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RALPH A. IANNACO
PRESIDENT

TRANSCRIPT OF MEETING

BUDGET COMMITTEE

A meeting of the Budget Committee was held at the offices of Commonwealth Automobile Reinsurers, 225 Franklin Street, Boston, Massachusetts, on

TUESDAY, NOVEMBER 17, 2009 AT 1:30 P.M.

Committee Members present –

Mr. William F. Hofmann, III - Chairman
Provider Insurance Group, Inc.

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| Mr. William J. Cahill, Jr. | The Hanover Insurance Company |
| Mr. Andrew J. Carpentier | Quincy Mutual Fire Insurance Company |
| Mr. David H. Cochrane | The Commerce Insurance Company |
| Ms. Karen A. Cora | Deland Gibson Insurance Associates, Inc. |
| Ms. Paula. W. Gold | Plymouth Rock Assurance Corporation |
| Mr. Richard P. Jones | Leslie S. Ray Insurance Agency, Inc. |
| Mr. Raymond A. Lukas | Chase, Clarke, Stewart & Fontana |
| Mr. Robert P. Suglia | Amica Mutual Insurance Company |

Substituted for:
N/A

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| Not in Attendance: | |
| Mr. John P. Friedman | USAA Property & Casualty Insurance |
| Mr. Joseph A. Vargas | Vargas & Vargas Insurance |

PROCEEDINGS

(Meeting began at 1:34 p.m.)

BC

09.01 Records of Previous Meeting

Mr. Hofmann: Okay, the first item is 09.01, Records of the Previous Meeting. The summary of the Budget Committee meeting of September 9th. Everybody has them. Is there a motion to waive the reading of those minutes?

Mr. Cahill: So moved and to approve.

Mr. Hofmann: To approve. Thank you. Is there a second?

Mr. Carpentier: Second.

Mr. Hofmann: Thank you. Is there any discussion on the item? If not, all in favor please say aye.

All Committee Members: Aye.

Mr. Hofmann: Thank you.

BC

09.04 Ad Hoc Budget Subcommittee

Mr. Hofmann: The next item on the agenda is the Ad Hoc Budget Subcommittee, which just to give a little preface, is a group that has met many, many times, and spent a lot of time examining all kinds of different issues. And, I want to personally thank Mr. Cochrane for his Chairmanship and his leadership in putting that together. So, Dave, we'll turn the meeting over to you, and you take as much time as you need to explain what we went through and the process. And, again, I want to personally thank you for all your time and effort.

Mr. Cochrane: Thank you. You're welcome. I prepared some notes just to provide some context to this for people who didn't suffer through it. You may not have the perspective. But, it really started at last year's Budget Committee, the September 9th Budget Committee where there was questions about CAR's future in terms of how we had proven the budget and what should we do. And, at that point, CAR's budget was—the 2008-2009 budget was approved as a going concerned budget, because we had to go look at what all of these things were. And, then the Chairman created a special Ad Hoc Budget Subcommittee to kind of retest all those functions. We met a total of nine times, the first time on November 5, 2008, the last time on October 16, 2009. So, basically every six weeks, I think. Buddy and I got everybody together and went through this process. So, I think it was a

very deliberative process trying to get to the facts. In my mind we had sort of three main thrusts of what we tried to look at.

First was the retest of every function to make sure it was really still needed. There was a couple of key issues, which I'll mention as we get in later in this process that came out of that. Another thrust of it was to determine who the beneficiaries of each function were, because one of the things we came into was, we should really figure out who is benefiting from things so that we can make sure that the payment to CAR balances with that. There was a—it was just being on straight on flat premium base, but some things are variable, some are fixed, we should be trying to get at that. And, there's a lot that the Governing Committee already approved from that proposal, I think at the September meeting. Although, there's still a few more pieces of that still to come up, and I think maybe even some today. But again, a thrust was to figure out who was the beneficiaries, because we should try to align payments with who was gaining from it, because it will change behavior and/or it brings fairness.

And, another big thrust was trying to look at leveraging opportunities with the AIB or bring consistency to that. As an industry, the companies are paying on both sides. We should try to make sure there's not things being done that are redundant or duplicated there. So, with that, again, the first part was retesting the functions. We broke it into four main functions, stat agent function, the commercial lines, automobile pool function, which had the least changes, the personal auto run-off function, and then the MAIP function. And, again, as I said, we meticulously walked through that. CAR did a great job of putting together exhibits that listed all of the detail functions that were being done, why they were being done, who was going to benefit from them, and again, we walked through, and I guess the final package here has some of those exhibits. But, it was, I think, it was a complete job.

A couple of key issues, in my mind, came out of that. And, I know one we'll talk about today, and one that, I guess that I sort of went by for now. To me the key issues that came out of that review was the question of should there be one or multiple stat agents, because that would change so much of what things operate. That was pretty quickly decided and pretty unanimously decided that at least for the next couple of years of staying with CAR, and one function was the right way to do it. But, we did test that. The big issue, and I think that still parts of that are coming up, was then what kind of audits are needed. In this new world when you go from pooling to a MAIP and a stat agent, what kind of audits do you need?

There's two, in my mind, two main pieces, that stat agent audits and then the MAIP audits. And, I know the MAIP audits came up late and that's a discussion point that I know Bill may mention later on, because it's surely one, I guess before the MAIP Steering Committee in having legal review. But, there was also this stat agent audit. What level of auditing should be done over the stat data? A subgroup—a subcommittee was formed of I think just only three people probably. Right, Buddy, was it?

Mr. Iannaco: Yes.

Mr. Cochrane: Three, yeah. And, they came back with this hybrid plan that ultimately did persevere. In my mind, it basically went from a two-year audit cycle to a three-year audit cycle. While the subcommittee and the committee did approve that, I remain unconvinced that we need to do that level of detail auditing. I think we need to get down to—CAR shouldn't be going down to stat to see the source documents. If we ever get into a mode where there is going to be multiple stat agents, an ISO doesn't do detail source audits, that's going to be—but CAR does, they're not going to price themselves competitively. And, I don't know why it's needed everywhere else, or not needed everywhere else, but it is here. But, again, the subcommittee came back with this hybrid plan that's in front of you. I think there was a total of eight people in Audit. And, the proposals didn't vary all that much, to be honest. I think the hybrid would bring it down to seven people. An intermediate plan brought it to six people, and the most summary audit brought it to four and a half. So, you know, you're talking a one to four people savings out of this organization, but to me it's as much a matter of philosophy as it is approach. But the two audit parts and especially the MAIP audit, I think we will be talking about.

So, the key issues to me that came out of the retesting of the functions, because most of the functions, I think, we said, yup, it is what it is. We more talked about who the beneficiaries are and how that should be priced, was the stat agent issue and then the audit issue, both stat agent as well as the CAR audits, or the MAIP audits. Again, we went through the beneficiary change. That proposal has already been approved by the Governing Committee at the initial level. There are a few other pieces to that. One that was left over was a fee for service. I think my company was found to be the most egregious in terms of making special requests for these data calls and stuff like that. And, right now, CAR does that. If you call up and you want a sort of this, they do it. They made a list, and again, we came out not looking great on that. But, if there are special requests that really are just meant for a company, shouldn't that company be paying for it rather than everybody paying for it. At least you make somebody at the company think twice before they asked these things. So, that's still out there. And, it was left that we're going to clean all this up, I can comment on the fee for proposal thing at some point.

And, the MAIP certification fee is another thing hanging there. From a producer standpoint, there are costs in the, you know, MAIP and the certification process as part of that trying to get to everybody paying their fair share should there be a MAIP certification fee, and that's still an outstanding issue.

Again, then the third thrust again was trying to leverage the issues with the AIB. That started out, I think, with thinking that there would be some things that, oh, they're doing here that CAR is doing here that we could just stop in one place. It didn't quite turn out that simple. I think we did spend some time—you spent some time with Dan Johnston, and I think we pursued Page 14 data, because they're collecting. But, when we're all

said and done, I don't think really all that much came out of that. I think it was more of the, I think from the Company Members or at least speaking for myself, who is on the Budget Committee at both places, you know, it really was trying to look at, wait a second, how should this all work for the ultimate savings in total. How can we leverage the capabilities in both places? How do we deal with things trying to be consistent between the places? So, it never really came out, I think, in actions before you in this package, but I think it's probably in the minds of a lot of the company people here who, just to be honest, are on both committees and seen things from both sides.

So, anyway, with those things, and I did flip through the report, but to be honest, I didn't spend too much time on the report that was actually packaged through, but the conclusions are on Page 9 of that, which I think I've summarized. I know, again, the stat agent issue is not there, because it was agreed to leave that alone. So, the issues left are the hybrid audit plan recommendation, which was the subcommittee's as well as the Ad Hoc Budget Subcommittee's recommendation. I still would want to retest that. We did try to reach out to the Division to get some direction on this. And, I know Buddy know tried multiple times, and we didn't really get any clear—I think it was a more general response. We'll listen to any kind of recommendation kind of thing versus them providing any direction.

