%	0.932	0.945	0.958
18	99.6%	0.2%	0.928	0.941	0.955
19	99.8%	0.2%	0.953	0.962	0.971
20	100.0%	0.2%	0.976	0.981	0.985

Payout pattern based on extrapolated paid loss development factors

MERCANTILE SELF INSURANCE TRUST**WORKERS COMPENSATION
DISCOUNT FACTOR CALCULATION
MEDICAL PLUS INCIDENTS**

End of Year (1)	Cumulative Percent Paid (2)	Incremental Percent Paid (3)	Present Value Of Payments Discounted At 5.0% (4)	Present Value Of Payments Discounted At 4.0%	Present Value Of Payments Discounted At 3.0%
1	29.2%	29.2%	0.897	0.916	0.935
2	65.4%	36.2%	0.908	0.924	0.942
3	76.2%	10.8%	0.879	0.900	0.923
4	84.2%	8.0%	0.877	0.898	0.921
5	88.0%	3.8%	0.868	0.891	0.916
6	91.5%	3.5%	0.875	0.897	0.921
7	93.8%	2.3%	0.876	0.898	0.921
8	95.7%	1.9%	0.880	0.901	0.924
9	97.6%	1.9%	0.880	0.901	0.923
10	98.1%	0.5%	0.845	0.872	0.901
11	98.5%	0.4%	0.849	0.875	0.904
12	98.8%	0.3%	0.855	0.881	0.908
13	99.1%	0.3%	0.863	0.888	0.914
14	99.3%	0.2%	0.874	0.896	0.920
15	99.5%	0.2%	0.885	0.906	0.928
16	99.6%	0.1%	0.899	0.918	0.937
17	99.7%	0.1%	0.914	0.930	0.947
18	99.8%	0.1%	0.931	0.944	0.957
19	99.9%	0.1%	0.948	0.958	0.968
20	100.0%	0.1%	0.976	0.981	0.985

Payout pattern derived from inverse power curve fit
of paid loss development factors