Alberta Automobile Insurance Rate Board

Annual Review of Automobile Insurance Premiums for Basic Coverage

June 15, 2010

Submission

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INTRODUCTION

This submission provides the Alberta Automobile Insurance Rate Board (AIRB) with an annual update on the size, volume trends and financial performance of the two Alberta Risk Sharing Pools administered by Facility Association on behalf of automobile insurers in the province.

It also provides the AIRB with an overview of the impact of the Supreme Court of Canada's decision to not hear an appeal of "Morrow vs. Zhang", effectively upholding the constitutionality of the Alberta Minor Injury Regulation. With that decision, we were able to release the provisions in our statements held in the event a different outcome was reached.

Appendix 1 provides a background to the history and operations of the Alberta Risk Sharing Pools.

RISK SHARING POOLS SIZE

As always, our view is that residual market volumes should be as small as possible. This stems from the belief that consumers are best served by companies competing directly for their business in an environment where these companies do not have to frame their decisions based on the potential impacts arising from compulsory participation in residual market mechanisms.

In 2009, we again saw an overall decrease in written premiums transferred to the Risk Sharing Pools (RSPs) on a combined basis as the premium volume transferred dropped from $348.6M to $317M. Within that overall decline however, we saw an increase in premiums transferred to the Non-Grid RSP of $9.7M and a decrease in premiums transferred to the Grid RSP of $41M. At $317M, written premiums transferred to both RSPs represented approximately 13.8% of all private passenger automobile insurance premiums written in Alberta in 2009.

Please see Table 1 for a summary of Risk Sharing Pools written premium and market share data for the last four years.

Table 1
Alberta Risk Sharing Pools – Market Share (Written Premium Basis)

Year	Total		Grid RSP		Non-Grid RSP	
	W. Prem	Mkt Share	W. Prem	Mkt Share	W. Prem	Mkt Share
2006	$380,543,231	18.6%	$309,538,332	15.1%	$71,004,099	3.5%
2007	$382,378,719	17.7%	$302,904,752	14.0%	$79,473,967	3.7%
2008	$348,642,315	15.1%	$283,278,774	12.3%	$65,363,541	2.8%
2009	$317,089,241	13.8%	$242,035,611	10.5%	$75,053,630	3.3%

On a written exposure count basis (exposure is defined as one car insured for one year) a total of 165,579 exposures were transferred to both RSPs in 2009, down from 193,191 exposures in 2008. Despite the increase in written premium in the Non-Grid RSP in 2009, written exposures declined in each RSP in 2009. Specifically, written exposures declined from 134,700 to 112,921 in the Grid RSP, and declined from 58,491 to 52,658 in the Non-Grid RSP.

Please see Table 2 for a summary of Risk Sharing Pool written exposure and market share data for the last four years.

Table 2
Alberta Risk Sharing Pools – Market Share (Written Exposure Basis)

Year	Total		Grid RSP		Non-Grid RSP	
	W. Exp	Mkt Share	W. Exp	Mkt Share	W. Exp	Mkt Share
2006	230,568	12.0%	164,643	8.6%	65,925	3.4%
2007	221,445	10.3%	153,649	7.1%	67,796	3.2%
2008	193,191	8.8%	134,700	6.1%	58,491	2.7%
2009	165,579	7.6%	112,921	5.2%	52,658	2.4%

PRIVATE PASSENGER RESIDUAL MARKET SEGMENT – SIZE

Facility Association also administers the residual market segment, a small volume, tightly defined pooling mechanism for higher-risk cars and drivers. The premiums for approximately 80-90% of the exposures insured through the residual market segment have their annual premiums capped by the insurance premium regulation grid. The market share of the private passenger residual market segment has been very stable over the last four years as Table 3 shows.

Table 3 **Alberta Private Passenger Residual Market Segment - Market Share** **(Written Exposure Basis)**				
Year	**W. Premium**	**Market Share**	**W. Exposure**	**Market Share**
2006	13,467,167	1.2%	6,766	0.3%
2007	14,290,380	1.2%	6,831	0.3%
2008	13,384,324	1.1%	6,091	0.3%
2009	16,752,344	1.4%	5,799	0.3%

Although total residual market volumes have declined once again, the Alberta private passenger residual markets on a combined basis, remain among the largest in North America, behind only Nunavut, North West Territories and North Carolina.