So, I think the outstanding issues are that hybrid audit, the penalty program is going to the Governing Committee, I guess this week. We did want to look at the penalty programs to make sure they were fair and the people that were causing costs for CAR because they had a lot of errors or late shipments, let's make sure they pay their share. And, I'm not sure what's in that proposal, but I'm sure that there is—that's what the goal of what they're trying to get through now to go to the Governing Committee. And, then the last piece is, as we talked about, this audit issue, which was referred by the Ad Hoc Budget Subcommittee to the Claims Advisory Committee, who said, yeah, why are we doing audits on MAIP business? It's voluntary business, it's our problem as companies, they referred to the MAIP Steering Committee, which I guess was a discussion only a week or so ago, which ultimately said, let's go have a legal review. And they, you know, they may adjust Rules, and I don't know if, Bill, you want to mention, but that issue sort of went to MAIP Steering Committee for you guys to handle.

Mr. Cahill:

Yeah, the only thing I would just add, David, for those that weren't in attendance, is that we did have a discussion about it at last week's meeting. I anticipate that we will have a discussion—at least another future meeting of the MAIP Steering Committee, and we did ask our retained counsel to think about this and come back with some further thought. It was short notice to provide it to Dan the last time, too. And, he did a nice job at the committee. So, we're looking forward to some further deliberation is the best way I could describe it.

Mr. Cochrane: And, that is only on the MAIP audit, and the other is that hybrid audit part out there. But, there are really only two remaining issues out of all this, I think, and Buddy can surely speak for himself. But, I think we did—he's got a road map now. Here's all the things that we think should be done and the basis for that. With the possible exception of the audit and exactly how the MAIP audit goes and whether this hybrid audit goes forward, we've got the—we have defined the rest, you know, we didn't find anything, oh, CAR, why are you wasting your time doing all these things? I mean, I'm sure we must have deleted a thing or two. But, it wasn't like they were doing anything extraneous that we, you know, we're just going to be throwing away, it was more the pricing kind of part of who should be paying for some of those functions that we dived into.

So, I think we accomplished a goal of defining what should be done, defining these remaining issues, the audit issues. I think it's now going to be up to the Governing Committee and Buddy in terms of defining, okay, what kind of organization, what structure, what do you need to accomplish those things? So, I think the subcommittee's done its piece. And, while it was a pleasure coming in every six weeks, I've actually had enough. So, with that, that's my report.

Mr. Hofmann: Some of us have had enough of putting up with you, too, Dave.

Mr. Cochrane: It's not easy.

Mr. Hofmann: Buddy, would you like to make any comments on this particular issue?

Mr. Iannaco: Dave did an excellent job of explaining to everyone what we did. And, we did prepare a complete package for everyone to review, because for those members that were not privy we did, if you look through the booklet that we sent out, we identified in every function that we perform, there was probably 30 or so in each of the 4 main areas of responsibility, so some 125 odd functions that we do, we identified the statutory or regulatory mandate for performing those functions. We identified as Dave pointed out, the beneficiary of those functions and we calculated the percentage of resources assigned to each function to carry that out. So, at the end of the day when this subcommittee completed their review and based on the subcommittee review of all the functions, I was then able to put forth a budget that I did and will be discussing as the next agenda item.

I'm well aware of the fact that there are still a couple of outstanding issues that are yet to be resolved based on the work of the Budget Subcommittee. I was then able to commence my plans to put forth a budget that we'll be discussing, and then as we come to agreement that these functions must be performed or continued to be performed at present, my plans are to then commence a restructuring of CAR to continue to see where we can possibly, through the use of technology, in eliminating any unnecessary functions or process to complete these functions, I could effectively reduce operating costs. And, I've had preliminary discussions with our outside—not Dan's counsel, but Rosanna's counsel, about beginning

those. But, I'll be speaking to that when we get into the actual budget discussion.

So, from CAR's look, I think we covered everything that we were asked to do. We did talk to the Division. As you know, the Governing Committee instructed me to write to the Division, which I did. The Division's response, then, was to wait until you finish the process, and then they would certainly consider any recommendations that ultimately the Governing Committee puts forth. So, at this point in time, I guess, a motion probably from Dave to accept his committee's report would be on the table, and then it would be up to this Budget Committee to accept this report.

Mr. Hofmann: Before you do that, Dave, I would just like to—does anybody have any questions of Dave. And, my comment by the way, I hope you appreciate was tongue and cheek, because I enjoyed working with you. Does anybody have any questions, either on this committee or in the audience of Dave and what they've done, and where we're going? I think it's very important as Dave as said, that we basically have got a bit of a blueprint to go forward on. And, you've heard Buddy say that he's already looking at the issues, and he's come up with several things to look into. So, does anybody have any questions before we...

Mr. Suglia: Yes.

Mr. Hofmann: You can direct them directly to Dave.

Mr. Suglia: Yeah, David, it seems like the two main areas where there might be a chance for further reduction of CAR's obligations are dealing with the audits, the stat audit and the claims audits?

Mr. Cochrane: Yes, I believe, and that's why in terms of making a motion, I mean, the MAIP audit part is still being researched.

Mr. Suglia: Right.

Mr. Cochrane: So, I don't know if you want to wait for that to be resolved to do the motion or not. But, yeah, I think the MAIP audit, and I think the impact of the MAIP audit is smaller than the impact of the stat audit. There's more resources on the stat audit. But, yes, to me, the audit functions are where if you're really going to make substantial savings, and I'm sure that Buddy, with his blueprint, can find a better way to organize that should have savings. But, in terms of significant big chunks, I think it's—the issues are audit issues.

Mr. Suglia: And, then it was your view that the audit that CAR does is more extensive than what is done by other statistical reporting companies?

Mr. Cochrane: Yeah, the audit is just plain—they go to source data, they send people out to you and they can describe the process. I mean, there's benefits in data quality, but there's a cost to that.

Mr. Suglia: Yeah.

Mr. Cochrane: They'll go out and actually look at the file and make sure, oh, it's the low mileage discount, they actually see a form that's to prove there is a low mileage discount. ISO doesn't do that kind of stuff. So, there is a—there's benefits. Audits, of course, have benefits. Audits have costs. My personal preference would be to rely more on statistical kind of distributional edits on this end as compared to going out to do physical audits. So, I would try to pull that back. That was not the summation of the committee. And, I think, Andy, you were on a subcommittee that was created, so maybe you could talk to it. I mean, It's my—I have one opinion, the committee did have another opinion.

Mr. Suglia: Yeah.

Mr. Carpentier: I would agree with the way you summarized that, but the perspective that the subcommittee took was largely to look at the structure that exists today and why does that exist in terms of the depth and the breadth of those audits. And, unfortunately, the answer that was provided by the Division of Insurance was not much of a blueprint, because a lot of how this has evolved here at CAR has been in response to requests and directives from the Division of Insurance over time. And, so to take apart some of those things without a clear direction from the Division of Insurance seemed to be premature. Apart from that, when the hybrid plan was developed, a couple of the things that were noted in that are still in play. For example, the audits that are done by CAR with such detail allow the Division of Insurance to use those in its market conduct reviews. Secondly, there is also, through the audits, a verification of the fact that companies are in fact complying with the requirements of Lane-Bolling and are charging insureds the lower of two rates. And, that clearly is something that does not exist anywhere else. And, it is in response to a directive from the Division that that is focused on.

And, then the other piece of it was that through the promulgation of the regs as they came from the Commissioner's office, the auditing of new companies is also a piece that will take place through this hybrid plan. So, you know, it has gotten to the MAIP Steering Committee, where now there is a review of the legal and statutory requirements. There's a big chunk of that that comes from the directives of Rule 28, I believe it is, as to why it stays the way it is. It may come to a point where CAR may have to recommend specific changes to its Rules in order to get the Division of Insurance to approve a different format for auditing. The Division and CAR may have to come to some agreement as to how the audit function and the market conduct reviews by the Division interplay going forward. So, that all remains to be seen. But, I don't believe that that issue would warrant holding up this report—acceptance of this report. I mean, I think, what's been laid out is certainly not the last word, it's the structure for how this will continue to be investigated, but I don't see that there's any real need to not go forward with approval of this plan and sending this on to the Division if that's appropriate.

- Mr. Hofmann: Are you comfortable, Bob, with this?
- Mr. Suglia: Yeah, I guess my only other question is whether or not a motion to accept a report would automatically adopt all the recommendations in here, because for instance, the inflationary adjustment to stat data quality penalties, I see that that's on for an action item for the Governing Committee tomorrow.
- Mr. Hofmann: That's right.
- Mr. Suglia: I mean, I don't have any problem with accepting...
- Mr. Hofmann: I think it's appropriate is because what we're approve is what the committee's recommendations are and what their report is. So, I think it is appropriate to approve this at this point.
- Mr. Suglia: But, I guess my question is, does approval of the report implement all of these recommendations?
- Mr. Hofmann: No.
- Mr. Suglia: Okay.
- Mr. Hofmann: Because some of those things the Governing Committee has to approve.
- Mr. Suglia: Okay, that's fine.
- Mr. Hofmann: You need to bear in mind that the Governing Committee is the final ultimate governing body in this organization. So, other recommendations that will be brought tomorrow for approval by the Governing Committee.
- Mr. Abelli: I guess, are we accepting the—to follow up, I'm saying we're accepting this report as a matter of information or we're approving the recommendations therein, so that they go to the Governing Committee? That's two different things.
- Mr. Hofmann: I think we're at two different recommendations, Paolo, and I think that's the way it should be, by the way.
- Mr. Abelli: Okay.
- Mr. Cahill: Bill, I was going to just make as an observation or a suggestion is, I think there was a great amount of work done on this. I sort of have some personal knowledge, because we had a representative that attended, I think, one of these meetings, but my suggestion was going to be, is there any harm in us holding this item for the moment until which time as we get to the other major item on the agenda here today, so we have just the benefit of that discussion and can sort of understand. I sort of feel like we're receiving information and then we should take it under consideration. And, we may end up concluding, yeah, we should

definitely approve this in the form of the language you're suggesting, which is a combination of accepting it and approving it, and thereby recommending it to the Governing Committee. But, I would appreciate the opportunity just to sort of have the broader discussion that I know Buddy is set to initiate you with the folks that have come today, and maybe we could just put this to the side for the moment.

