

**PENNSYLVANIA PROFESSIONAL LIABILITY
JOINT UNDERWRITING ASSOCIATION**

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Wednesday, April 29, 2015

Pennsylvania Insurance Department
Bureau of Property and Casualty Insurance
1311 Strawberry Square
Harrisburg, PA 17120

RECEIVED
Insurance Product Regulation
and Administration

APR 30 2015

Pennsylvania
Insurance Department

Attn: Mark Lersch

Re: Pennsylvania Professional Liability Joint Underwriting Association's Rates and Rules

Dear Mr. Lersch

This letter and the April 29, 2015 letter of our consulting actuary, including exhibits attached thereto, are submitted as a filing by the Pennsylvania Professional Liability Joint Underwriting Association (JUA) to make no revisions to our rules and rates for health care providers.

If there are any questions please contact me at 610-828-8890 or our consulting actuary, Chris Tait at 610-687-5644.

Sincerely,



Susan Sersha, President



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April 29, 2015

Susan M. Sersha, President
Pennsylvania Professional Liability Joint Underwriting Association
2250 Hickory Road, Suite 125
Plymouth Meeting, PA 19462-1638

Re: Pennsylvania Professional Liability Joint Underwriting Association's Rate Change

Dear Susan:

The purpose of this letter is to provide actuarial documentation in support of the Pennsylvania Professional Liability Joint Underwriting Association's (JUA's) rate filing. The JUA is proposing no change to the current rates.

Rate Change Indication

Non-Institutional Health Care Providers

The rate change indication, reflecting a loss cost selection based on JUA claims-made, occurrence, and tail experience combined (including a small amount of institutional providers experience), is provided in Exhibit 1, Page 1 for a base class, base territory occurrence policy. The loss cost selection is based on a loss cost trend rate of 2.90% (based on our review of JUA and other companies' data in rate filings), an investment earnings rate of 3.50%, and an effective date of January 1, 2016. No profit margin is included.

The losses underlying our indications have been a) developed to their ultimate level, b) trended to January 1, 2017, c) adjusted to a \$500,000 per claim limit, and d) adjusted to reflect the additional retained losses due to the elimination of Section 715 coverage by Mcare. Also, the claims-made and tail losses have been adjusted to reflect what they would have been had the underlying policies been written on an occurrence form.

The premium underlying our indications have been adjusted to a) the current JUA rate level and b) a \$500,000 per claim limit. The claims-made and tail premiums have also been adjusted to reflect what they would have been had the underlying policies been written on an occurrence form.

Methods 1 and 3:

The loss cost indications in Method 1 (Exhibit 1, Page 6a) and Method 3 (Exhibit 1, Page 8) are based on taking a weighted average of the historical occurrence equivalent estimated ultimate loss per exposure ratios.

The exposures in column (3) of Exhibit 1, Page 6a were derived by dividing the \$500,000 limit occurrence equivalent earned premium at current rate level in column (2) by the current JUA base rate (i.e., the rate for Family Practice – No Surgery in Philadelphia). Thus, they represent full-time equivalent physician counts, adjusted to reflect the impact of class relativity, territory relativity, claims-made factor, and the JUA's surcharge plan.

In Exhibit 1, Page 8, the exposures have also been adjusted to remove the average surcharge. Column (2) of Exhibit 1, Page 8 shows the JUA's historical surcharge revenue as a percentage of the manual rates. For the projected 2016 policy period, we expect the average surcharge to be 23.0% of the manual premium.

Methods 2 and 4:

The loss cost indication in Method 2 (Exhibit 1, Page 7) is a regression model of the loss per exposure ratios underlying Method 1.

The loss cost indication in Method 4 (Exhibit 1, Page 9) is a regression model of the loss per exposure ratios underlying Method 2, where exposures have been adjusted to remove the average surcharge, which gets loaded back in after being fit to the regression model.

As the graphs on Exhibit 1, Page 7 and Exhibit 1, Page 9 show, historically the JUA ultimate loss costs have generally varied inversely with the JUA's premium volume. However, given the variability in the data points for the low volume years, we have given these projections zero weight in selecting the projected base class/territory loss cost.

Our selected loss cost is on Exhibit 1, Page 4. Based on the results of our analysis, the indicated base rate change for a base class/base territory individual is -2.04% (Exhibit 1, Page 1). The selected base rate change is 0.0%.

Book of Business

The number of JUA policies in force has decreased 13.1%, 9.2%, and 16.4% over the past three years. Thus, it appears that the market for medical malpractice in Pennsylvania has become more competitive over the last few years, with the JUA policies in force peaking in February, 2004. We expect that the JUA will retain risks that have relatively higher loss costs as more of its insureds find coverage in the standard market, leading to a higher ultimate loss costs for the projected policy writing period. The selection of the loss cost for the policies to be written between January 1, 2016 and December 31, 2016 reflects an estimated JUA annual base class/territory occurrence coverage equivalent policy count of 180 (see Exhibit 1, Page 7).

Expense Ratio

The historical JUA expense ratios also vary inversely with premium volume. Because a significant portion of the JUA's expenses are fixed (i.e., they do not vary directly with premium volume), the JUA expense ratios tend to increase as the premium volume decreases. Exhibit 1, Page 2 provides a summary of the JUA expense ratios for calendar years 1997 through 2014. Based on the information provided in that exhibit, along with information provided by the JUA staff, we have made the following selections:

Expense Component	Selection	Comments
Administrative Fees	3.00%	5% of the premium, subject to a \$2,500 maximum for individual health care providers and corporations and \$10,000 maximum for hospitals and nursing homes.
Premium Taxes	2.00%	Varies directly with premium.
General Expenses	8.00%	30% of these expenses are variable, based on a review of historical data.
Finance and Service Charges	-0.60%	50% of these expenses are variable, based on a review of historical data.
Total Expenses	12.40%	
Total Variable Expenses	7.10%	= 3.00% + 2.00% + (8.00% × 30%) - (-0.60% × 50%)

A review of historical expense ratios performed by the JUA implied that 30% of the General Expenses and 50% of the Finance and Service Charges are variable and the remaining 70% and 50%, respectively, are fixed. Exhibit 1, Page 3 shows the derivation of the \$750 fixed expense provision.

The administrative fee schedule has historically been 5% of premium, subject to a \$1,000 maximum for individual health care providers. Effective January 1, 2014, the JUA increased the maximum to \$2,500.

JUA Operating Structure

The JUA operates on a typical underwriting model, and pays claims and expenses out of premiums collected and any earnings on invested premiums. In order to maintain as much flexibility as possible, professional services such as actuarial, legal and investment management are outsourced. The JUA also outsources claims handling when claim volume increases.

While the number of employees has varied over time with the premium volume, it is currently low by historical levels. The JUA has reduced the cost of rent on the space it occupies and changed to a paperless environment. Because of the terms of the current lease at a significantly low rate offered by the landlord to remain in the current space, the JUA still has a relatively large space when compared to operational needs. However, the JUA will continue to maintain some excess space capacity to allow for a rapid increase in staffing levels, if needed. This extra capacity also applies to such things as the number of phone lines and office equipment.