Table 4 shows the top ten private passenger residual market jurisdictions in North America.

Table 4 **Top Ten Private Passenger Residual Market Jurisdictions in North America**	
Jurisdiction	**Market Share**
Nunavut	48.4%
North West Territories	23.0%
North Carolina	21.6%[1]
Alberta (RSP & FARM)	7.9%
Nova Scotia	4.5%
New Brunswick	4.3%
Massachusetts	3.5%[2]
Newfoundland & Labrador	3.4%
Yukon	3.3%
Ontario	2.8%

[1] Source: Insurance Information Institute Data is for 2007

[2] Source: Massachusetts Division of Insurance Data is for 2008

The size of the Risk Sharing Pools can be influenced by a number of factors. Insurers tend to keep on their own books risks they consider to be adequately priced, and transfer to the Risk Sharing Pools (subject to eligibility rules) risks they consider to be inadequately priced. In the current context, there is a risk that a negative industry-wide rate adjustment would lead to an increase in the number of risks transferred to the Risk Sharing Pools.

In general, there is a correlation between residual market size and the degree of price competition permitted in a given jurisdiction. In the United States, rate regulation is under the authority of individual states similar to the provincial authority that exists in Canada. In the last decade or so there has been an increased trend to allow the competitive forces of the marketplace to regulate prices. Interestingly, for 2007 (the most recent year for which data is available) 35 states had less than 1,000 private passenger cars insured through residual market mechanisms, and 45 states had less than 1% of private passenger cars insured through residual market mechanisms.

Because we believe residual markets should be a small as possible, we are encouraged by the Chair's remarks in the 2008 and 2009 Annual Reports of the AIRB that the Board supports a change from the current industry-wide process to a "File and Approve" system to foster greater competition to the benefit of consumers. To the extent competition is increased, we would expect to see a decline in residual market volumes. We believe that, at some point, moving beyond a "File and Approve" system to open competition under the price ceiling provided by the premium grid regulation would provide an additional opportunity to reduce the number of cars insured through the residual market mechanisms.

FINANCIAL PERFORMANCE

Table 5 summarizes the financial performance of the Risk Sharing Pools since inception. The data in the table is taken directly from our audited financial statements.

Table 5 Alberta Risk Sharing Pools - Excess/(Deficiency) of Revenue over Expenses ($'000)			
Fiscal Year	**Grid RSP**	**Non-Grid RSP**	**Combined**
2005 (13 months)	$(93,902)	$(28,038)	$(121,940)
2006	$8,498	$(30,562)	$(22,064)
2007	$93,357	$(9,422)	$83,935
2008	$(73,490)	$(29,955)	$(103,445)
2009	$85,747	$(9,184)	$76,563
Total	$20,210	$(107,161)	$(86,951)

One of the key factors influencing our financial results this year was the decision by the Supreme Court of Canada to not hear an appeal of "Morrow vs. Zhang", effectively upholding the constitutionality of the Minor Injury Regulation or MIR. Having reached "the end of the legal road" we were then in a position to release the provision we had been holding in our statements in the event the Minor Injury Regulation had been struck down by the courts. Before we present the final impact of the release of that provision, the following offers a brief re-cap of the derivation of the provision. More detail on this issue can be found in the bulleting sent to member companies at www.facilityassociation.com.

Following the original MIR court decision (commonly referred to as the "Wittmann" decision) and after consultation with our auditors, it became clear to us that to receive an unqualified auditor opinion on our financial statements, we would need to include a provision for liabilities that could arise if the Wittmann decision was ultimately upheld. The methodology for deriving the provision was developed by our valuation actuary, Cynthia Potts of Eckler Ltd. after extensive consultation with member companies. After arriving at an actuarial estimate of the total liabilities expected to arise if the MIR was struck down, a factor of 0.5 was applied to reflect the reality that the court decision could go one way or the other. As we said in our submission last year:

> "That assumption was not based on a legal evaluation of the case but simply reflects that the decision of the Alberta Court of Appeal is unknowable in advance. Therefore, the court's decision will have a material impact on the financial results of the RSPs one way or another, and that underscores the highly uncertain operating

environment Alberta's automobile insurers are working within. If, as has been speculated, the decision of the Alberta Court of Appeal is appealed to the Supreme Court of Canada, the dollar amount reflecting that uncertainty will only continue to grow in magnitude until an ultimate legal decision is reached."