Mr. Hofmann: We could do that, Bill. But bear in mind, a lot of what we're going to be talking about with the employee benefits and so on, really has no bearing on what this committee actually did.

Mr. Cahill: That may be the case. I—this is a complicated matter.

Mr. Hofmann: I'll—if you'd like me to defer it, I will.

Mr. Cahill: Yeah.

Mr. Hofmann: But, I would like to see this committee approve what has been, you know, a year's worth of work on recommendations that there has been unanimous approval from the Ad Hoc Budget Subcommittee to recommend these things going forward. So, if you would like to wait until Buddy talks about, you know, the employee benefits or something...

Mr. Cahill: Yeah.

Mr. Hofmann: many of what Buddy—much of what Buddy is going to talk about is not germane to what this report is, okay. I mean, things like the audit functions and so as we've just heard from both David and Andy, really is not going to have any bearing on what the budget is.

Mr. Cahill: That may be the case, and they may end up becoming readily apparent, I just thought it might be a way to...

Mr. Hofmann: Okay, but, I will in deference to you, sir...

Mr. Cahill: Thank you.

Mr. Hofmann: I will have us go to the next agenda item, but I do want to come back and I do want to get a vote on this issue. I think it's very, very appropriate, Number One to accept the report, whether we agree with it or not is immaterial. And, where the recommendations from the Ad Hoc Budget Subcommittee to make these recommendations to the Governing Committee, I think we need to approve that in support of the Ad Hoc Budget Subcommittee. And, if the Governing Committee, which has the ultimate authority here decides not to accept any pieces of this or whatever, we can certainly do that. So, Bill, I will defer to your comment.

Mr. Cahill: Okay.

Mr. Hofmann: And, we will go to—Buddy?

Mr. Iannaco: Well, let me just set this on its correct course. The report of the Budget Subcommittee is the report to the Budget Committee.

Mr. Hofmann: Right.

Mr. Iannaco: So, if and when we make a decision on this, the Budget Committee would either vote to approve the subcommittee's report or not approve it or hold it off. Then the Budget Committee will report to the Governing Committee tomorrow the results of that.

Mr. Hofmann: Right.

Mr. Iannaco: I decided to—I thought it was in the best to have every member of the Governing Committee sit on the Budget Committee, which is something we have never done in the past, so that we could have a very detailed conversation today, because tomorrow we have large agenda, obviously for the Governing Committee meeting, and I thought today's meeting by including all Governing Committee members, we could get a lot of issues raised, questions asked and answers to those questions on the table, so that eventually the Budget Committee could then make a formal presentation at tomorrow's meeting at the Governing Committee. Bill and I had talked about the timeliness of this, and that was the reason I thought we should combine both Governing Committee to the Budget Committee. And, Dave is the only member of the Budget Committee that's not on the Governing Committee, but he is in fact on the Budget Committee, so that's the steps we'll be taking to get the process done.

When this Budget Subcommittee concluded their report and there was a very thorough discussion regarding the statistical audit piece that Dave has mentioned, and Dave was not supporting that activity, but a subcommittee of this Budget Subcommittee was in fact formed. The Budget Subcommittee had the subcommittee and Andy was the chair of that committee, and they had a very thorough review of the statistical agent audit piece and determined that we should go forward with this hybrid way of conducting audits. There was discussion with the Division. We did look at the Division's market conduct exams where the Division's market conducts exams alluded to the statistical audits that CAR has been performing. Based on the review of both the Budget Subcommittee and subcommittee set up to review this, we put together this final report and then consequently, I put together my final budget. I proceeded along the lines that the functions that we would be performing were in fact, and are in fact contained in this document, and other functions we'll be doing going forward, aside from the late addition which developed in the last two weeks relative to claims review of the MAIP policies, that is the outside issue that is still pending that Bill spoke to and will be speaking to again.

But, as far as the statistical audit piece, from my way of understanding of what took place, I thought it had been approved. Now, if it isn't, it isn't. I'm not sure where we stand on that. But based on all of that, you have this report. So, we can certainly go back to it. But, that was where we all

believed we were heading as a result of all the work we did. All, that being said, whatever this committee ultimately decides, it decides anyway. And, if it's not going to happen, it's not going to happen. If it's going to happen, it is. The Division is going to tell us what they want and what they don't want anyway. We know all that. I presumed for the last 12 months, the subcommittee would do this work, we would report to the Budget Committee, then the Governing Committee, and we put this report together, and we would send along this report with our recommendations to the Division and see what they give us back. That step has been going on all along for the last 12 months. So, that's kind of the history of this subcommittee's effort. That's the history of this report, and that's where this report stands as of today, and what we want to decide, Members, it's up to you.

Mr. Hofmann: Yeah, I mean, I think you need to understand, Bill, that a lot of what Buddy has done and the things we're going to hear about are based on the recommendations that came from the Ad Hoc Budget Committee, which is why I sort of want to get that approved.

Mr. Cahill: Okay.

Mr. Hofmann: So when we go to this piece, you know, he's basically operating on what we had already—what the Ad Hoc Committee had approved.

Mr. Iannaco: And, I think we're all in understanding and agreement on that. There's no question.

Mr. Cochrane: And, the discussion is it's more theoretical than the practical part was that hardly anything changed.

Mr. Iannaco: Exactly.

Mr. Cahill: Right.

Mr. Cochrane: I mean, it wasn't like, here's all these new things Buddy is going to do, it was, really, it was, you know, more which ones should be defined. Who should pay for the different pieces? The audit part was the only part out there. The committee approved it, and they have this one remaining piece, but I mean, that's the only caveat. That is a separate issue from, okay, if you're going to do those things, what's the most economical way of doing it, what's the best way you're going to do it? That's a separate issue with the dollars that you need to do it. But, I think, in terms of what you need to do, I mean, you know, CAR is CAR. I think we've defined those functions and those are there. The audit was the only thing up in the air.

Mr. Hofmann: Let me ask the committee the question. Would you rather follow Mr. Cahill's suggestion, or would you rather adopt the Ad Hoc Budget Subcommittee's recommendations and then proceed to the Budget? What's anybody's...

Mr. Abelli: It sounds to me that it's not that critical to do that now, because it doesn't swing the needle much. So, we might as well go through the actual budget...

Mr. Hofmann: Okay.

Mr. Abelli: and cycle back to that. That's my opinion.

Mr. Hofmann: If everybody's in agreement with that, that's fine. I just want to make sure.

Mr. Iannaco: I think we should do that too.

Mr. Hofmann: Okay.

Mr. Iannaco: It is what it is at the end of the day.

Mr. Hofmann: Yup, no problem. I just want to make sure everyone is in agreement.

Mr. Iannaco: I think it's a great idea. Do you want to go to the next agenda item, Mr. Chairman?

Mr. Hofmann: Let's go to the next agenda item, Mr. President.

BC

09.03 Fiscal Year 2010 Budget

Mr. Iannaco: Our Budget, okay, let me read a motion that was made at the last Budget Committee Meeting. The following presentation, the committee discussed at length the various aspects of the budget proposal. At the conclusion, a three-part motion was made. The committee unanimously voted to recommend approval of an expenditure of up to \$80,000 to engage appropriate firms to review CAR's Employee Benefit Package and identify potential cost savings. So, with that first part of the motion, I did in fact proceed with engaging three professionals to assist me to develop ways to bring about some cost reductions.

I would like to introduce them and then continue on if I may. Attorney Rosanna Sattler of Posternak Blankstein and Lund is here, who actually some of you may know when we were looking at outside legal firms as part of an RFP that we did many years ago. They are a specialist in this business, and when Rosanna speaks, she will in fact give you some of areas of expertise. And she has with her Larry Athan, who is sitting in the back, who is a benefit expert, who has also been part of some of the conversations that we have had.

To my right is Susan Lodemore, who is our insurance broker, who is an expert on health insurance. Susan has been working for us and with us for years now, but for the last two months, she's been working with me, as

the other people have, almost on a daily basis to help us develop some thoughts to make changes to our health packages to reduce costs.

