



PINNACOL ASSURANCE

>> SAFETY GROUP PROGRAM

OVERVIEW

NOVEMBER 5, 2012



BACKGROUND

Previous attempts to correct issues with Pinnacol's association program have not improved its underwriting results or safety culture. The reasons are many, including:

- Insufficient premium within groups
- Too few members in groups
- The broad spectrum of risk within many programs
- Inadequate risk selection standards
- Poor performers remaining in groups
- Low threshold for per-claim stop loss

Pinnacol has examined this program and believes it has benefited and can continue to benefit agents, association partners and policyholders. To address the issues we have identified, we are creating new program requirements that include but are not limited to:

- Higher minimum group size thresholds
- Higher per-claim stop loss for program dividends
- Loss ratio requirements for groups and individual policyholders
- Higher underwriting standards for risk selection

We believe these changes, which include renaming it the "safety group program," and an increased focus on safety will transform this segment of our business into a sustainable and highly respected product with underwriting results that exceed Pinnacol's overall book of business and ensure the program's long-term viability.

WHY NOW?

These changes can't wait. The program's underwriting results have been unsatisfactory for too long, and Pinnacol is investing significant resources to manage it. Overall the program is not delivering the financial results or safety culture that agents, association partners, policyholders or Pinnacol expects. We are committed to the program's success and have chosen to revamp rather than eliminate it. We believe a revamp benefits everyone and that these new requirements will drive performance and ensure long-term success.

BENEFITS

FOR AGENTS AND GROUPS

- Creates a scarce, sustainable and highly respected program by establishing new membership requirements
- Reduces market saturation of current association programs
- Builds a high-performance safety group culture
- Creates a program with measurable value that will be sought after in the marketplace
- Provides a transition period to meet new requirements