By the time we released those provisions, on an undiscounted basis they had grown to $65M for the Grid RSP and $18M for the Non-Grid RSP, so releasing them had an obvious positive impact on our 2009 fiscal year results.

It needs to be made clear, however, that the MIR provision amounts shown in our statements will not necessarily match those in the financial statements of our member companies. Unlike written premiums, for example, which are a "hard" number and must be booked directly by the member companies, the MIR provision is an estimate based on several judgmental assumptions, which the members are able to modify and change, subject to acceptable standards of actuarial and accounting practice. As an example, as stated previously we used a factor of 0.5 to reflect the legal probability the MIR would be upheld. A member company could certainly have used a different factor, presumably supported by a qualified legal opinion. As well, those familiar with the nature of our operation will know that to try and gauge the financial impact of the MIR being held by the industry by adding our provision amounts to those of our members will be a form of double counting since members are required to book amounts for residual market liabilities in their own statements either as is or modified as just described.

The comments above also apply to the provision included in the residual market segment financial statements. The residual market segment provision released relative to private passenger vehicles was $6M.

Details of the MIR provisions and their derivation are available in the Member Bulletin of our website, www.facilityassociation.com

Automobile insurance is a business based on estimates − the true results of a given accident year cannot be known until many years in the future. Deriving estimates for the RSPs is especially challenging from an actuarial perspective as it involves taking into account the independent decision making of member companies with respect to what types of risks they will transfer to a given pool. The estimated ultimate loss ratios for the RSPs by accident year and how these estimates have evolved since the inception of the RSPs are shown in Table 6.

Table 6

Alberta Risk Sharing Pools – Undiscounted Estimated Ultimate Loss Ratio (ELR)

Period	**------------------------ Accident Year -----------------------------**					
Grid RSP	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
As at Oct 31 2005	82.3%	82.5%				
As at Oct 31, 2006	69.2%	73.7%	76.3%			
As at Oct 31, 2007	51.7%	57.3%	65.5%	69.1%		
As at Oct 31, 2008	54.7%	60.0%	69.0%	75.1%	75.6%	
As at Oct 31, 2009	50.9%	57.4%	64.9%	68.8%	70.7%	67.5%
Non-Grid RSP	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
As at Oct 31 2005	173.7%	123.4%				
As at Oct 31, 2006	204.2%	107.8%	103.8%			
As at Oct 31, 2007	210.5%	94.0%	89.8%	100.0%		
As at Oct 31, 2008	242.4%	93.2%	88.8%	101.7%	107.2%	
As at Oct 31, 2009*	340.9%	88.5%	84.5%	96.5%	101.4%	101.6%
Industry as at June 30 2009**	Not comparable	50.0%	54.2%	59.2%	56.8%	56.7%

Please note that in Table 6, the Undiscounted Estimated Ultimate Loss Ratios as at October 31, 2009 reflect both the exclusion of the provision for the MIR court challenge and revisions to the accident year estimates.

**Industry loss ratios:

[1] All estimates exclude loss adjustment expenses in order to be comparable to the Risk Sharing Pools.

[2] The loss ratio for AY 2004 has been omitted, because it includes experience prior to the product reform, whereas the AY 2004 loss ratios for the Risk Sharing Pools pertain to losses incurred on or after 1 October 2004.