And, then lastly I'd like to introduce Erik Barca, who is an actuary with Towers Perrin. Erik and I know each other from my role as a fiduciary on the IOST and also attending the IOPT meetings. We've asked Erik—we've engaged Erik to come in and to do an analysis to speak to defined benefit liabilities and to talk about, excuse me, plans we can develop to reduce that liability long-term and some short-term goals as well to identify a reduction in that liability. Erik will also speak to our retiree health liability and the changes we have made as a result of Sue's work to reduce that liability substantially, and he will be available to answer any questions that anyone may have.

So, that is what I did since we began. That's part of the first thing that I did since that last subcommittee meeting. For the last two months I have been working with them to deliver Part Two of a three-part motion, and that was to direct—first of all the second part of the motion was to approve a one-sixth budget, which we did, and then the third part of the motion was to direct me to present a level-funding budget for the remainder of the year and identify the impact to CAR's operation for further consideration by the Budget Committee. So, what I did was based on the direction of the Budget Committee. As I've said, I've engaged these three professionals to work with me, and I presented to you for your review today a level-funded budget, which earmarks exactly the monies that were appropriated in FY 09.

I've also identified, based on the questions that were asked at the last Budget Committee, members of the Budget Committee asked various questions. Andy asked questions relative to the pension liability on how we arrive and derive this number, this \$2.7 million liability that we have and wanted an explanation from us, which Erik will be speaking to. Mr. Hofmann talked about the defined benefit proposal itself. We will be speaking to what we have done to modify that plan. Mr. Jones had some questions relative to our health and dental insurance. And, you'll note, by the way, my level budget, instead of an increase, I have a decrease in both of those accounts. Mr. Cochrane asked about any potential sub-leasing of property we have here. And, if you want us to, Timmy will speak to that, if that is an issue. Mr. Carpentier had some questions about our real estate tax. Mr. Gautieri will speak to that. He also had some concerns about our hardware and software expenses. Mr. Ryan can speak to that. Mr. Suglia you had inquired about our data processing costs, which we have level-funded again, but Mr. Ryan can speak to that. Mr. Cochrane talked about actuarial costs and whether we should consider some other alternatives, which we have done, and have been thinking about.

And, lastly there was not a discussion or a question at the last Budget Committee about the retiree health liability, although Bill and I talked about that subsequent to the meeting of the Governing Committee. And, in fact, he, Erik and I and Steve and Sue have been discussing our retiree health liability for a great period of time. And, I should point out that our

liability is in fact included in our financials. I think you had asked that question. Every year we disclose in our financial statement our retiree health liability, and Steve can speak to that today, as well. So, we are prepared to talk about all of those issues.

But, before we begin, I would just like to tell you that when we put this level-funded budget together that is before you today and we will be prepared to go through it line item by line item, if you desire. You will see that most of the cuts that I put forth were in the form of reduction to any type of employee cost that I could possibly do to maintain as much as I can to bring it back down to level. We did reduce the plans to buy our computers, which are seven years old now. We eliminated buying printers and things like that. But, we were able to put together a level-funded budget, and we will speak to that with any questions that you may have.

Lastly, before I flip to Erik, I would like to say that in looking at our defined benefit plan, we have developed some plans that we will be talking about. But, as part of a restructure of CAR based on the subcommittee's report, which I will begin in working closely with Rosanna, could very well be a reduction in work force. And, my thoughts would be that if in fact there does end up to be a reduction in my work force, and if in fact this Budget Committee approves this budget that any remaining budget dollars that we have would also apply towards our defined benefit liability. So, that's sort of an overview of what we are prepared to discuss today. And, I think the primary source was the defined benefit liability. How we got there, what it is and what we were going to do about it. So, I would like, if I may, Mr. Chairman, flip to Erik to take us through it.

Mr. Hofmann:

Okay. What I'd like to do is, Erik, why don't you go through your presentation, and then after he's concluded, we'll ask all the questions we need to ask. So, please hold your questions until Erik has completed his presentation.

Mr. Barca:

Sure. Thank you. What you have in front of you is a summary of the work we have done with Buddy and his team over the last several weeks. And, what we did is we looked at CAR's Retirement Program. So, included in that program is the Defined Benefit Pension Plan, the 401K Savings Plan, the Retiree Medical Plan. And, consistent with the remarks that Buddy just said, what we did is we looked at opportunities to reduce costs where we could.

So, if we flip to on Page Two, the summary I just handed out, what this does is it lays out the process that we're following, or that we followed so far. And, just a couple of themes in terms of how we've approached this. We wanted to make sure that we did have a rigorous approach, so part of what we did in addition to looking at current costs, we projected out future costs. But, we also looked at benchmarking as well, which we thought was important. We looked at benchmarking relative to the Insurance Organization Pension Trust IOPT Companies, which are very similar in size and mission to CAR. We also looked at benchmarking

relative to the broader universe including insurance companies and financial service companies. In terms of the broader universe, looked at companies similar in complexion to your organization, so primarily, larger companies. We also wanted to come up with in addition to meeting any short-term budget objectives, we wanted to come up with a long-term solution that would work for CAR in the years to come. So, we didn't want to come up with a solution that a year or two from now, we would have to come back and back step. And, then finally, as I mentioned, we wanted to make sure we were reflecting the current market, both from a competitive point of view and the financial pressures that many of the pension plans are under right now given what's happened in the financial markets.

So, Phase One, what we did is we established some benefit objectives and the guidelines, which we'll talk about in a minute. We looked at the current retirement program about the design and the class. We talked about various alternatives in terms of alternative designs. We talked about potential limitations that we might have given that CAR participates in what are called multiple employer plans. So, there are some limitations in terms of what kind of design changes can we make both with respect to the program's savings plan and the pension plan. And, as I mentioned, we reviewed benchmarking. Then, what we did is we looked at alternative program designs, compared those against our objectives, refined both those designs, did some iterations on our objectives, and we looked at what the impact would be on both employees and plans costs for the alternative plan designs. And, we finally came up with a recommendation, which we will actually go through today.

The next—so, we're really at towards the end of Phase Two in this process. Phase Three will be the implementation of any changes. Just flipping to Page Three, these are the guiding principles that we have come up with. And, as I mentioned, this is somewhat of an iterative process. So, we work carefully through each of these principles, and you'll see the impact of these principles on the recommendations that we have. So, we were trying two main objectives. We want to make sure that we achieve long-term goals and make sure we have a program that's going to work for CAR in the long run, and we also want to make sure we meet any short-term budget objectives. So, with respect to the long-term program costs, we wanted to better align those with both the insurance financial service industry and peer companies. And, peer companies we're referring to is those companies with the IOPT. In looking at the competitive positions, it was clear that CAR was above average with respect to the value of the benefits that we're delivering. And, based on that analysis, our guideline was to bring to the level of benefits down approximately a 20% reduction to where we are today.

We also wanted to reduce any risk that was inherent in the retirement program, so we wanted to do that two ways. Number one, we wanted to make sure we weren't taking on any additional risk, and then we wanted to the extent that we could, reduce any existing risk that was in the program. As I mentioned, we want to make sure, in terms of short-term,

that the program recommendations that we make would satisfy your near-term budget objectives. We also wanted to avoid any generous grandfather provisions. We did acknowledge that we don't want to eliminate or cut benefits significantly for employees who are nearing retirement and who may not have enough time to plan or change or be prepared for that. But, we also didn't want to have overly general grandfathering provisions that CAR would have to live with both due to administrative complexity and cost for several years to come.

And, we wanted to make sure that the reductions that we were making, we wanted to avoid making reductions to benefits that were very highly valued by employees and would have an impact on CAR's ability to attract and retain its workforce. And, finally, with all these guidelines, we want to make sure that whatever recommendations we came up with were going to be easy to communicate and administer to the employees.

So, before we get into the recommendations themselves, what we have on Page Four is just a little bit of background information on the Defined Benefit Pension Plan. And, what this shows is the funding ratio of the plan. So we are comparing, and it's a five-year look here, so we're comparing the plan obligations, which is the blue bar to the plan assets. Plan obligations are defined as the present value of accrued benefits under the Defined Benefit Pension Plan. So, based on CAR's current population and the benefits that have been earned under that plan to date, we calculate the present value of those and that's the blue bar obligation. So, as of January 1, 2009, that obligation was \$15.8 million. Said another way, assuming that investment returns on the assets were to earn about 6.8%, which is an underlying assumption, you'd need \$15.8 million in assets to cover benefits both for current retirees and future retirees from the current active workforce.

And, then we've got the plan assets, which is simply the fair value market assets, which is about \$13 million. So, as of January 1, 2009, this was largely after most of the market correction. It went down a little bit more after January, but then came back up. The plan was 80% funded, which is slightly better than if you look at the broad universe of pension plans in the US. They're slightly below 80% funded on average based on our data base. So, CAR is slightly above that, but slightly below where other companies in the IOPT stand. So, we acknowledge that it just doesn't matter—a policy we wanted to shorten that funding gap as quickly as we could. The IRS rules say that that gap needs to be reduced over seven years. Our goal is to reduce that gap over a shorter period of time if possible.