The current JUA staffing levels are the lowest they can be to be able to properly respond to a significant hardening of the market, such as 2002-2003. There remains capacity at the current staffing level to handle two to three times the current premium volume without having to hire

additional staff. Without a significant increase in the number of risks insured, the JUA's fixed expenses will stay fairly flat in dollars; however, they may continue to increase on a per-policy basis if the volume of business continues to decrease. This excess capacity is intentional as when the market turns quickly, it is difficult to hire and train additional staff fast enough to respond to the change.

The selected fixed expense provision in this rate filing was selected based a long-term average, rather than on the more recent, low volume years. Similarly, in years when the JUA's premium volume was at its peak, the selected expense provision was higher than those indicated by the JUA's data at that time. Effectively, the JUA built up "surplus" expenses in the peak years and is now using that surplus to fund a portion of the expenses in the low volume years.

Investment Earnings Rate

The Indicated Rate Level Change reflects investment income by discounting the losses for the time value of money at an annual effective interest rate of 3.50%.

The interest rate was provided to us by the JUA and is based on their assessment of future investment returns. JUA selected the interest rate because they have greater familiarity with the potential investment returns on their assets. We are not able to assess the reasonableness of the selected interest rate without performing a substantial amount of additional work beyond the scope of our assignment. As such, we express no opinion on the appropriateness of the interest rate.

Future rates of return are not guaranteed and may exceed or fall below the assumed rate. Also, the actual timing of loss payments is subject to variability. Differences between actual and expected rates of return and timing of payments from those underlying our estimates may have a material effect on the amount of the discount. Further our projections assume the existence of valid assets underlying the unpaid claim liabilities and that these assets will generate the cash flow underlying the discounting. We have not reviewed the held assets.

Institutional Health Care Providers

In 1996, when the JUA's rates were designated to be the "prevailing primary premium" for determining Mcare (formerly the Medical Professional Liability Catastrophe Loss Fund) assessments, a rate level was established for all health care providers in such a manner as to establish parity between the institutional and non-institutional rates. Since then, overall rate level changes have been applied equally to institutional and non-institutional rates to maintain that parity.

As you know, the JUA has written insufficient institutional premium to provide actuarial data to support the JUA's decision to apply no rate change to its rates for institutional policyholders (including Professional Corporations and Birth Centers). However, the broader implications of changes to Mcare assessments due to changes made by the JUA to its rate structure have been considered. The decision to not change the JUA's institutional base rates since there is no proposed change to the non-institutional rates, is reasonable in that context.

Use of Milliman Name

Any reader of this report agrees that they shall not use Milliman's name, trademarks or service marks, or refer to Milliman directly or indirectly in any third party communication without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.

Data

In performing this analysis we have relied on data and other information provided to us by the JUA, as well as information included in various insurance carrier rate filings and information produced by the Insurance Services Office. We have not audited or verified this data and information. If the underlying data or information is inaccurate, our analysis may likewise be inaccurate. In that event, the results of our analysis may not be suitable for the intended purpose.

We have performed a limited review of the data used directly in our analysis for reasonableness and consistency, and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Variability of Results

Any estimate of future loss and LAE payments for liability coverages, especially medical professional liability, is necessarily subject to a substantial amount of uncertainty due to the unpredictability of changes in inflation, the legal system, and claims handling, among other variables. The estimates developed in this report represent our actuarial central estimates based upon the available data. However, our central estimate should be viewed as the average of a wide range of possible outcomes.

Exceptions to Actuarial Standards of Practice

Although the JUA rates were developed attempting to comply with Actuarial Standards of Practice and the CAS Statement of Principles Regarding P&C Insurance Ratemaking, it also recognizes that it has a unique role as defined in Subsection C. of the Medical Care Availability and Reduction of Error Act ("The Act") to offer medical professional liability insurance covering the provision of health care services in the Commonwealth of Pennsylvania in accordance with Section 732 of The Act. As discussed above in the JUA Operating Structure section, the JUA maintains a higher expense structure than might be necessary in the current environment, taking a longer term view of fixed expense provision in the rates.

Changes to Rate Classifications and Rating Territories

Changes are made to the JUA's rate structure when the JUA has access to data that implies the need for a class or territory change. The volume of data underlying the JUA is not sufficient on its own to justify a re-evaluation of either the specialty/county structure or their relativities. Therefore, there are no proposed changes to the current class/territory structure or relativities.

Estimation of Trend Rates

Exhibit 3 provides support for the trend rate selection (2.90%) used in Exhibit 1.

Tail and Gap Factors

There are no proposed changes to the tail and gap factors.

Limitations

Distribution of Report

Milliman's work has been prepared solely for the internal use of the JUA. No portion of Milliman's work may be provided to any other party without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work. Milliman's work may not be filed with the SEC or other securities regulatory bodies. In addition, references to Milliman or its estimates in communication with third parties are not authorized. Should the JUA make reference to the engagement of an independent actuary (without specifically identifying Milliman) in any SEC filing, the SEC may require disclosure of the name of the actuary. Such disclosure is prohibited without Milliman's prior written consent.

Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Third Party Release Agreement, subject to the following exceptions:

- (a) The JUA may provide a copy of Milliman's work to its accounting auditor ("Auditor") to be used solely for audit purposes. In the event the Auditor's audit reveals any error or inaccuracy in the data underlying Milliman's work, Milliman requests the Auditor or the JUA notify Milliman as soon as possible.
- (b) The JUA may provide a copy of Milliman's work to governmental entities, as required by law.
- (c) The JUA may provide a copy of Milliman's work to the Mcare Fund, provided they agree not to distribute it further.

In the event Milliman consents to release its work product, it must be provided in its entirety. We recommend that any such party have its own actuary or other qualified professional review the work product to ensure that the party understands the assumptions and uncertainties inherent in our estimates. No third party recipient of Milliman's work product should rely upon Milliman's work product.

Susan M. Sersha
April 29, 2015
Page 7 of 7

As required by The Act, the JUA's occurrence coverage rates serve as the prevailing primary premium for establishing the Mcare assessments for all Pennsylvania Health Care Providers, so rate stability is an additional goal of the JUA. The rates for lower rated classes are sensitive to the fixed expense assumption. An increase in the fixed expense provision would disproportionately increase the rates for the lower rated classes and, thus, disproportionately increase the Mcare assessments for those classes (while lowering the assessments for higher rated classes).

Qualifications

I, Christopher Tait, am a Principal and Consulting Actuary for Milliman. I am a Member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society, and I meet the qualification standards to render the actuarial opinion contained herein.

If you have any questions or need any additional information, please give us a call.

Sincerely,

A handwritten signature in black ink that reads "Christopher Tait". The signature is written in a cursive style with a large initial "C".