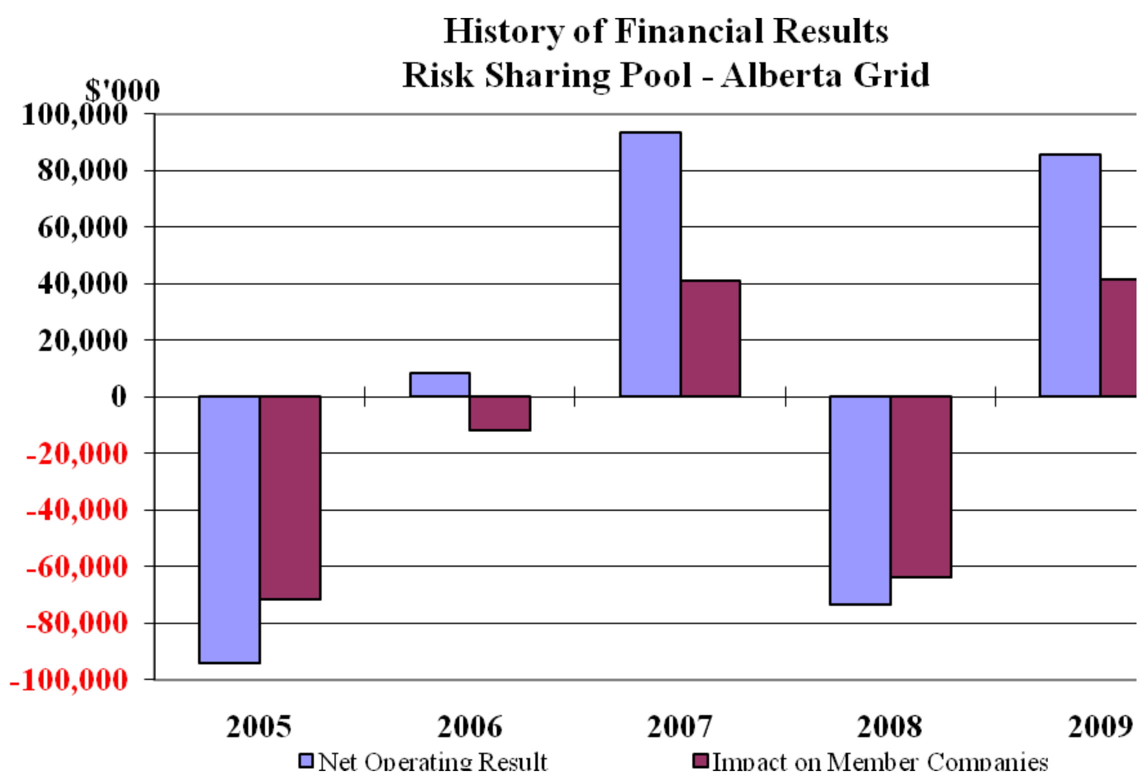
[3] The loss ratio for AY 2009 was estimated based on the experience for the accident half year 2009-1, adjusted for seasonality. The seasonality adjustment was computed as a 5-year average of the ratio of accident year loss ratios to loss ratios for the corresponding "-1" half year:

56.7% = 50.8% x 1.116

<u>FINANCIAL IMPACT ON THE INDUSTRY</u>

Because we must prepare our financial statements according to Generally Accepted Accounting Principles, our statements can only show the results of our own operations. As member companies incorporate their share of Risk Sharing Pool premiums and results into their own statements, they have to reflect items such as health levies, premium taxes, investment income, income tax effects and their cost of capital on those premiums and results. Table 7 illustrates what an adjusted operating result might look like from the industry's perspective.