Page Five moves into the plan design recommendations themselves. And, so what we have laid out for you here is a description of the current plan and the recommended changes to the plan. So, first looking at the pension plan, this is a defined benefit plan, which means that it provides an employee a monthly benefit at retirement based on their pay and years of service. Basically, the formula is 1.3% of an employee's final average

earnings times their years of service, up to 35 years. And, there's an additional kicker for service in excess of 35 years.

So, the recommendation here, there's a few recommendations here. The recommendation is to reduce the value of this pension plan going forward for current employees, so reducing that multiplier from 1.3% to 1%, so about a 23% or 24% reduction in the value of future benefits that are accruing under this plan. And, going forward, for new hires into CAR, there would no longer be a Defined Benefit Plan. So, this is getting at the objectives of avoiding any additional risk that CAR may be taking on by eliminating the pension plan prospectively, and then to the extent that we can within legal guidelines, reducing current risk, so reducing that pension formula prospectively. Under IRS rules we cannot reduce benefits that have been accrued to date by the employees.

401k Savings Plan, we went back and forth on this, talked about this a bit, and concluded that we would not recommend any change here. This is a very visible benefit, and it's well-appreciated by employees. And, it's important both for attraction and retention purposes. So, our recommendations as you see here are on the pension side and the retiree medical side.

With respect to retiree medical, right now what CAR provides is a supplemental plan. It supplements what employees get from Medicare at age 65, and retirees pay a portion of the cost of that plan currently, and that can range anywhere from free coverage after a certain number of years of service to the employees of having to pay the full cost of that plan for short-term employees. The recommendation here would be to reduce the underlying subsidy that CAR provides by approximately 40%, and this would come primarily from a reduction in the drug subsidy that is provided to our retirees. This recommendation would impact both future retirees from your current population and existing retirees. So retirees will see an increase or a reduction in the benefits that are being subsidized by CAR.

The second recommendation would be to cap future costs at a share of 80%. So, as I mentioned under the current design, for longer service employees, they can achieve essentially free coverage under this plan if they have sufficient years of services. And, under the proposal prospectively we would cap that subsidy for CAR at 80%, so CAR would not pay more than 80% of the cost of medical coverage for your existing population.

And, then finally, we would eliminate in relation to this, eliminate this plan for new employees coming in the door. So, similar to the pension side what we wanted to do is to attack this from two fronts, one was to eliminate any additional liability that may be accruing for new employees and the risks that are associated with that, and to the extent that we could on a reasonable basis and in line with competitive benchmarking that we did, reduce the value of the current program.

And, then finally, the pension funding policy, Buddy had mentioned this, we did acknowledge that we have a deficit. Like virtually all defined benefit plans do after the financial crisis hit last year. And, we want to reduce that over a period shorter than the required seven years to the extent that we can do that. And, so the recommendation is to use any available cash savings from other budget reductions and feed that towards the Pension Plan.

And, then finally, Page Six, what this does is bring together the impact of these recommendations in terms of savings. So, we looked at this two ways. We looked at the cash savings over the next five years and then we also looked at the impact on CAR's balance sheet. So the current line, what you're looking at is the cash contribution that CAR is making to pay for current retirees, for retiree medical coverage, a contribution that is going in for the 401k match, and the contribution that's going into the pension plan, and that's the \$1.6 million. Excluded from that number is an additional pension contribution that's going in, \$478,000, which is currently being used to fund the seven-year deficit, which is not part of the permanent cost of the plan; it's a temporary cost given the fact that the plan is under funded right now.

Under the proposal, it's the same thing. We're looking at the total cash cost of retiree medical pension and 401k, and you can see the savings. In 2010, the savings are primarily due to the reduction in premiums that CAR will be paying for retirees, and then in 2011 and future years, we get the accumulated savings from the reduction in the pension plan.

So, that's the pure cash savings. On a long-term basis, the savings should be roughly 20% of the total cash cost. And, the—in addition to that, there are some balance sheet implications as well. So, based on these changes the reduction in unfunded balance sheet liability that appears in CAR's books would be approximately \$3.4 million. And, so that would, assuming these were to go through, that would first be reflected September 30, 2010.

Where does this put CAR based on these changes from a competitive point of view? If you look at the IOPT companies, we'll be 90% of the average value that other IOPT companies are providing through the combination of their retirement programs and we'll be approximate median, slightly above, relative to the broader universe of other insurance and financial service companies that we looked at. And, for those companies, what we did, is we tapped into Towers Perrins data, which has about 400 companies in total. Any questions?

Mr. Hofmann:

Could you explain who those other companies are, so everybody knows what you're talking about there?

Mr. Barca:

Sure. So within the insurance industry it would include, for example, large insurance organizations like St. Paul Travelers, Mass Mutual, Liberty Financial is in there, those types of larger organizations. We also did look at it for the whole data base, or the whole universe itself, looking

at other industries as well. We didn't see a whole lot of variation. I think the financial services group is slightly more generous if you look at the whole cross section of industries. For example, younger industries, say for example in high tech, defined benefit plans are much less prevalent from those organizations. Based on that entire data base, we looked at those companies that had 401k or defined contribution plans, and virtually all companies, not a surprise, had some type of 401k or defined contribution plan. And, then we looked at the number of companies in the data base that had a combination of a defined benefit and 401k plan, and approximately 45% of the companies in that data base have the combination of the two, the defined benefit and 401k. Companies that have defined contribution only tend to have a generous 401k match or in addition to the 401k match there may be a profit sharing contribution that goes in or employee stock ownership plans are also part of those defined contribution arrangements.

So, we tried, again, to look at this from a variety of lenses, looking at large companies, looking at small companies, companies in different industries to get a, you know, a good pulse on where other organizations are.

Mr. Hofmann: So, did you use things like AIB and the Worker's Comp Bureau included in your...

Mr. Barca: We did. So, and those would be the companies that are in this IOPT or in the insurance organization.

Mr. Hofmann: That's what I'm trying to get at, who those people are.

Mr. Barca: Yeah.

Mr. Hofmann: I'm not sure everybody knows who those people are.

Mr. Barca: Yeah, so AIB would be in there, the Worker's Compensation Bureau, so those would be the Massachusetts companies, and New York's compensation rating bureau, Wisconsin. There's about 20 organizations in total that are in that IOPT multiple employer plan that CAR currently participates in.

Mr. Hofmann: Questions? Karen?

Ms. Cora: How many employees are currently at CAR now?

Mr. Iannaco: 84.

Mr. Hofmann: David?

Mr. Cochrane: On the, you said the AIB numbers, and I didn't meet with the Budget Committee over there, but you used their prior ones or they're making changes, which version did you get into?

- Mr. Barca: So, we looked at the changes that were in effect prior to a few weeks ago.
- Mr. Cochrane: So, we've got to consider those. The other thing is, you mentioned benchmarks, and I'm just—I know what our company does, and I mean, and let me start out by saying, I'm not a benefit person. I think that this would gain by probably getting the heads of HR from our different companies to go look at all these things. But, in terms in just the background, I'm trying to benchmark this against something. I mean, when you talk about the total cost of an organization, there's a percentage of salary. What is—what kind of target do you shoot for for the pension and the 401K for those components. I mean, what kind of target percentage are you looking for, rather than stratifying other companies, what percentage are you looking for?
- Mr. Barca: Right, it depends on a company's objectives and mission. There are some organizations that we would work with that don't want their benefit program to be a significant cost at all. They're going to direct their dollars elsewhere, whether it be compensation or other areas of differentiation. There are other companies that want to make their defined pension plans as the central aspect of their benefit program and make that a competitive differentiation. So, I would say, it really does vary from company to company in terms of what they're targeting with respect to the cost of their benefits program and what their philosophy is.
- Mr. Cochrane: How big a range, I mean from what to what?
- Mr. Barca: In terms of what? Percentage of...
- Mr. Cochrane: Yeah, percentages.
- Mr. Barca: Percentage of payroll? I mean, I think if you're stripping out the impact of funding any deficits and defined benefit plans, that is the sort of going concern cost. If you're looking at just a combination of defined benefit, retiree medical, and 401k, it's going to range anywhere from 10% to 20% of payroll.
- Mr. Cochrane: But, isn't this probably over 25%?
- Mr. Barca: Which number?
- Mr. Cochrane: Well, the proposed numbers. I mean, you're talking, well, you're somewhere in the 25%. Using 2010, you're proposing a \$1.5 million, and the salaries are, well, \$6.5, so your reduction from that, that's somewhere in the 25% range.
- Mr. Gautieri: One clarification is the budget proposal will include \$487,000 in the pension cost, that is for the deficit portion. So, what Erik is speaking to would exclude that.
- Mr. Cochrane: Right. I thought you said—these number excluded that...