Christopher Tait, FCAS, MAAA
Principal and Consulting Actuary

Pennsylvania Professional Liability Joint Underwriting Association

Calculation of Indicated Base Class/Terr Occurrence Rate

(1)	Indicated Discounted ¹ Base Class/Terr Loss Cost Including ULAE	\$19,245
(2)	Fixed Expense Provision	\$750
(3)	Variable Expense Provision	7.10%
(4)	Indicated Base Class/Terr Occurrence Rate = [(1) + (2)] ÷ [1.0 - (3)]	\$21,523
(5)	Current Base Class/Terr Occurrence Rate	\$21,972
(6)	Indicated Base Rate Change = (5) ÷ (4) - 1.0	-2.04%
(7)	Selected Base Rate Change	0.00%

- (1) From Exhibit 1, Page 4.
- (2) From Exhibit 1, Page 3.
- (3) From Exhibit 1, Page 2.

¹ Discounted to present value at 3.50% as provided by the Pennsylvania Professional Liability Joint Underwriting Association.

Pennsylvania Professional Liability Joint Underwriting Association

Selection of Fixed Expense Provision

(1) Year Ending	(2) General Expenses	(3) Fixed Expense Portion of General Expenses	(4) Finance and Service Charges	(5) Fixed Expense Portion of Finance and Service Charges	(6) Earned Policy Counts	(7) [(3) - (5)] ÷ (6) Fixed Expense Provision Per Policy
1997	\$505,365	\$353,756			573	\$617
1998	489,556	342,689			538	637
1999	572,796	400,957			446	899
2000	528,206	369,744			492	752
2001	802,850	561,995			648	867
2002	1,155,125	808,588			2,654	305
2003	1,417,038	991,927	\$26,094	\$13,047	4,359	225
2004	1,574,937	1,102,456	121,762	60,881	3,526	295
2005	1,917,336	1,342,135	150,916	75,458	2,005	632
2006	1,306,259	914,381	158,438	79,219	1,538	543
2007	1,086,343	760,440	126,116	63,058	1,186	588
2008	863,617	604,532	75,237	37,619	913	621
2009	922,358	645,651	69,496	34,748	734	832
2010	932,639	652,847	52,462	26,231	575	1,090
2011	988,320	691,824	41,104	20,552	480	1,398
2012	907,994	635,596	32,356	16,178	423	1,464
2013	1,108,494	775,946	35,230	17,615	389	1,948
2014	821,557	575,090	20,742	10,371	336	1,679
All Years	\$17,900,790	\$12,530,553	\$909,953	\$454,977	21,816	\$554

2015 Selected Expense Provision from Prior Analysis: \$735
2016 Selected Expense Provision: 750

(2), (4) From Annual Statements of the PA JUA.
(3) = (2) × 70.0% based on information provided by Pennsylvania Professional Liability Joint Underwriting Association.
(5) = (4) × 50.0% based on information provided by Pennsylvania Professional Liability Joint Underwriting Association.

Pennsylvania Professional Liability Joint Underwriting Association

Indicated Occurrence Base Class/Terr Loss Cost

	(1)	(2)	
	Source	Estimated Base Class, Base Territory 2016 Loss Cost	
(3) Method 1: Estimated Ultimate Loss Cost		\$22,000	
(4) Method 2: Estimated Ultimate Loss Cost Regression		23,930	
(5) Method 3: Estimated Ultimate Loss Cost Adjusted to Projected Surcharge		22,280	
(6) Method 4: Estimated Ultimate Loss Cost Adjusted to Projected Surcharge Regression		22,910	
(7) Selected Base Class/Terr Loss Cost		\$22,140	
(8) Selected ULAE Loading		0.040	
(9) Discount Factor at 3.50%		83.6%	
(10) Selected Discounted Base Class/Terr Loss Cost Including ULAE = (7) x [1.0 + (8)] x (9)		\$19,245	
(3) From Exhibit 1, Page 6a, Row (14)			
(4) From Exhibit 1, Page 7, Column (4)			
(5) From Exhibit 1, Page 8, Row (15)			
(6) From Exhibit 1, Page 9, Column (4)			
(8) From Exhibit 1, Page 5.			
(9) From Exhibit 2, Page 1.			

Pennsylvania Professional Liability Joint Underwriting Association

Selection of ULAE to Loss & ALAE Ratio
Based on Central Reserve Estimate

All Business Combined		Estimated Ultimate		Estimated Ultimate		Estimated Ultimate		Ratio of
All Policy	Indemnity Loss	ALAE Loss	ULAE Loss	ALAE Loss	ULAE Loss	ALAE Loss	ULAE Loss	Ultimate ULAE to Ultimate Loss & ALAE
Year								
2002	\$8,754,250	\$3,198,314	\$433,218					0.036
2003	11,192,750	4,172,695	431,959					0.028
2004	9,038,657	5,623,686	345,615					0.024
2005	18,797,500	6,919,466	602,407					0.023
2006	13,435,789	5,353,064	557,222					0.030
2007	8,041,225	4,815,576	433,180					0.034
2008	8,587,153	3,683,557	418,363					0.034
2009	4,923,916	1,940,618	320,725					0.047
2010	3,639,907	1,796,825	355,143					0.065
2011	3,173,228	1,164,328	254,235					0.059
2012	6,548,712	2,086,875	219,814					0.025
2013	2,994,465	1,109,175	324,800					0.079
2014	3,012,604	1,232,073	428,709					0.101
Total	\$102,140,156	\$43,096,252	\$5,125,390					0.035
Last 6	24,292,832	9,329,894	1,903,426					0.057
Selection of 2016 ULAE to Loss & ALAE Ratio								
0.040								

Note: Based on the central estimate of Milliman's report 'Analysis of Unpaid Loss and Loss Adjustment Expense as of December 31, 2014' issued April 1, 2015.

Pennsylvania Professional Liability Joint Underwriting Association
Occurrence Equivalent Claims-Made Premium and Ultimate Loss & ALAE

(1) Claims-Made Year	(2) Adjustment for Section 715 Elimination	(3) Occurrence Equivalent Premium Adjustment Factor	(4) Occurrence Equivalent Loss Adjustment Factor	(5) Earned Premium at \$500,000 Adjusted to January 1, 2015 Rate Level	(6) Occurrence Equivalent Earned Premium at \$500,000 Adjusted to January 1, 2015 Rate Level	(7) Estimated Ultimate Loss & ALAE at Policy Limits	(8) (2) x (4) x (7)
2002	1.050	2.664	2.947	\$5,123,023	\$13,647,734	\$2,680,443	\$8,294,229
2003	1.050	3.355	3.852	8,623,879	28,933,116	3,091,147	12,502,452
2004	1.050	2.238	2.372	11,757,959	26,314,313	3,194,883	7,957,176
2005	1.050	1.673	1.740	13,524,384	22,626,294	10,364,015	18,935,055
2006	1.050	1.438	1.453	12,764,802	18,355,785	8,268,079	12,614,195
2007	1.050	1.338	1.366	10,208,991	13,659,630	7,376,098	10,579,537
2008	1.050	1.323	1.350	6,831,726	9,038,374	5,062,218	7,175,694
2009	1.050	1.196	1.207	5,074,970	6,069,664	3,205,870	4,062,959
2010	1.040	1.217	1.238	3,900,771	4,747,239	2,978,324	3,834,652
2011	1.030	1.249	1.281	3,276,542	4,092,401	2,675,563	3,530,218
2012	1.020	1.198	1.212	2,833,909	3,395,024	5,003,219	6,185,179
2013	1.020	1.132	1.134	2,728,125	3,088,238	1,022,567	1,182,783
2014	1.020	1.193	1.214	2,333,560	2,783,937	2,042,343	2,529,877

(2) Adjusted for additional liability post Section 715 Elimination.