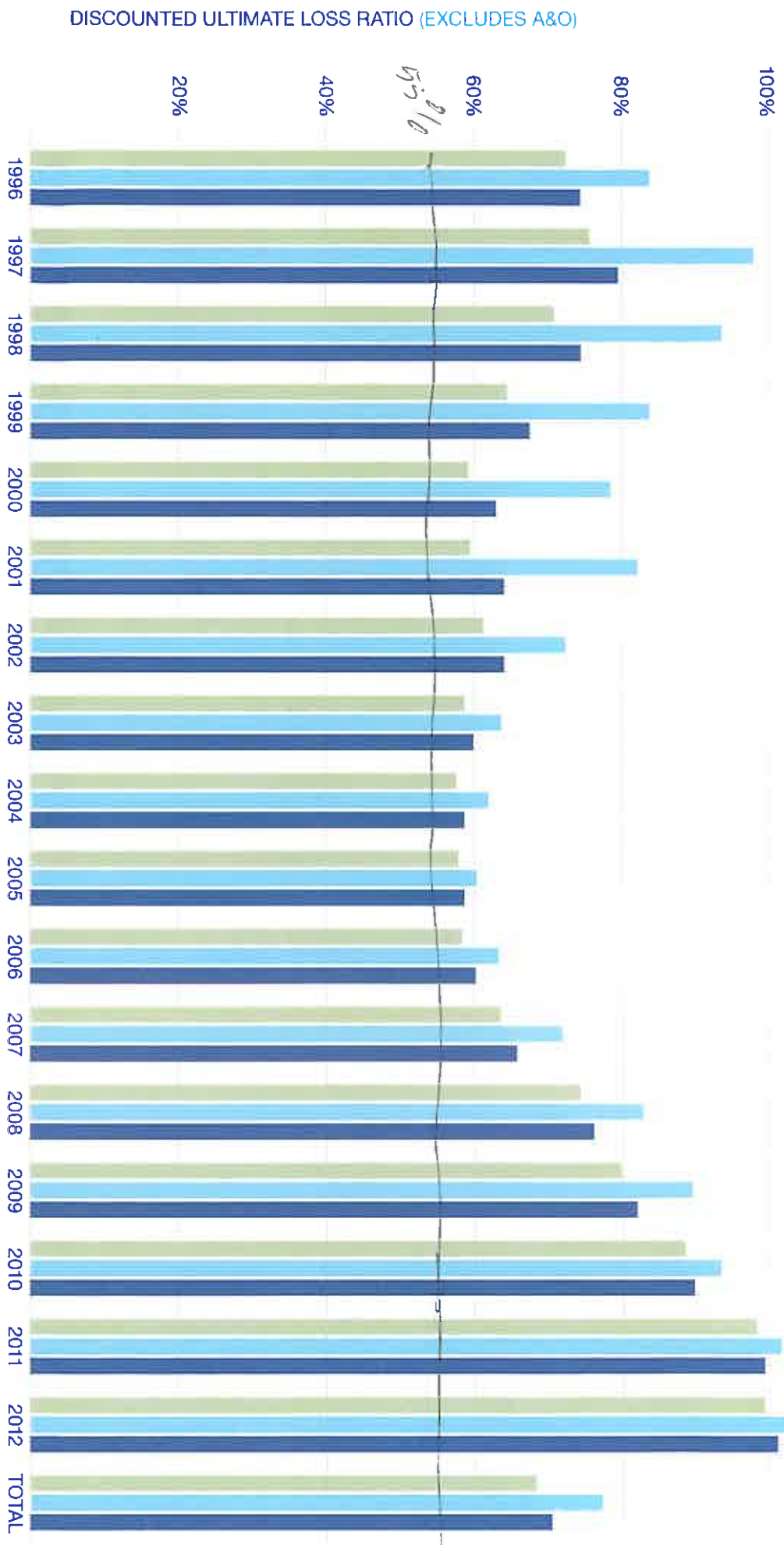
FOR GROUPS

- Increases program stability with growth in premium and group size
- Continues eligibility for receipt of a portion of dividends
- Continues eligibility for marketing support

Unless otherwise stated, all requirements are effective January 1, 2013. This document is an overview of Pinnacol's new Safety Group Program and is not intended to include all program details.

HISTORICAL PERFORMANCE COMPARISON

■ NON-ASSOCIATION ■ ASSOCIATION ■ PINNACOL



CALENDAR-ACCIDENT YEAR

DATA AS OF JUNE 30 2012

"ELITE, SCARCE, Destructive PROGRAM" 500

SAFETY GROUP PROGRAM | OVERVIEW

REQUIREMENTS FOR GROUPS

GROUP PREMIUM CAR
 A4 A 600-1460
 450-460
 600-1460
 150/6
 10 2005



	CURRENT	NEW	
Minimum premium size	\$250,000	INDUSTRY SAFETY GROUPS Effective upon the group's renewal in 2015 Based on safety group's governing hazard group Hazard groups A-D: \$500,000 Hazard groups E-G: \$1 million	GENERAL SAFETY GROUPS Effective upon the group's renewal in 2015 Based on individual policy's governing hazard group Hazard groups A-D only: \$500,000 All hazard groups: \$1.5 million
Minimum number of policyholders	5	20	Effective upon the group's renewal in 2015 Policy hazard groups A-D only: 40 All policy hazard groups: 60
Maximum loss ratio	NO	YES Applied prospectively beginning in 2014 <ul style="list-style-type: none"> ≤ 55% net uncapped loss ratio in either: <ul style="list-style-type: none"> — three out of the four most recent, complete group years; OR, — cumulatively using up to the four most recent, complete group years Experience excludes the current group year Losses evaluated up to nine months after policy expiration date. ILCDs included 	YES Applied prospectively beginning in 2014 <ul style="list-style-type: none"> ≤ 55% net uncapped loss ratio in either: <ul style="list-style-type: none"> — three out of the four most recent, complete group years; OR, — cumulatively using up to the four most recent, complete group years Experience excludes the current group year Losses evaluated up to nine months after policy expiration date. ILCDs included
ILCD premiums and policies count toward minimum requirements	YES	NO 2013-2014	NO

REQUIREMENTS FOR GROUPS

	CURRENT	NEW	
	ASSOCIATION GROUPS	INDUSTRY SAFETY GROUPS	GENERAL SAFETY GROUPS
<p>Safety group and agents are responsible for:</p> <ul style="list-style-type: none"> • Tracking and reporting members' compliance to Pinnacol • Formally onboarding all new members • Participating in semiannual underwriting program reviews • Participating in all safety program seminars • Participating in formal quarterly membership outreach to market program • Submitting an annual marketing plan 	YES	YES	YES
	NO	YES	YES
	NO	YES	YES
	NO	YES	YES
	NO	YES	YES

REQUIREMENTS FOR GROUPS

	CURRENT	NEW	
	ASSOCIATION GROUPS	INDUSTRY SAFETY GROUPS	GENERAL SAFETY GROUPS
Establish a safety committee, elect officers, meet quarterly	YES	NO	NO
Provide safety seminars to members	NO	YES Two times per year	YES For hazard groups A-D only: Two times per year For all policy hazard groups: Four times per year
Members automatically transfer service teams when leaving the program	YES	NO Members <i>may</i> remain with program service team	NO Members <i>may</i> remain with program service team