- Mr. Gautieri: No, not our budget.
- Mr. Hofmann: Our budget includes those.
- Mr. Gautieri: Our budget...
- Mr. Cochrane: That's not the proposed numbers.
- Mr. Abelli: So, that would drive the percentage even higher? Is that what you're saying?
- Mr. Barca: The 1.5.
- Mr. Cochrane: Yeah, this 1.5.
- Mr. Barca: Excluding the budget.
- Mr. Cochrane: So, excluding that, compared to \$6.5 million, I don't know it's 24% or 23% or something.
- Mr. Abelli: Right, but he's saying in the 6.4 there is the 400, so it's really 6. I think is what he's saying.
- Mr. Cochrane: No, the 6.5 I think is the salary.
- Mr. Cahill: It's just pure salary, alright.
- Mr. Cochrane: The budget impact would be more than this 1.5, because you've got to make up this budget number. I would think, I mean, the AIB and the remaining changes and when you target companies, you know, I think we do need to make sure we get ahead of the curve in targeting where things are going and not where things have been. I think, in general, in the industry we, I mean, I know I'm not at 24%, and I'm not trying to say that has to match where we are or where we're not, but it think it should kind of correlate to where companies are really going with this process. And, having a pension and 401k and having 25% is a big, big number. And, again, I'm not the—I feel inadequate to discuss the merits other than the end dollars.
- Mr. Barca: Right.
- Mr. Cochrane: But, I think it might be better to try to have, like, a Personnel Subcommittee and pick eight or ten of the largest companies and get their HR people and see what they really are doing with this, because CAR should be no less than what is out there, but it shouldn't be any more that what's out there. And, we've got to get ahead onto where it is, not to where it's been, because the AIB is making changes. I think that there will be changes rippling through. The other industry organizations has this same kind of, you know, economic situation that were being applied internally to our companies will be carrying over. So, we want to get ahead of that curve out there and not chase the past, that's all.

Mr. Barca: Yeah, and I understand that. And, I think one of the comments I made was relative to the IOPT companies that with these changes its about 90% of the average. And, it was to your point the reason why we wanted to be below the average was anticipation that there may be changes coming down the pike with respect to those companies, we want to be ahead of the curve.

Mr. Hofmann: Well, David, I think what I hear you saying is that looking at this budget, the benefits are about 25% of the total cost of payroll. Is that what I'm hearing you say?

Mr. Cochrane: With those retiree benefits, yeah.

Mr. Barca: Just one other point on that. So, these costs include the pension and retiree health care. For your new employees, those benefits aren't there. So, these costs will go down over time. So, when you're looking at these costs, you want to keep in mind of what you're covering for your current population and what you're covering for your future workforce. So, if we're looking at what the costs are for new employee coming in the door, based on what we have here, we've got the cost of the 401k match, which is now significantly below that 20% figure.

Mr. Cochrane: But 6% match is a big number.

Ms. Cora: Yeah.

Mr. Cochrane: I don't think there's anybody—we get half that. I mean, I don't know if anybody else has those numbers. I mean, the benchmarking, we should be benchmarking to what the companies are getting. I don't know what others do, maybe my company is just cheap. But, I mean, that's why we got to get ahead of that curve, right. And, I don't, I'm not—obviously it's not a good subject. No one wants to go down this path. We want to do the right thing for CAR staff; they've done a great job. But, we've got to bring it back to economic reality that works within the economic reality that we've got to suffer with. I mean, we're under great pressure to control costs. And, it's hard for me, as someone who's representing a company that is going to pay a good chunk of this to go back and say, well, you know, this is twice what we're getting, but, you know, that seemed good. Maybe there has to be phasing.

I think it has to be in alignment with the AIB. And I know the AIB was going to go to these other IOPC or whatever, PT companies to try to start that new establishment of a new norm. And, the last thing we wanted to do was have AIB be, you know, above CAR or below CAR. I mean, we've got to try to get to some kind of thing that goes beyond. I know the purpose of your study here, but that's why I think ultimately you've got to get some people who actually know what the hell they're talking about with benefits, which isn't me, to try to tie this back in to what really exists in the industry, because I have no problem, I would object totally if CAR is below with the peer companies. And, peer companies are, yeah, the

insurance companies who are paying, not these other ones, because they're going to eventually come back to that, and they should get to that level. And, that's where I'm at.

Mr. Cahill: Can I just ask a question? Erik on Page Six, this slide makes reference to CAR's unfunded balance sheet liability. It's a reduction. It's making reference to a reduction?

Mr. Barca: Yeah.

Mr. Cahill: Can we—maybe Steven has it, but what's the total unfunded balance sheet liability for CAR at the moment of these retiree plans?

Mr. Gautieri: The last financial statement says of 9/30/08, it was \$9.5 million, for the retiree medical, Erik has mostly completed the look as 9/30/09, and that will, based on the change and the discount rate, go up to approximately \$11 million, and the changes we're proposing today towards that retiree medical would lower that to around \$7.5 million, which we will maybe disclose as a subsequent even in the 9/30/09 financial statements. But, because it's being—it would be implemented after that close, we can't actually do a FASB 157 disclosure showing that lower number until 9/30/10.

Mr. Cahill: So, Steven, did you get \$9.5 million or the projected amount of \$11 million, does that reflect only the retiree medical, or does it also reflect the piece of the...

Mr. Gautieri: No, that is just the retiree medical.

Mr. Iannaco: Just the retiree benefits.

Mr. Gautieri: We do not currently disclose the unfunded liabilities of the pension, but as Erik said, it's about \$2.8 million.

Mr. Barca: Right.

Mr. Cahill: And, then this is also, on this slide on Page Four, you've got numbers as of—the most recent number 1/1/09. Is there a projection with regard to that as to the differential for—as we get closer to the end of year, are you able to project them?

Mr. Barca: I mean, we've looked at it. I think that's probably still a good estimate. The markets have done extremely well and the assets have done well. The offsetting affect is that interest rates have dropped, which impacts the liability. So, the assets have done well, the liabilities have gone up. You need external interest rate changes, which are out of the control of CAR and the IOPT. So, I think what you've got there is probably good estimate for what it's going to look like at year-end.

Mr. Cahill: Okay.

Mr. Hofmann: Bill, are you comfortable with your answer?

Mr. Cahill: Thank you.

Mr. Hofmann: Bob?

Mr. Suglia: On the current—on the recommended pension plan, you indicated still a final average. What's the time period used to determine the final average?

Mr. Barca: Five years.

Mr. Suglia: It is a five-year. And, did you look at career average on a going forward basis?

Mr. Barca: We didn't, and the reason why is as I had mentioned, there are some limitations as to what CAR can do being a participant in this IOPT trust. In fact, to get the change from 1.3% down to 1%, we're going to need to get approval from the IOPT trustees to do that. We think, our hope is that we're going to be able to do that, because that change does not introduce a lot of additional costs in terms of the administrative complexity. If you were to move to a career average-type plan, that's a different story. It's a fundamentally type of plan, and I would suspect it would be a more difficult for the IOPT trustees to swallow in terms of accepting that kind of design.

Mr. Suglia: Okay, and then my other question on the costs of both the current and proposed plan on Page Six, you're still increasing throughout the time period with no benefits being provided to—or no pension benefits being provided to new hires, have you projected when that would start to decline.

Mr. Barca: We have not gone out beyond this period, and it's really largely dependent on your future hiring patterns. So, we have not done that forecast.

Mr. Abelli: Just as a point of reference, Buddy, how many new hires have you made in the last year?

Mr. Iannaco: Zero.

Mr. Abelli: Right, so it takes a while to work its way in.

Mr. Barca: Yeah.

Mr. Hofmann: I think that's—we need to keep that in mind that that's—Karen?

Ms. Cora: I would like to go back and unfortunately, I am an infant when it comes to things of these sorts, but I'm seeing that on Page Four, the value of January '09 is \$13 million. And, figuring the market has risen roughly maybe 20% through October 31st, you know, maybe as an average, that's

\$2.6 million in addition to that \$13 million, which would make it very close to the \$15.8. And, you talked about the interest on the liabilities, that's where you lost me.

Mr. Barca: So, there's two primary factors that will increase that bar during the last 12 months. The first is employees are continuing to earn benefits. So, there's simply the cost of the benefits that are earning.

Ms. Cora: Right.

Mr. Barca: So, that's going to go up. In addition, with the second one, which is a little more complex, is that we value these obligations, when we take the present value of them, we assume an interest rate that's dictated to us by the IRS. So, the interest rate, which is basically what our assumption is on future asset growth, so last year the interest rate was 6.8% as of January 1, 2009.

Ms. Cora: So...

Mr. Barca: And, so now the interest rate is closer to 5.5%, so the interest rate changes that we're being told by the IRS, basically the assumed future return on investments, it is now lower than it was last year, which dries up the liabilities.

Ms. Cora: Okay, so the investments, okay, I've got it. So, you're not going with the market or anything like that?

Mr. Iannaco: The market correction does help while the discount rate based on the interest rate is low, and that's the problem that we have, it's—even though we've had a great bounce back in the market, because of what—that's a one point over six points, which is substantial, and that's why you don't see dollar for dollar going back up.

Mr. Hofmann: And, bear in mind, Karen, 100% of these assets are not in the market in equities, so just keep that in mind, it's not as...

Ms. Cora: So, it's not...

Mr. Hofmann: So, you're not going to get the full benefit.

Ms. Cora: That's why I was losing it there.

Mr. Hofmann: If you were in all common stocks, you might have gotten 20%, but it's not, nobody in the room who is an employee would want it that way. Go ahead, Bill.