Table 7



ALBERTA RISK SHARING POOL

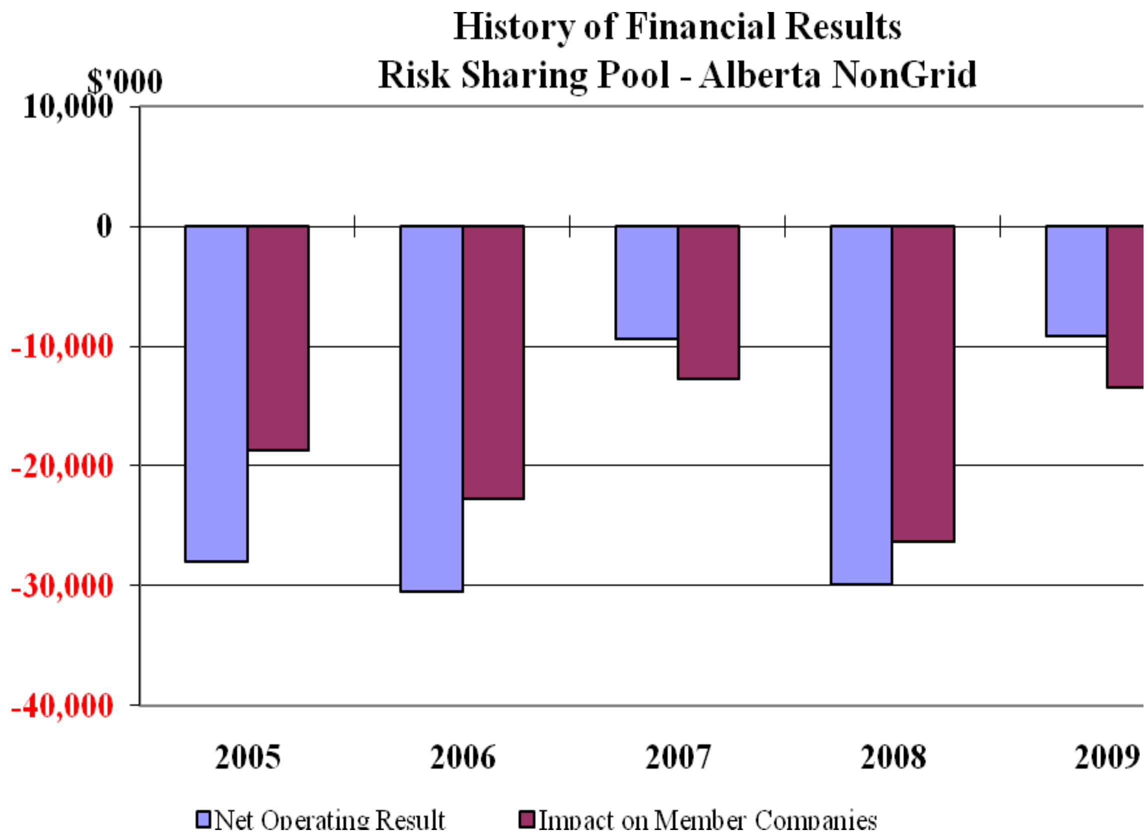
SUMMARY OF OPERATIONS - INDUSTRY IMPACT FOR ILLUSTRATION PURPOSES

ADJUSTED OPERATING RESULT

(Amounts in $000's)

	GRID RSP					
	Total	**Oct-09**	**Oct-08**	**Oct-07**	**Oct-06**	**Oct-05**
Net Operating Result	**$20,210**	**$85,747**	**($73,490)**	**$93,357**	**$8,498**	**($93,902)**
(per Financial Statements)						
Adjustments :						
Premium Taxes Paid Directly by Members	-46,744	-7,491	-8,566	-9,291	-9,264	-12,132
Health Levies Paid Directly by Members	-45,371	-6,229	-9,172	-13,495	-10,291	-6,184
Discounting of policy liabilities	18,016	-13,793	-1,945	-1,533	15,117	20,170
Assocociation Dues paid directly by members	-6,233	-999	-1,142	-1,239	-1,235	-1,618
Investment Income	102,166	26,328	31,923	22,724	15,250	5,941
Net Adjustment	21,834	-2,184	11,098	-2,834	9,577	6,177
Adjusted Net Operating Result	42,044	83,563	-62,392	90,523	18,075	-87,725
Income Tax on net Operating result	11,469	24,233	-18,406	29,058	6,077	-29,493
Operating Result Before Cost of Capital	30,575	59,330	-43,986	61,465	11,998	-58,232
Deemed after tax Cost of Capital	95,554	17,841	19,841	20,617	23,774	13,481
Combined Net Operating result	**($64,979)**	**$41,489**	**($63,827)**	**$40,848**	**($11,776)**	**($71,713)**

Please see Appendix II for the background assumptions to Table 7.