(3) through (5) Based upon information provided by Pennsylvania Professional Liability Joint Underwriting Association.

(7) Based on the central estimate of Milliman's report 'Analysis of Unpaid Loss and Loss Adjustment Expense as of December 31, 2014' issued April 1, 2015.

Pennsylvania Professional Liability Joint Underwriting Association

Summary of Tail Estimates

(1) Issue Year	(2) Occurrence Equivalent Earned Premium at \$500,000 Adjusted to January 1, 2015 Rate Level	(3) Occurrence Equivalent Base Class/Territory Earned Policy Count (Surcharge Adjusted)	(4) Occurrence Equivalent Estimated Ultimate Loss & ALAE at Policy Limits	(5) Increased Limits Factor to \$500,000 Limit	(6) (4) x (5) Occurrence Equivalent Estimated Ultimate Loss & ALAE at \$500,000 Limit	(7) (6) + (3) Estimated Ultimate Loss Cost at \$500,000 Limit	(8) Column (7) Trended at 2.90% to January 1, 2017
2002	\$214,592	10	\$787,240	1.000	\$787,240	\$80,605	\$122,007
2003	2,166,722	99	2,715,025	1.000	2,715,025	27,532	40,499
2004	2,803,155	128	1,380,647	1.000	1,380,647	10,822	15,470
2005	2,047,983	93	4,036,418	1.000	4,036,418	43,305	60,161
2006	1,346,302	61	1,172,044	1.000	1,172,044	19,128	25,825
2007	1,988,333	90	779,091	1.000	779,091	8,609	11,296
2008	612,395	28	2,330,679	1.000	2,330,679	83,622	106,623
2009	551,595	25	242,026	1.000	242,026	9,641	11,946
2010	515,524	23	26,022	1.000	26,022	1,109	1,336
2011	517,020	24	60,253	1.000	60,253	2,561	2,997
2012	108,515	5	970,466	1.000	970,466	196,499	223,475
2013	337,715	15	642,280	1.000	642,280	41,787	46,185
2014	327,756	15	377,906	1.000	377,906	25,334	27,211
						All Year Policy Count Weighted Average:	\$34,025
						All Year Policy Count & Time Weighted Average:	33,661

(2), (4) From Exhibit 1, Page 6f.

(3) = (2) + Current Base Class/Terr Occurrence Rate (\$21,972).

(5) Based on the central estimate of Milliman's report 'Analysis of Unpaid Loss and Loss Adjustment Expense as of December 31, 2014' issued April 1, 2015.

(8) Trend based on Exhibit 3, Page 1.

**Pennsylvania Professional Liability Joint Underwriting Association
Occurrence Equivalent Tail Premium and Ultimate Loss & ALAE**

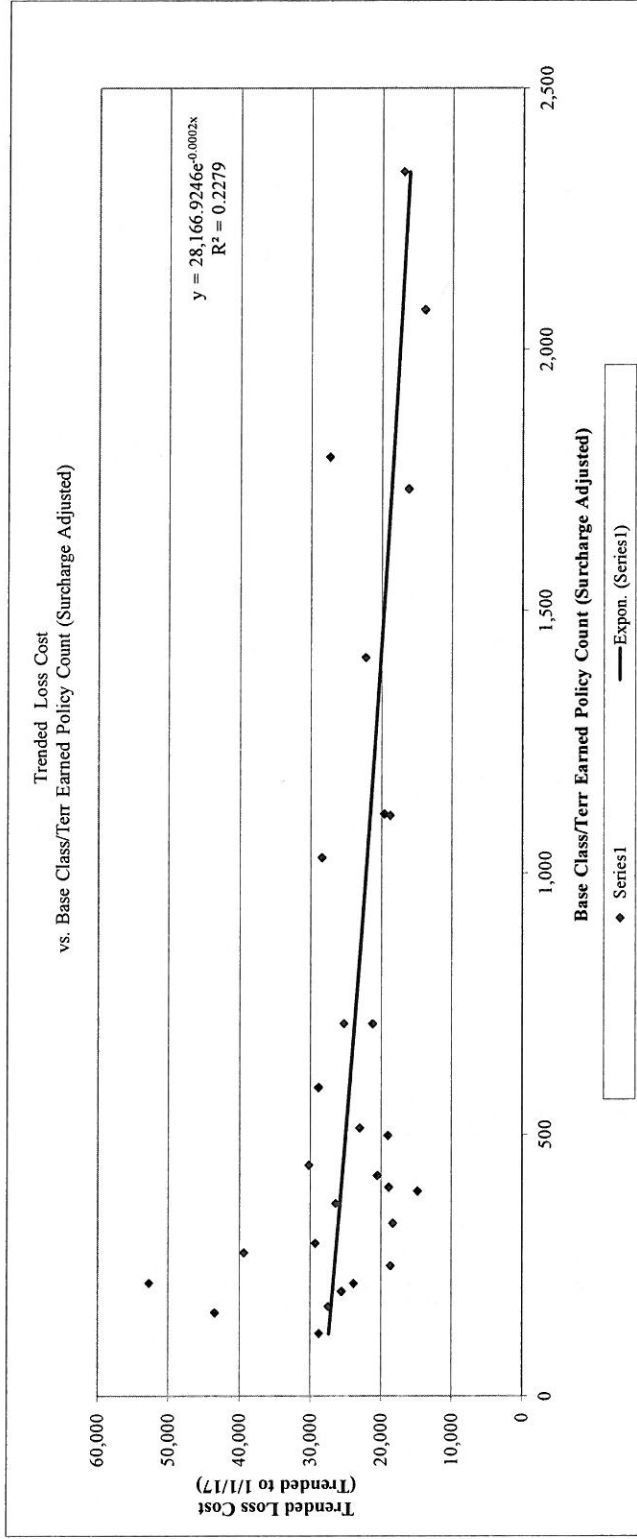
(1) Issue Year	(2) Adjustment for Section 715 Elimination	(3) Occurrence Equivalent Premium Adjustment Factor	(4) Occurrence Equivalent Loss Adjustment Factor	(5) Earned Premium at \$500,000 Adjusted to January 1, 2015 Rate Level	(6) Occurrence Equivalent Earned Premium at \$500,000 Adjusted to January 1, 2015 Rate Level	(7) Estimated Ultimate Loss & ALAE at Policy Limits	(8) (2) x (4) x (7) Occurrence Equivalent Estimated Ultimate Loss & ALAE at Policy Limits
2002	1.050	3.081	3.081	\$69,650	\$214,592	\$243,347	\$787,240
2003	1.050	2.416	2.416	896,822	2,166,722	1,070,256	2,715,025
2004	1.050	1.321	1.321	2,121,995	2,803,155	995,384	1,380,647
2005	1.050	1.092	1.092	1,875,442	2,047,983	3,520,337	4,036,418
2006	1.050	0.895	0.895	1,504,248	1,346,302	1,247,187	1,172,044
2007	1.040	0.795	0.795	2,501,048	1,988,333	942,297	779,091
2008	1.025	0.875	0.875	699,880	612,395	2,598,667	2,330,679
2009	1.010	0.816	0.816	675,974	551,595	293,664	242,026
2010	1.000	0.841	0.841	612,989	515,524	30,942	26,022
2011	1.000	1.011	1.011	511,395	517,020	59,597	60,253
2012	1.000	0.762	0.762	142,408	108,515	1,273,577	970,466
2013	1.000	0.933	0.933	361,967	337,715	688,403	642,280
2014	1.000	1.216	1.216	269,536	327,756	310,778	377,906

(2) Adjusted for additional liability post Section 715 Elimination.