Mr. Cahill: This total unfunded liability particularly for the employee retiree health, the fact that we have such a significant amount, I mean it's projected, we're just doing it and it's projected to increase significantly up to \$11 million or so. How does this compare to others that you end up interacting with. Are we a higher as far as the amount that we have for

this outstanding unfunded liability? I mean, I guess in the back of my mind I'm asking that question, and I know with regard to the AIB, it's a completely different situation.

Mr. Barca: So, I think there's two elements to that question, one is in term of the liability itself is driven by the richness of the design itself.

Mr. Cahill: Right.

Mr. Barca: So, I think if you were to look at other IOPT companies, the obligation is similar relative to the size of those organizations as CAR. In terms of having set aside assets or not, most companies do not pre-fund retiree medical, unlike a defined benefit pension where you're required to fund.

Mr. Cahill: Required to fund, right.

Mr. Barca: You're not required to prefund retiree medical benefits. So, most organizations actually don't have any assets that are backing those liabilities, whether it's other IOPT companies or other companies, or other organizations in the financial services industry. Some companies have elected to—for those companies that have elected to prefund those liabilities, my guess is is that they're probably around 30% to 40% funded. So, even those that have funded are at a pretty large deficit.

Mr. Cahill: Right. Have you seen any type of trend with regard to movement to discontinue those benefits?

Mr. Barca: Retiree medical?

Mr. Cahill: Right.

Mr. Barca: Yes. This is definitely a trend to exit retiree medical.

Mr. Cahill: Right.

Mr. Barca: And, I think that's largely driven by the fear of health care inflation and unnamed risk.

Mr. Cahill: Right.

Mr. Hofmann: Bill, all I can say is go check your own town.

Mr. Cahill: Right.

Mr. Hofmann: I was on the finance committee in Belmont. We have an unfunded health liability of \$120 to \$150 million, okay? I mean, every city and town in Massachusetts is like that, which is why we brought up the issue and have talked about this whole issue of the unfunded health care liability and what we do going forward. And, we've made our deal with people in the past. But, I think that going forward is what is the most important thing that we need to deal with at the moment. It's very difficult to take

benefits away from staff. But, it's a huge number out there. I mean, if you take our unfunded liability for the health care and our unfunded liability for the defined benefit plan, you know, you're talking substantial dollars for an organization like CAR, at least in my opinion. And, I appreciate the fact that the staff has taken a look at that issue and are attempting to deal with it.

Mr. Cahill: Because we see it in innate situations where there's been a movement away, is there a substitute that's been offered, like a—almost like on the retiree side where it's not a defined benefit, but more of a defined contribution, where there is a contribution towards something that would be the replacement for that?

Mr. Barca: Yeah, I mean, that is a trend that is just starting to immerge and it's building up steam. There's probably been a suspense on people going forward now waiting for the outcome of...

Mr. Cahill: With health reform, right.

Mr. Barca: But, yeah, I think there is a movement towards more of a defined contribution approach where the companies' commitment, it is what it is. It's the account that's been set up. And, if medical inflation goes up or down, that's bourn by the retiree and the company doesn't pick up that risk.

Mr. Hofmann: Any other questions for Erik? If not, we've got more price lists to go through.

Mr. Abelli: I just had a question on the 401k savings rate.

Mr. Hofmann: Go ahead, Paolo.

Mr. Abelli: So, you've got 100% match on 6% of employee contributions. How would you characterize that? I mean, would you characterize that as average or fairly generous, particularly in light of the fact that there's a DB plan?

Mr. Barca: For companies that have a DB plan, that is more generous than average, and that's why we brought down the value of the DB plan to get that more in balance. For companies that don't have a defined benefit plan, I would say that's below average. So you might see that type of match, but you might also see a discretionary profit sharing contribution that's on top of that match, or for example, I think Fidelity, for example, has a much richer match than 100% on 6%. But, that's all they have; they've gotten rid of their defined benefit plan. So, I think it varies from company to company. But, again, I think if you're looking at companies that are just defined contribution, I think you'll find on average, that this is below average and not for defined benefit companies—companies that have defined benefit plans, that's above average. And, again, that was purposely done. We knew that was a visible benefit and important to employees, valued by employees. So, that's where we wanted to have a

differentiation, and then we were, you know, bringing down the Defined Benefit Plan to compensate for that.

Mr. Lukas: Erik, how would one end a defined benefit plan? Could you play out that scenario?

Mr. Barca: To absolutely eliminate all your obligations...

Mr. Lukas: Or maybe just on the pension side of things.

Mr. Barca: Right, for the Defined Benefit Plan? Yeah. So, what you would do is you would freeze all future accruals and then you would settle that obligation with an outside insurer or the IOPT would take that on. So, what would happen in that scenario is if you look at Page Four, the \$15.8 million in liabilities, that would increase from anywhere to 10% to 20%, because if an insurance company is taking it on or the IOPT company is going to take it on, they're going to value those liabilities on a much more conservative basis, and basically charge you a premium. So, the cash cost to IOPT—sorry, to CAR to doing that would be the difference between the \$13 million and then the \$15.8 increase, you know...

Mr. Lukas: To whatever they've paid.

Mr. Barca: 10% to 20%, yeah. So, that was one of things that we looked at. And, we came to the conclusion that that cash contribution wasn't a reasonable number. And, so the compromise was to bring the value of future accruals down for existing employees, and to eliminate any future build-up for employees that are coming in the door, new hires in the future.

Mr. Lukas: But do you, going forward, see any additions to this pension liability of what, \$600,000 every year?

Mr. Barca: That's going to continue to grow for the existing population as employees continue to earn benefits. That \$15.8 million will continue to grow, yes, as will the assets.

Mr. Lukas: So, you'll still have that cash outflow versus ending a plan now and what end result number will be?

Mr. Barca: Right, so you're going to have to continue the cash contributions as we saw it in the prior page, because benefits are continuing to grow. If you were to freeze and terminate the plan, essentially, all those contributions would be, you'd have to come up with them all at once to cover that deficit, the current deficit that you have here. Does that make sense?

Mr. Lukas: No, it makes—yeah, it makes sense. I'm just thinking, by doing that, you eliminate the unknown going forward.

Mr. Barca: Right. And, you pay a premium.

- Mr. Lukas: You pay, yeah, you're going to pay. It cost money. Thank you very much.
- Mr. Hofmann: I think, you know, we all look at it in terms of what our benefits are, what your co-pay is, what's your percentage of premium your employer pays, etc. You know, do you, do you not have dental insurance, for example. I mean, we all tend to look at it from our perspective of what our particular outfit has. But, I think we're in a very difficult position in that the benefits that have been here at CAR since it's been formed, you know, we are unfortunately somewhat strapped by those. And, I think it's very difficult on all of us who are involved with being employers, it's very difficult to start taking things away from people. And, I think you need to do that on kind of a planned gradual basis to do that. I don't think you can just lower the boom on things, and Ray, I raised the same issue that you did when I met with Erik and Buddy in private. And, those are pretty big numbers for an organization like CAR, whose revenue, quite frankly, going forward it looks to me, is going to be declining rather than increasing. So, when we start talking about increased cash contributions to whatever, it starts to get to be an issue. And, I think we need to be very careful about committing CAR to future additional payments, and I'm not sure where we're going to be getting the money. Any other questions for Erik, if not, we'll move on.
- Ms. Cora: Can I just ask a question? Was there conversation about reducing the 401k match from like 6% to 3% or 5% or 4%?
- Mr. Iannaco: No, we looked at the reduction in the methodology to calculate the defined benefit, which was on the table, and we didn't consider the 401k.
- Ms. Cora: I was just thinking that some of that money could go into the other, you know, borrow from one to pay another.
- Mr. Hofmann: I think it was a trade off. It was a trade off, Karen, okay from the retirement program.
- Mr. Iannaco: We didn't look at that. We did look at the impact of changing this effort. And, we did look at some other ways of additional funds coming into us at the liability. I would just like to say one thing as we start talking about benefits a little bit more. We did also have further discussion about our health package and the effect of the retiree health, because we have been very well aware of that liability number. And, Bill and I have talked about that. We implemented, hopefully, December 1, this new health plan, which brings out a 40% reduction in the cost to our retiree health cost percentage. If we go into effect with this new plan 12/1, it does impact existing active employees and our retiree employees a bit.
- We have looked at four or five other options, including the creation of an HSA to go forward and to see what we can do with existing obligations that have been memorialized. In fact, there are some contracts with some past retirees. We have talked to counsel about what changes we can do, what changes we can't do. And, we thought we would begin to explore

those opportunities if they are available to us to see where we further reduce those liabilities, and we think we can. We talked about capping now. We talked about a hard freeze, and we've talked actually changing the benefit as people continue to work regarding their health benefit to make it equal to what active employees are paying at that time. Presently we have an 80% contribution by the employer and a 20% contribution by the employee.

We think that number will probably change next year and also that will impact the retiree health cost, and therefore, also drive down the liability. Elimination for new hires will further drive it down, and there's a couple of other things we talked about, Sue. And, we can talk about that if you wish. So, we have been talking about it. We spent the last two months talking about those things. But, we did not, Karen, talk about moving the 401k. And, some of the younger employees, to be candid, are more concerned about their 401k than a defined benefit plan. They're here for a while; they're not really concerned about that piece. It's sort of a mix and match, and we don't know what we can offer employees within the company. Some can be in a plan and some not. And Rosanna is looking at all those options, and we want to figure out the best way to reduce all these costs and stay within the concern of not inviting any type of litigation. And, we think so far we haven't done anything that crosses that line. Rosanna has been very great in responding to all my questions to far. And, as we go forward we're going to continue to do that.