History of Financial Results
Risk Sharing Pool - Alberta NonGrid
$'000
10,000
0
-10,000
-20,000
-30,000
-40,000
2005
2006
2007
2008
2009
Net Operating Result
Impact on Member Companies

ALBERTA RISK SHARING POOL
SUMMARY OF OPERATIONS - INDUSTRY IMPACT FOR ILLUSTRATION PURPOSES
ADJUSTED OPERATING RESULT
(Amounts in $000's)

	NON-GRID RSP					
	Total	**Oct-09**	**Oct-08**	**Oct-07**	**Oct-06**	**Oct-05**
Net Operating Result *(per Financial Statements)*	**($107,161)**	**($9,184)**	**($29,955)**	**($9,422)**	**($30,562)**	**($28,038)**
Adjustments :						
Premium Taxes Paid Directly by Members	-10,320	-2,226	-2,094	-2,134	-2,674	-1,192
Health Levies Paid Directly by Members	-9,526	-1,552	-1,878	-2,789	-2,741	-566
Discounting of policy liabilities	5,586	-2,834	-1,282	169	6,379	3,154
Assocociation Dues paid directly by members	-1,377	-297	-279	-285	-357	-159
Investment Income	15,000	3,861	4,821	3,657	2,095	566
Net Adjustment	-637	-3,048	-712	-1,382	2,702	1,803
Adjusted Net Operating Result	-107,798	-12,232	-30,667	-10,804	-27,860	-26,235
Income Tax on net Operating result	-34,249	-3,547	-9,047	-3,468	-9,367	-8,820
Operating Result Before Cost of Capital	-73,549	-8,685	-21,620	-7,336	-18,493	-17,415
Deemed after tax Cost of Capital	20,461	4,800	4,698	5,342	4,296	1,325
Combined Net Operating result	**($94,010)**	**($13,485)**	**($26,318)**	**($12,678)**	**($22,789)**	**($18,740)**

As the AIRB has requested in the past, we have calculated "break even" loss ratios for both RSPs from the industry's perspective. These loss ratios are shown in Table 8.

Table 8

Alberta Risk Sharing Pools - Break Even Loss Ratio

Fiscal Year	**Grid RSP**		**Non-Grid RSP**	
	Break-even Loss Ratio	**Actual Loss Ratio**	**Break-even Loss Ratio**	**Actual Loss Ratio**
2005	55.3%	92.3%	-17.0%	139.6%
2006	71.8%	69.9%	63.3%	109.2%
2007	76.1%	44.4%	68.1%	83.0%
2008	74.3%	93.4%	73.9%	109.7%
2009	83.4%	45.2%	75.3%	86.8%

Note: In preparing this year's exhibit, we noticed an error in the information provided to the AIRB in last year's submission to the annual review process. We apologize for the error. The current table contains the correct information.

Of course, it is unlikely that the loss experience of any one particular company will be identical to that of the industry as a whole, as each company's loss experience will depend on the loss experience of risks they have transferred to the RSPs, relative to the total loss experience of the RSPs.

One could look at the overall financial results of the Risk Sharing Pools (especially the Grid RSP) in the context of the Minor Injury Regulation ultimately being upheld and conclude that the presence of the Grid RSP has, and will continue to be, relatively benign. For those that do, we would provide the following notes of caution:

- The Grid RSP loss experience compares poorly to that of the overall market. To the extent that the overall market loss performance deteriorates, we would expect the Grid RSP loss experience to deteriorate as well.

- Competitive enterprises need to generate a competitive level of return. To the extent that companies are not generating a competitive level of return on approximately 14% of revenue, that return must be generated from those paying the remaining 86% of premium in the marketplace

- Taken together, the Risk Sharing Pools represent a large volume of premium likely to behave in a more volatile way than of most individual companies. Although this volatility impacts all companies in a similar way, smaller companies with limited financial resources very probably find those impacts more difficult to absorb. As well, the presence of such large RSPs with their inherent volatility may act as a barrier to entry to insurers who would otherwise seek the opportunity to serve Alberta consumers.