(3) through (5) Based upon information provided by Pennsylvania Professional Liability Joint Underwriting Association.

(7) Based on the central estimate of Milliman's report 'Analysis of Unpaid Loss and Loss Adjustment Expense as of December 31, 2014' issued April 1, 2015.

Pennsylvania Professional Liability Joint Underwriting Association
Relationship between Base Class/Terr Earned Policy Count (Surcharge Adjusted) and Trended Loss Cost¹
All Occurrence, Claims-Made, and Tail Policyholders Combined



(1)	(2)	(3)	(4)
2016 Estimated Base Class/Territory Earned Policy Count (Excluding Surcharge Adjustment)	2016 Selected Surcharge Premium Loading	(1) × [1.0 + (2)]	2016 Estimated Base Class/Territory Earned Policy Count (Surcharge Adjusted)
180	0.230	221	221
			Estimated 2016 Loss Cost
			\$23,930

(1) Estimated 2016 policy count selection based on information provided by Pennsylvania Professional Liability Joint Underwriting Association.
 (2) From Exhibit 1, Page 8.
 (4) Estimated loss cost based on exponential curve fit, excluding the following outlier years: 1996, 1998 and 2012.

¹ Graph of Column (3) of Exhibit 1, Page 6a vs Column (8) of Exhibit 1, Page 6a.

Pennsylvania Professional Liability Joint Underwriting Association

Relationship between Base Class/Terr Earned Policy Count (Excluding Surcharge Adjustment) and Trended Loss Cost
All Occurrence, Claims-Made, and Tail Policyholders Combined

(1) Coverage Year	(2) Surcharge as a Percentage of Manual Earned Premium	(3) Occurrence Equivalent Base Class/Territory Earned Policy Count (Surcharge Adjusted)	(4) (3) + [1.0 * (2)]	(5) Occurrence Equivalent Estimated Ultimate Loss & ALAE at \$500,000 Limit Adjusted for Section 715 Elimination	(6) (5) + (4) Estimated Ultimate Loss Cost at \$500,000 Limit	(7) Column (6) Trended at 2.90% to January 1, 2017
1987	5.1%	1,029	979	\$12,609,338	\$12,878	\$29,930
1988	4.4%	1,112	1,065	9,665,485	9,078	20,504
1989	6.8%	711	666	6,879,481	10,335	22,684
1990	5.8%	589	557	7,991,376	14,348	30,605
1991	4.1%	512	492	5,698,752	11,562	24,009
1992	2.7%	442	430	6,628,503	15,409	31,041
1993	6.4%	422	397	4,428,643	11,162	21,853
1994	6.8%	369	345	5,123,290	14,837	28,229
1995	5.6%	293	277	4,642,540	16,743	30,958
1996	10.2%	217	196	6,355,230	32,345	58,120
1997	30.5%	200	154	2,938,711	19,128	33,402
1998	25.8%	160	127	4,097,156	32,252	54,732
1999	20.4%	120	100	2,096,039	21,030	34,682
2000	31.3%	171	130	2,939,541	22,530	36,109
2001	58.3%	392	248	3,734,794	15,064	23,462
2002	35.9%	1,733	1,275	18,561,682	14,556	22,033
2003	28.1%	2,340	1,827	26,991,721	14,772	21,729
2004	27.0%	2,076	1,634	20,333,503	12,442	17,786
2005	24.6%	1,794	1,440	35,395,718	24,582	34,150
2006	23.6%	1,410	1,141	23,291,666	20,422	27,571
2007	28.8%	1,109	861	15,897,034	18,463	24,224
2008	23.0%	711	578	14,116,198	24,408	31,121
2009	22.1%	498	408	7,669,985	18,811	23,309
2010	21.6%	400	329	6,288,140	19,131	23,038
2011	26.9%	331	261	5,192,867	19,917	23,308
2012	21.2%	275	227	9,514,436	41,984	47,747
2013	25.7%	250	199	4,217,733	21,217	23,450
2014	21.6%	216	177	4,799,339	27,048	29,052
2016 Selected Surcharge Loading	23.0%		(8)	All Year Policy Count Weighted Average:		\$26,215
			(9)	Last 10 Year Average:		28,697
			(10)	All Year Policy Count & Time Wtd Avg:		26,420
			(11)	2006-2012 Policy Count & Time Wtd Avg:		27,866
			(12)	2003-2012 Policy Count & Time Wtd Avg:		26,327
			(13)	Estimated 2016 Loss Cost with Surcharge Loading:		\$27,400
			(14)	2016 Selected Surcharge Premium Loading:		23.0%
			(15)	Estimated 2016 Loss Cost: = (13) + [1.0 * (14)]		22,280