REQUIREMENTS FOR INDIVIDUAL MEMBERS

	CURRENT	NEW	
Maximum loss ratio	<p>ASSOCIATION GROUP PROGRAM</p> <p>YES</p> <p>Premium discount eligibility requirement:</p> <ul style="list-style-type: none"> • ≤ 60% net capped loss ratio using up to three most recent years of experience, losses evaluated 90 days prior to policy effective date 	<p>INDUSTRY SAFETY GROUPS</p> <p>YES</p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • ≤ 55% net uncapped loss ratio in either: <ul style="list-style-type: none"> — all but one full-term policy period, using up to four most recent, full-term policy periods; OR, — cumulatively using up to the four most recent, full-term policy periods • Experience excludes the current policy period • Losses evaluated up to nine months after policy expiration date 	<p>GENERAL SAFETY GROUPS</p> <p>YES</p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • ≤ 55% net uncapped loss ratio in either: <ul style="list-style-type: none"> — all but one full-term policy period, using up to four most recent, full-term policy periods; OR, — cumulatively using up to the four most recent, full-term policy periods • Experience excludes the current policy period • Losses evaluated up to nine months after policy expiration date
Minimum experience	<p>NO</p>	<p>YES</p> <p><i>Effective for business placed in the program beginning Jan. 1, 2013</i></p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • Two full-term policy periods of continuous experience, excluding current period 	<p>YES</p> <p><i>Effective for business placed in the program beginning Jan. 1, 2013</i></p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • Two full-term policy periods of continuous experience, excluding current period
Pinnacol-approved safety seminar attendance	<p>YES</p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • One per year 	<p>YES</p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • Two per year • One must be specific to the safety group's program 	<p>YES</p> <p>Program eligibility requirement:</p> <ul style="list-style-type: none"> • Two per year • One must be specific to the safety group's program

REQUIREMENTS FOR INDIVIDUAL MEMBERS

	CURRENT	NEW	
	ASSOCIATION GROUP PROGRAM		
Members automatically transfer service teams when leaving the program	YES	NO	NO
Underwriting evaluation of safety and claims management program	YES	YES	YES

	INDUSTRY SAFETY GROUPS	GENERAL SAFETY GROUPS
Members automatically transfer service teams when leaving the program	NO Members <i>may</i> remain with program service team	NO Members <i>may</i> remain with program service team
Underwriting evaluation of safety and claims management program	YES Program eligibility requirement Evaluation based on evidence of: <ul style="list-style-type: none"> • Demonstrating effective hiring, risk and claims management programs • Demonstrating management commitment to creating a safe workplace 	YES Program eligibility requirement Evaluation based on evidence of: <ul style="list-style-type: none"> • Demonstrating effective hiring, risk and claims management programs • Demonstrating management commitment to creating a safe workplace

	ASSOCIATION GROUP PROGRAM	INDUSTRY SAFETY GROUPS	GENERAL SAFETY GROUPS
Underwriting evaluation of safety and claims management program	YES Program eligibility requirement Member agreement to implement the six steps of a cost-containment program over two years: <ul style="list-style-type: none"> • Formal declaration of a companywide safety policy • Formal designation of a safety committee or safety coordinator • Clearly defined safety rules and enforcement policy • Documented new-hire and ongoing safety training • Written designation of medical providers • Written policies and procedures for claims management 	YES Program eligibility requirement Evaluation based on evidence of: <ul style="list-style-type: none"> • Implementing a return-to-work program • Designating and utilizing Pinnacol SelectNet network providers <ul style="list-style-type: none"> — Rural exception for physical locations without a SelectNet network provider within 30 miles 	YES Program eligibility requirement Evaluation based on evidence of: <ul style="list-style-type: none"> • Implementing a return-to-work program • Designating and utilizing Pinnacol SelectNet network providers <ul style="list-style-type: none"> — Rural exception for physical locations without a SelectNet network provider within 30 miles

REQUIREMENTS FOR GROUP DIVIDEND (CHANGES EFFECTIVE UPON GROUP RENEWAL IN 2013.)

	CURRENT	NEW	
	ASSOCIATION GROUP PROGRAM	INDUSTRY SAFETY GROUPS	GENERAL SAFETY GROUPS
Per claim stop loss	YES \$150,000 per claim	YES Policy hazard groups A-D: \$250,000 Policy hazard groups E-G: \$500,000	YES Policy hazard groups A-D: \$250,000 Policy hazard groups E-G: \$500,000
Policy experience used in dividend period	Group year Incomplete policy periods	Policy year based on expiration date Complete policy periods	Policy year based on expiration date Complete policy periods

KEY DATES

JAN. 1, 2013 – NEW PROGRAM LAUNCHES

Two-year transition period to meet new program requirements. Specific effective dates are:

BEGINNING JAN. 1, 2013 – PHASE-IN PERIOD

2013

FOR INDIVIDUAL MEMBERS

- Minimum experience:
Effective for business placed in the program beginning Jan. 1, 2013
- Maximum loss ratio:
Applied upon policy renewal

2014

FOR GROUPS

- Maximum loss ratio:
Applied prospectively beginning in 2014

2015

UPON RENEWAL IN 2015, ALL PROGRAMS MUST BE IN COMPLIANCE

FOR GROUPS

- Minimum premium size:
Effective upon the group's renewal in 2015
- Minimum number of policyholders:
Effective upon the group's renewal in 2015