CONCLUSION

We stated near the beginning of this submission our belief that consumers are best served by companies competing directly for their business in an environment where those companies do not have to frame their business decisions based on impacts from residual markets. So we were heartened to again read in the Chair's remarks in the 2009 annual report of the AIRB the Board's support of increasing competition in Alberta automobile insurance:

> "While this decision of the Supreme Court ends the uncertainty regarding payouts for minor injury claims, companies applied differing methods to reserve for these potential claims. These variations in reserving practices compromise the current industry-wide rate setting process, which adds support to the Board's position to move away from an industry-wide process that treats all companies as operating under identical circumstances.
>
> In 2009, the Board forwarded a recommendation to the Minister of Finance and Enterprise recommending that the regulation be changed from the current industry-wide process to a "File and Approve" system. The Board believes this system where each company is dealt with on its on merits will provide for better regulation, thereby reducing uncertainty in the market which in turn fosters greater competition for consumers over the longer term."

Simply stated, maximizing insurance availability for consumers can be achieved in an environment of product stability and pricing flexibility. We therefore believe that a move away from a rigid industry-wide process to a more flexible company-specific approach to rate review would not only lead to improved premiums but smaller residual market mechanisms as well. In a similar vein, we continue to encourage suggest, as we did last year, that steps be taken to ensure the protection afforded by the premium grid remains as tightly focused as possible on the group of consumers it is intended to protect and that insurers be allowed to charge adequate rates for risks not targeted by the grid. As long as the premium grid remains in force, we believe allowing open price competition below the maximum premium set by the grid will pave the way for the smallest possible residual market volumes in the current regulatory framework.

APPENDIX I: RISK SHARING POOLS BACKGROUND, AUTHORIZATION & OPERATION

BACKGROUND

Facility Association is an administrative mechanism that administers involuntary residual market automobile insurance on behalf of the voluntary/private sector automobile insurance industry across Canada. Created by the industry and empowered by statute, Facility Association's mission is to guarantee the availability of automobile insurance coverage for consumers who require it to legally operate their vehicles. Facility Association has a full-time staff of twenty-seven people and fulfils its mandate via a network of outsourcing arrangements.

In Alberta, Facility Association administers the Alberta RSP (in reality, two Pools – one for Grid and the other for Non-Grid risks) for private passenger vehicles. It also administers the traditional Residual Market for non-private passenger vehicles and a very small "Residual Market Segment" (with very tightly defined risk criteria) for private passenger vehicles.

Because all licensed automobile insurers must participate in the residual markets administered by Facility Association according to specified sharing formulas, their financial results are subject to greater volatility and uncertainty than would otherwise be the case. Participation in the Residual Market also imposes additional costs on Facility Association member companies for such expenses as premiums taxes, health levies, and the cost of capital members must maintain to support residual market premiums.

THE RESIDUAL MARKETS - AUTHORIZATION

In Alberta, Facility Association administers the RSPs and Residual Market as authorized by its Plan of Operation, which is approved by the provincial Superintendent of Insurance. (The Plan may be viewed and downloaded at www.facilityassociation.com.) All companies licensed to sell automobile insurance in Alberta are required to abide by the provisions of the Plan.

For risks ceded to the Alberta RSPs, the Plan requires Facility Association to maintain and report separate financial results for those risks that are subject to the premium grid and those that are not. This creates the need for two RSPs, commonly referred to as the Grid RSP and the Non-Grid RSP. Both are for private passenger automobiles only. All financial results of the Alberta RSPs and the traditional Residual Market are assigned to member companies based on their participation in the Alberta automobile insurance market. That is, they are not spread across the other jurisdictions Facility Association serves.

THE RISK SHARING POOLS - OPERATION

Essentially, a RSP is a residual market that acts as an industry-wide reinsurance mechanism that is largely invisible to consumers and intermediaries. A consumer buys insurance in the normal way, and the application is forwarded to a company underwriter. The underwriter assesses the risk, decides whether to keep it on the company's own books or to transfer the risk to the RSP, subject to the operational rules and eligibility guidelines of the Pool.