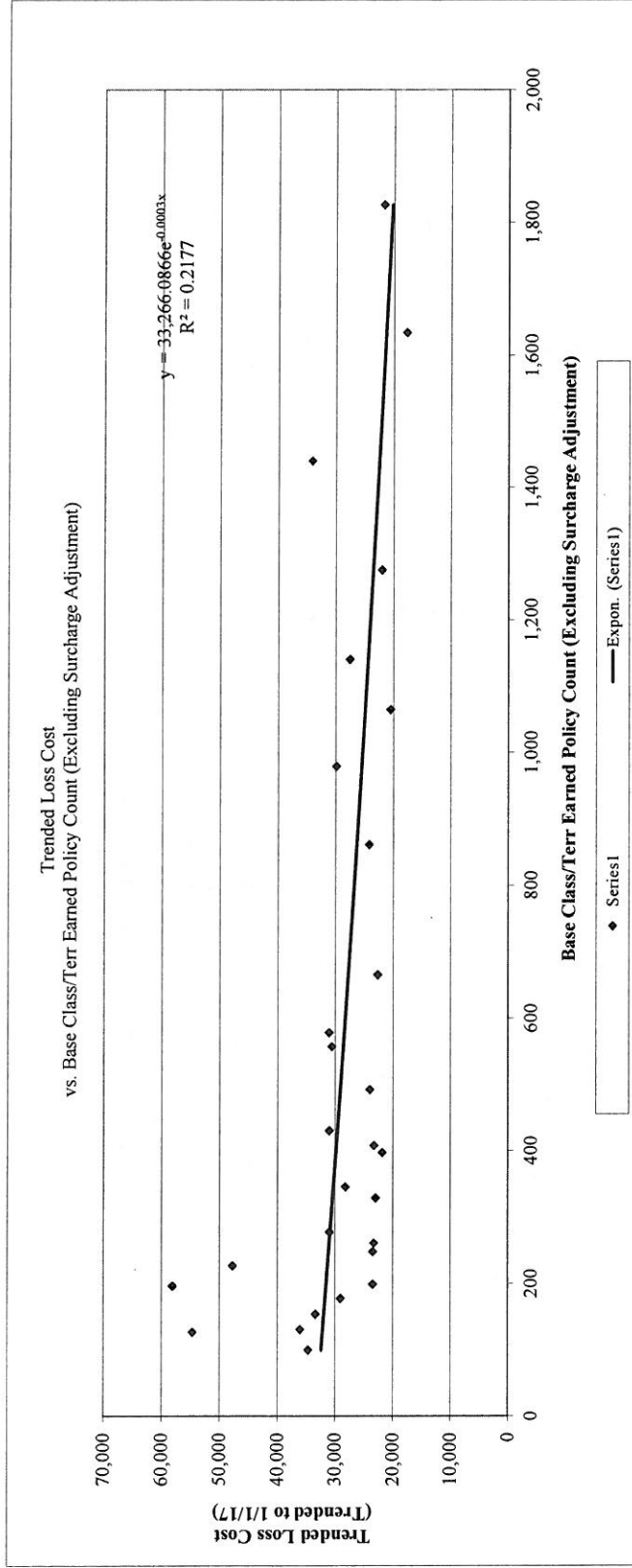
(2) Percentages provided by Pennsylvania Professional Liability Joint Underwriting Association.

(3), (5) From Exhibit 1, Page 6a.

(7) Trend based on Exhibit 3, Page 1.

Pennsylvania Professional Liability Joint Underwriting Association

Relationship between Base Class/Terr Earned Policy Count (Excluding Surcharge Adjustment) and Trended Loss Cost¹
All Occurrence, Claims-Made, and Tail Policyholders Combined



(1)	(2)	(3)	(4)
2016 Estimated Base Class/Territory Earned Policy Count (Excluding Surcharge Adjustment)	Estimated 2016 Loss Cost With Surcharge Loading	2016 Selected Surcharge Premium Loading	Estimated 2016 Loss Cost
180	\$28,177	23.0%	\$22,910

(1) Estimated 2016 policy count selection based on information provided by Pennsylvania Professional Liability Joint Underwriting Association.
 (2) Estimated loss cost based on exponential curve fit, excluding the following outlier years: 1996, 1998 and 2012.
 (3) From Exhibit 1, Page 8.

¹ Graph of Column (4) of Exhibit 1, Page 8 vs Column (7) of Exhibit 1, Page 8.

Pennsylvania Professional Liability Joint Underwriting Association

Calculation of Present Value Discount Factor for Indemnity Loss and ALAE
Accident Year

(1)	(2)	(3)	(4)
	Cumulative	Incremental	at 3.50%
12	0.4%	0.4%	0.4%
24	3.1%	2.7%	2.6%
36	12.2%	9.1%	8.4%
48	29.5%	17.3%	15.3%
60	50.7%	21.2%	18.2%
72	68.1%	17.4%	14.4%
84	79.7%	11.6%	9.3%
96	88.5%	8.8%	6.8%
108	94.2%	5.7%	4.3%
120	96.7%	2.5%	1.8%
132	98.4%	1.7%	1.2%
144	99.3%	0.9%	0.6%
156	99.9%	0.6%	0.4%
168	100.0%	0.1%	0.1%
180	100.0%	0.0%	0.0%
Total	Present Value Discount Factor		83.6%

(2) Based on report year payment pattern in Exhibit 2, Page 3 and the following report year lag pattern (0.175, 0.329, 0.439, 0.074, 0.025).

Exhibit 2
Page 2
Pennsylvania Professional Liability Joint Underwriting Association

**Calculation of Present Value Discount Factor for Indemnity Loss and ALAE
Report Year**

(1)	(2)	(3)	(4)
<u>Months of Development</u>	<u>Estimated Payment Pattern Cumulative</u>	<u>Incremental</u>	<u>Present Value at 3.50%</u>
12	2.5%	2.5%	2.5%
24	14.0%	11.5%	10.9%
36	40.0%	26.0%	23.9%
48	64.0%	24.0%	21.3%
60	75.0%	11.0%	9.4%
72	85.0%	10.0%	8.3%
84	94.0%	9.0%	7.2%
96	96.0%	2.0%	1.5%
108	98.0%	2.0%	1.5%
120	99.0%	1.0%	0.7%
132	100.0%	1.0%	0.7%
Total	Present Value Discount Factor		87.9%

(2), (3) From Exhibit 2, Page 3.

Pennsylvania Professional Liability Joint Underwriting Association

Estimated Indemnity Loss & ALAE Payment Pattern
Claims-Made Business
Limited to \$500,000 plus Paid ALAE

Report Year	Paid Loss & ALAE													Ultimate Loss & ALAE
	12	24	36	48	60	72	84	96	108	120	132	144		
2002	6,515	83,362	289,397	916,293	1,106,725	2,305,960	2,607,146	2,618,208	2,680,443	2,680,443	2,680,443	2,680,443	2,680,443	
2003	9,676	296,332	1,027,454	2,004,513	2,128,898	2,394,832	2,932,541	3,091,031	3,091,147	3,091,147	3,091,147	3,091,147	3,091,147	
2004	95,419	458,468	1,421,033	1,838,180	2,370,527	2,757,894	2,782,811	2,877,117	2,883,747	2,883,747	2,884,084	2,884,084	3,194,883	
2005	162,047	776,285	4,032,673	7,065,162	8,952,205	9,759,864	9,804,716	9,822,997	9,837,263	9,861,094	9,861,094	10,364,015	10,364,015	
2006	177,756	1,536,935	4,348,773	5,900,704	7,014,780	7,452,381	7,609,893	7,730,185	8,261,461	8,261,461	8,261,461	8,261,461	8,261,461	
2007	157,971	1,102,711	3,249,351	5,541,936	6,154,381	6,304,375	7,100,998	7,371,816	7,371,816	7,371,816	7,371,816	7,371,816	7,371,816	
2008	99,644	975,057	2,571,048	3,558,698	3,909,614	4,359,277	4,947,347	4,947,347	4,947,347	4,947,347	4,947,347	4,947,347	4,947,347	
2009	96,195	371,939	781,486	1,594,075	1,714,795	2,322,047	2,322,047	2,322,047	2,322,047	2,322,047	2,322,047	2,322,047	2,322,047	
2010	84,722	298,803	912,648	1,592,001	2,251,333	2,251,333	2,251,333	2,251,333	2,251,333	2,251,333	2,251,333	2,251,333	2,251,333	
2011	77,684	884,480	2,040,199	2,080,639	2,080,639	2,080,639	2,080,639	2,080,639	2,080,639	2,080,639	2,080,639	2,080,639	2,080,639	
2012	104,894	424,661	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	1,851,904	
2013	40,551	109,989	109,989	109,989	109,989	109,989	109,989	109,989	109,989	109,989	109,989	109,989	109,989	
2014	65,994													

Paid Loss & ALAE + Ultimate Loss & ALAE

2002	0.002	0.031	0.108	0.342	0.413	0.860	0.973	0.977	1.000	1.000	1.000	1.000	1.000
2003	0.003	0.096	0.332	0.648	0.689	0.775	0.949	1.000	1.000	1.000	1.000	1.000	1.000
2004	0.030	0.144	0.445	0.575	0.742	0.863	0.871	0.901	0.903	0.903	0.903	0.903	0.903
2005	0.016	0.075	0.389	0.682	0.864	0.942	0.946	0.948	0.949	0.949	0.949	0.949	0.949
2006	0.021	0.186	0.526	0.714	0.848	0.865	0.920	0.935	0.935	0.935	0.935	0.935	0.935
2007	0.021	0.149	0.441	0.751	0.834	0.855	0.963	0.999	0.999	0.999	0.999	0.999	0.999
2008	0.020	0.193	0.508	0.703	0.772	0.861	0.977	0.977	0.977	0.977	0.977	0.977	0.977
2009	0.030	0.116	0.244	0.497	0.535	0.724	0.724	0.724	0.724	0.724	0.724	0.724	0.724
2010	0.029	0.331	0.763	0.778	0.778	0.778	0.778	0.778	0.778	0.778	0.778	0.778	0.778
2011	0.021	0.085	0.370	0.370	0.370	0.370	0.370	0.370	0.370	0.370	0.370	0.370	0.370
2012	0.040	0.108											
2013	0.040	0.108											
2014	0.032												

Statistics:

Average	0.023	0.134	0.403	0.622	0.717	0.843	0.943	0.960	0.970	0.964	0.968	0.968	1.000
Average of Last 5	0.030	0.148	0.438	0.653	0.749	0.849	0.935	0.957	0.970	0.964	0.968	0.968	1.000
Volume Weighted Average	0.021	0.133	0.418	0.656	0.770	0.864	0.944	0.958	0.969	0.958	0.965	0.965	1.000
Volume Weighted Average of Last 5	0.027	0.140	0.431	0.675	0.783	0.872	0.941	0.957	0.969	0.958	0.965	0.965	1.000

Selected:

Cumulative Percent Paid	0.025	0.140	0.400	0.640	0.750	0.850	0.940	0.960	0.980	0.990	1.000	1.000	1.000
Incremental Percent Paid	0.025	0.115	0.260	0.240	0.110	0.100	0.090	0.020	0.020	0.010	0.010	0.010	0.000

Pennsylvania Professional Liability Joint Underwriting Association

Selection of Pure Premium Trend Rate

	Source of Experience	Type	Limit	Average Frequency Annual Trend Rates		Average Claim Size Annual Trend Rates		Loss Cost Trend
(1)	JUA	Pennsylvania	\$500,000	-2.0% to -1.5%	+6.3% to +6.5%	+4.2% to +4.9%		
(2)	ISO	Countrywide	\$500,000	-3.1% to -2.5%	+2.1% to +2.7%	-1.1% to 0.1%		
(3)	PMSLIC	Pennsylvania	\$500,000	—	—	+2.00%		
(4)	PA Supreme Court	Pennsylvania	—	-4.3% to -1.3%	—	—		
(5)	Selected:						Implied Loss Cost Trend	
							+2.9%	

(1) Based on the central estimate of Milliman's report 'Analysis of Unpaid Loss and Loss Adjustment Expense as of December 31, 2014' issued April 1, 2015.

(2) Based on Insurance Services Office Circular AS-PR-2014-002 (September 10, 2014).

(3) From PMSLIC's Pennsylvania rate filing effective January 1, 2013.

(4) Based on the 2013 Pennsylvania Supreme Court medical malpractice data.

(5) Judgmentally selected based on (1) through (4)

Pennsylvania Professional Liability Joint Underwriting Association

Occurrence Business
All Providers Combined

Indicated Average Claim Size Trend Rate Based on JUA Experience

(1) Accident Year	(2) Estimated Ultimate Indemnity Loss at \$500,000 Limit and ALAE	(3) Estimated Ultimate Reported Claims	(4) Earned Premium at \$500,000 Limit and January 1, 2015 Rate Level	(5) (3) ÷ (4) × 10,000 Estimated Average Claim Frequency	(6) (2) ÷ (3) Estimated Average Claim Size
2000	\$2,538,135	18	\$3,763,979	0.048	\$141,008
2001	3,532,221	39	8,623,632	0.045	90,570
2002	9,028,774	80	24,214,559	0.033	112,860
2003	11,204,042	95	20,311,420	0.047	117,937
2004	10,472,076	77	16,487,060	0.047	136,001
2005	11,832,614	72	14,746,680	0.049	164,342
2006	9,273,587	60	11,271,752	0.053	154,560
2007	4,493,471	41	8,719,395	0.047	109,597
2008	4,519,436	23	5,979,402	0.038	196,497
2009	3,266,990	25	4,317,439	0.058	130,680
2010	2,334,102	18	3,518,916	0.051	129,672
2011	1,540,766	13	2,660,353	0.049	118,520
2012	2,268,068	4	2,531,429	0.016	567,017
2013	2,300,644	10	2,064,389	0.048	230,064
2014	1,818,804	9	1,629,105	0.055	202,089

(7) Indicated Annual Trend Rates:

2000 - 2013
2003 - 2014

-1.5%
-2.0%

6.3%
6.5%

(2), (3), (4) Based on the central estimate of Milliman's report 'Analysis of Unpaid Loss and Loss Adjustment Expense as of December 31, 2014' issued April 1, 2015.

(7) Annual Trend Rates indicated by exponential curve of best fit.

Pennsylvania Professional Liability Joint Underwriting Association

Indicated Average Claim Size Trend Rate Based on ISO Multistate Data

(1) Policy Year Ending June 30	(2) Aggregate Loss Costs at Current Level	(3) Estimated Number of Occurrences	(4) Basic Limit Losses	(5) (3) ÷ (2) × 1,000,000	(6) (4) ÷ (3)	(7) (4) ÷ (2)
				Estimated Ultimate Claim Frequency	Estimated Ultimate Average Claim Size	Experience Ratio
2006	\$437,372,873	1,249	\$380,467,902	2.856	\$304,618	0.870
2007	491,750,377	1,271	395,729,061	2.585	311,353	0.805
2008	505,715,779	1,283	403,139,052	2.537	314,216	0.797
2009	523,716,070	1,320	446,745,747	2.520	338,444	0.853
2010	529,675,162	1,369	443,461,325	2.585	323,931	0.837
2011	527,945,621	1,194	420,961,062	2.262	352,564	0.797
2012	537,008,081	1,236	438,840,549	2.302	355,049	0.817
2013	546,062,479	1,308	447,553,697	2.395	342,166	0.820

(8) Indicated Annual Trend Rates:
2006 - 2013 -2.5%
2006 - 2012 -3.1%

(2), (3), (4) From Insurance Services Office Circular AS-PR-2014-002 (September 10, 2014).
(2), (4) Basic limits (\$500,000 per occurrence) occurrence and mature claims-made coverage; loss and claims developed to ultimate by ISO; aggregate loss costs adjusted to current loss cost level by ISO
(8) Annual Trend Rates indicated by exponential curve of best fit.