For both Alberta RSPs, companies receive an expense allowance to cover costs such as those incurred for acquisition, policy issuance, policy administration and claims servicing. That expense allowance is set annually by the Facility Association Board of Directors in consultation with the Superintendent. For both Pools, companies are required to submit 100% of all premiums for all coverages on a policy and are eligible for 100% reimbursement of eligible claims and related expenses. Financial results (top **and** bottom lines) of the Pools are shared among companies based on the proportion of a company's private passenger automobile exposures not ceded to a RSP divided by the number of industry private passenger automobile exposures not ceded to a RSP. As Facility Association is simply an administrative mechanism, all companies receive a monthly report reflecting the operations of the Pool, providing them with the amounts they are then required to book into their own financial statements.

The two Pools differ primarily in the number of risks companies can transfer to each. For the Grid RSP, companies can transfer eligible risks without limit. This lack of limit is based on the philosophy that companies are required to accept risks for which they have no control over price and, therefore, little or no control over the financial results of that business. In a general way, the size of the Grid RSP will be a function of how companies view the adequacy of the grid premium for a given risk. If the grid premium is approximately the same as the company's own risk-based premium, the company might prefer to keep the risk on their own books. The upper limit to the size of the Grid RSP is, of course, a direct function of how many risks in the province are impacted by the grid.

For the Non-Grid RSP, companies can transfer up to 4% of written exposures not transferred to the Grid RSP. This Pool is designed to help companies cope with the “take-all-comers” environment in the province.

In a competitive market, most insurers tend not to target the entire universe of private passenger automobile risks. Insurers generally each have their areas of expertise and a healthy competitive marketplace tends to allow a proper mix of generalist and specialist/niche private passenger automobile writers. Moreover, because it is a practical impossibility to have a perfect price for every risk, most insurers choose to have risk eligibility rules to complement and protect their respective pricing structures. An underwriter faced with a requirement to accept a greater degree of risk than that contemplated by the company’s classification system and rates can transfer that risk to the Non-Grid RSP. The Non-Grid RSP has a relatively low limit to ensure that it does not become used as a marketing tool. That is, without such a limit, companies could deliberately adopt a strategy of under-pricing certain risks to attract new customers. Because these risks could then be transferred to the Non-Grid RSP, and because of the way all insurers share in the results of the Pool, this would amount to companies growing their businesses at the expense of their competitors.

The key point here is that RSPs are designed as mechanisms to promote stability in the marketplace by making it possible for companies to accept risks they believe are not adequately priced. Therefore, the general expectation is that RSPs by their very nature will operate at a financial loss. It is also important to note that because the RSPs also act as a cross-subsidization mechanism across the industry, at any given point in time, companies will have their own, unique, financial results vis-à-vis the Pools.

APPENDIX II: BACKGROUND ASSUMPTIONS TO TABLE 7

The net operating result between 2005 and 2009 shown above is taken from Audited Alberta Grid and Non Grid Financial Statements.

The "impact on member companies" illustrates the effect on member companies of, in addition to sharing in Risk Sharing Pool's Net Operating Result, also having to pay income and premium taxes, health levies, association dues and incur a cost of capital due to their compulsory participation in Facility Association as described in Note 2 of the Audited Financial Statements. Member impact also includes investment income earned on funds held by members and the effect of discounting.

Minor Differences may Occur due to rounding.

Assumptions:

Adjustments	**Source**	**Assumption**
Premium Taxes Paid Directly by Members	Insurance Bureau of Canada	n/a
Health Levies Paid Directly by Members	Alberta Finance, Tax and Revenue Administration	n/a
Discounting of policy liabilities	Eckler Ltd.	Risk free rate of return used is based on a portfolio of Government of Canada bonds, for which the dates and amounts of maturities were matched to the expected payout of policy liabilities. 2009 discounted rate 2.00%.
Investment Income	Eckler Ltd.	Market yield rates attributable to a portfolio of Government of Canada bonds with durations consistent with the duration of Alberta RSP policy liabilities.
Income Tax on net Operating result	Facility Association	Published income tax rates.
Association Dues	Facility Association Accounting Committee	0.40005% of Written Premium
Deemed after tax Cost of Capital	Facility Association Accounting Committee	Deemed after tax Cost of Capital 10% . Surplus based on 1.5:1 ratio.