Indicated Annual Frequency Rate Based on Pennsylvania Supreme Court Data

(1) (2)

<u>Report Year</u>	<u>Number of MPL Case Filings</u>
2000	2,632
2001	2,659
2002	2,904
2003	1,712
2004	1,819
2005	1,711
2006	1,702
2007	1,640
2008	1,602
2009	1,532
2010	1,490
2011	1,675
2012	1,510
2013	1,546

Indicated Annual Trend Rates:

2000 - 2013	-4.3%
2005 - 2013	-1.3%

(2) Based on the 2013 Pennsylvania Supreme Court medical malpractice data.

**Pennsylvania Professional Liability Joint Underwriting Association
Occurrence Emergence Pattern**

(1) Year	(2) Report Year Lag Pattern	(3) Trend	(4) (2) x (3) Occurrence Reporting Pattern Report Year Base
4+	0.022	1.121	0.025
3	0.068	1.090	0.074
2	0.415	1.059	0.439
1	0.320	1.029	0.329
0	0.175	1.000	0.175
Total	1.000		1.043

(2) From Exhibit 4, Page 2.
 (3) Trend selected as per Exhibit 3.
 (6) = Upward sum of (5)

**Pennsylvania Professional Liability Joint Underwriting Association
Selected Report Year Lag Pattern**

(1) Year	(2)	(3)	(4)	(5)
	PAJUA Report Year Lag Pattern Based on Reported Claim Counts	Based on Incurred Loss & ALAE	PMSLIC Indicated Lag Pattern Based on Incurred Loss & ALAE	Selected Lag Pattern
4+	1.000	1.000	1.000	1.000
3	0.959	0.978	1.000	0.978
2	0.891	0.916	0.925	0.910
1	0.480	0.536	0.465	0.495
0	0.180	0.147	0.200	0.175
Total				1.000

(2) From Exhibit 4, Page 3.
 (3) From Exhibit 4, Page 4.
 (4) Information from PMSLIC 1/1/08 effective rate filing. Losses limited to \$200,000.
 (5) Judgmentally selected based on (2), (3), and (4).

Pennsylvania Professional Liability Joint Underwriting Association
Report Year Lag Pattern Based on Reported Claim Counts

Report Year	Indicated Lag Pattern				
	0	1	2	3	4+
1987	0.156	0.487	0.905	0.965	1.000
1988	0.193	0.495	0.865	0.932	1.000
1989	0.169	0.463	0.875	0.934	1.000
1990	0.246	0.500	0.880	0.951	1.000
1991	0.167	0.463	0.815	0.898	1.000
1992	0.149	0.379	0.920	0.977	1.000
1993	0.123	0.462	0.938	1.000	1.000
1994	0.247	0.411	0.863	1.000	1.000
1995	0.229	0.486	0.957	1.000	1.000
1996	0.180	0.460	0.880	1.000	1.000
1997	0.136	0.386	0.795	0.886	1.000
1998	0.295	0.545	0.977	1.000	1.000
1999	0.214	0.536	0.786	0.893	1.000
2000	0.097	0.419	0.903	0.968	1.000
2001	0.133	0.467	0.800	0.800	1.000
2002	0.409	0.591	0.909	0.977	1.000
2003	0.391	0.696	1.000	1.000	1.000
2004	0.203	0.608	0.973	1.000	1.000
2005	0.128	0.532	0.936	0.989	1.000
2006	0.128	0.512	0.907	0.988	1.000
2007	0.079	0.449	0.876	0.955	1.000
2008	0.123	0.481	0.951	0.988	1.000
2009	0.086	0.310	0.879	0.983	1.000
2010	0.111	0.489	0.956	1.000	1.000
2011	0.108	0.378	0.730	0.892	1.000
2012	0.075	0.350	0.700	0.775	1.000
2013	0.000	0.211	0.684	0.842	1.000
2014	0.211	0.632	0.842	0.895	1.000
Avg 1987-2011	0.180	0.480	0.891	0.959	1.000
Vol Wtd Avg 1987-2011	0.177	0.481	0.894	0.962	1.000
Selected	0.180	0.480	0.891	0.959	1.000

Based on Pennsylvania Professional Liability Joint Underwriting Association
December 31, 2014 loss evaluation.

Pennsylvania Professional Liability Joint Underwriting Association
Report Year Lag Pattern Based on Limited Incurred Loss & ALAE¹

Report Year	Indicated Lag Pattern				
	0	1	2	3	4+
1987	0.101	0.545	0.912	0.996	1.000
1988	0.151	0.538	0.931	0.980	1.000
1989	0.116	0.572	0.965	0.984	1.000
1990	0.145	0.416	0.864	0.981	1.000
1991	0.163	0.520	0.900	0.972	1.000
1992	0.023	0.387	0.938	0.986	1.000
1993	0.114	0.567	0.957	1.000	1.000
1994	0.074	0.447	0.893	1.000	1.000
1995	0.273	0.531	0.991	1.000	1.000
1996	0.126	0.438	0.870	1.000	1.000
1997	0.153	0.584	0.929	0.983	1.000
1998	0.113	0.308	0.995	1.000	1.000
1999	0.137	0.384	0.745	0.871	1.000
2000	0.061	0.461	0.901	0.992	1.000
2001	0.183	0.771	0.852	0.852	1.000
2002	0.438	0.599	0.864	0.944	1.000
2003	0.309	0.818	1.000	1.000	1.000
2004	0.242	0.670	0.993	1.000	1.000
2005	0.107	0.652	0.967	0.996	1.000
2006	0.104	0.592	0.967	1.000	1.000
2007	0.084	0.497	0.923	0.989	1.000
2008	0.177	0.627	0.993	0.998	1.000
2009	0.059	0.373	0.833	0.958	1.000
2010	0.045	0.574	0.924	1.000	1.000
2011	0.188	0.536	0.799	0.969	1.000
2012	0.115	0.504	0.710	0.852	1.000
2013	0.000	0.164	0.581	0.742	1.000
2014	0.097	0.661	0.693	0.814	1.000
Avg 1987-2011	0.147	0.536	0.916	0.978	1.000
Vol Wtd Avg 1987-2011	0.139	0.539	0.927	0.985	1.000
Selected	0.147	0.536	0.916	0.978	1.000

Based on Pennsylvania Professional Liability Joint Underwriting Association
December 31, 2014 loss evaluation.

Losses limited to \$200,000 plus all ALAE.