That, being said, we certainly hear what you people are concerned about as are we, and am I. We have employees, by the way, with all due respect to company personnel, you hire hundreds of people to work in companies and a lot of kids coming out of school work three, four or five years, and then they venture on to get a new job. My employees, of which there are 84, have been here on average, more years than, I believe anybody else in the IOPT, and there's 20 odd employer relationships in the IOPT, we have as most of you know, our employees have been here for 20 years. They came here, they made a career of working at CAR. We have an employee handbook, which outlines benefits they will get, and people, many people are 55 or 60 or getting close to retirement. And, the younger people have been here; Steve's been here over 20 off years. So, a lot of people sort of came and made a career of working here, which has allowed me to reduce 15 positions in the last two years.

So, the thought and the look at what CAR must do based on the subcommittee's review and to keep the employees we have becomes a very difficult act for me, as you know. And, as you all know, you're all—we're all trying to do the right thing. And, as I said to Bill Cahill when we talked, I want to be part of the solution, not part of a problem. And, I'm going to do all I can to address those issues. I personally have a lot of problems with looking at benefits that have been accrued to date by an employee that's been here for 25 years, and tell them tomorrow that they're not going to get that. I don't know if you can do that or if you can't do that. There is a reasonable expectation you should get what you get when you come to work here. I get in trouble when I start playing

lawyer, and Dan Judson's always rapping me across the knuckle, but I have been looking at some legal cases about those things. And, I don't want to invite litigation here.

I would just like to point out 12 years ago I gave a budget to CAR, which was \$12,800,000, I think. Steve can get the exact number. Today you have a budget for \$12 million and change; it's about the same budget in the last 12 years. I've eliminated a lot of positions by keeping these benefits. We have looked at functions that we must perform. We will continue to provide the best service that we have been doing. We're proud of the work that we have put forth, and there cannot be a person in here that can't and would say that we haven't been doing a good job. And, I don't mean me, I'm talking about my staff. And, I'm not talking about me personally, because nothing impacts my life, unless you take my retirement health away.

That being said, I have a very devoted staff. They work weekends; they work nights. I call them all hours of the day and night. I call them all the time. They get work done on weekends. We send out stuff as you know. To have this type of a work force, you have to have some benefits. They're not here for four or five days—years rather. So, I think we ought to keep in mind what is the goal here. And, the goal is to cut costs, and we will cut costs. And, if we are going to make benefit changes, I'm on board with that, but I think a review of the benefits that we have at CAR should be undertaken by, generally, it's the Personnel Committee that looks at benefits. The Budget Committee is here to appropriate funds.

We haven't talked about a merit increase and things like that. That's a sidebar issue. I froze salaries last year. I brought everybody in here and said, boys and girls, I can't give anybody any money. Bill argued strongly against me doing that but I did that. No one got an increase. I did give a bonus to 41 people, I think, a small bonus, and that was it. We froze salaries because we knew that would also affect our defined benefit liability. I told everyone this year don't expect very much, we'll try to get you a little bit. Everyone knows that it's tough out there to work and it's hard to find a job, and everybody's willing to accept everything they have to accept.

I don't want to have a situation where, and I'm just saying this for us to think about. We have employees that are nearing retirement, if all of sudden we're going to say we're going to pull the rug from under and you're not going to get certain benefits, I'm not so sure that those employees will retire. The good key employees, and I shouldn't use the word good; the experienced aged employees who would in fact retire, would have to be replaced by younger people under a normal circumstance. And when new people come in, I would not have to pay them these benefits that we're paying the other people that are presently on board. We want to think about what do we want CAR to do. We have these functions to perform, we must continue to do what we do, and if people are going to retire, we should send them on their way, and we should be able to bring in new people, and we should be able to save costs

in that direction, I think. So, we want to think about what the future of CAR will be relative to providing the services that you want. If you don't want us to perform these services, and you want to go back to the subcommittee and start to eliminate what we should do, then I think that's another issue. But, we should think about everything we want as we go forward, and then whatever this committee wants us to do, all you have to do is make a motion and we'll carry out that order; it's as simple as that. But, I think we should just take a very deliberate step before we jump out of the plane, because we can't crawl into the plane. That's my impassioned speech, Mr. Chairman. I'm ready to speak about the budget if you'd like.

Mr. Hofmann: Go ahead, sir. Thank you.

Mr. Iannaco: As, I said...

Mr. Hofmann: Thank you, Buddy.

Ms. Cora: Are there a lot of retired...

Mr. Iannaco: We have 45 present former CAR employees on retirement...

Ms. Cora: Oh, wow, that's quite a few.

Mr. Iannaco: which is causing...

Ms. Cora: That's quite a few.

Mr. Iannaco: Yes, and that's...

Mr. Gautieri: And spouses.

Mr. Iannaco: And spouses.

Ms. Cora: Wow.

Mr. Hofmann: And spouses, yeah.

Mr. Iannaco: And, we have an employee manual and Rosanna's agreed to work with me to redraft this manual. As we pointed out, there are very generous benefits in the manual. And, we think, we want to change all that going forward. And, I think that until we get a green light to do it, you know, we just want to do it. But, that's really on the agenda for going forward.

Mr. Carpentier: Mr. Chairman?

Mr. Hofmann: Go ahead, Andy.

Mr. Carpentier: Are you going to convene a committee of HR professionals along the lines of what Dave suggested?

- Mr. Hofmann: I think that's an issue that the Personnel Committee will address at the next Personnel Committee.
- Mr. Carpentier: Okay.
- Mr. Hofmann: I appreciate—I agree with Dave's suggestion, and we've got, you know, professional people here with us.
- Mr. Carpentier: Right.
- Mr. Hofmann: But, I think that that's something that I will recommend. I'm not the Chairman of the Personnel Committee, but the person sitting next to me might have some say about that.
- Mr. Cahill: You're the Chair of the Personnel Committee.
- Mr. Hofmann: I'm the Chair of the Personnel Committee?
- Mr. Cahill: I may be wrong.
- Mr. Hofmann: Well, then the Personnel Committee will get that done.
- Mr. Iannaco: No, I was going to make that recommendation anyway.
- Mr. Hofmann: Yeah, I think that's...
- Mr. Iannaco: I think we want to keep this ball rolling. We spent 12 months on the subcommittee review; we finally wrapped that up. I think we want to get this issue going and move it along. It's very difficult for me to have my staff here. They're all walking on eggshells, as you all can imagine. Everyone knows what happening. Everyone knows what happened at the AIB. They've had substantial reductions in work forces. Now I've received a call in the last week that they're changing some of the benefits that they have. Some members of this committee have informed me of that. I have not shared that elsewhere, but that is the case, and that word does get out. I would like to keep this going on a fast track, because it's not fair to ask people to perform their duties, knowing that some of them may not be here; they may not be getting some of the benefits. So, I want to keep this ball rolling for whatever extent I can.
- Mr. Hofmann: Andy, to answer to your question, this is an issue, I believe, that belongs at the Personnel Committee, and it will be brought up at the next meeting of the Personnel Committee. I agree with David's original comments on it. Bill, do you have anything else that you want to say?
- Mr. Cahill: All I was going to ask was just some of the logistics here. This was a great presentation from Erik and I know there are others, so I just was going to ask who else do we have as far as presentations, and this one, Buddy, is...

Mr. Iannaco: No, Sue is here and can answer any questions about the changes that we've made to the health. We didn't really have to have her speak...

Mr. Cahill: Okay.

Mr. Iannaco: to what she has. We also have her to talk about some pending plans that we're making to adjust the health, as I just talked about. We have the five or six, and I haven't put a number to what the affects of those will be relative to liability, because we don't know which we can do and which we will do, but that is—but, she is here in case anybody had questions about changes, because as you know, when I did the original budget, we were reflecting a 12% or 13% increase in our health costs. We were able to reduce that. In fact we have a downward move on our health costs, I forget what it is.

Mr. Hofmann: I think, Buddy, is just going to go through the rest of the budget, Bill, which is what...

Mr. Cahill: Yeah.

Mr. Iannaco: I think it went down 6.4%, so anyway, so that's why she was here. And, then Rosanna was here in the event we had any questions of her regarding any changes we made. So, that was it. Basically, I did as you asked me to do at the last meeting. I prepared this budget that you have before you. We broke it down and, if you go to Page One, obviously, the Page One is the big ticket item, and the Page One reflects what I did for level funding, excuse me. We, as you know, we eliminated 11 positions, and I lowered the budget by \$1 million last year. This year, we've eliminated two additional positions, and I've put in for a merit increase. Last year, as I said no one received a merit increase. I put in a factor of 3.5% for a merit increase originally, but in efforts to further reduce and get to a level budget, I reduced that appropriation to a 3.0% merit increase, and that is in this proposal.

Generally what we do after the Budget Committee goes through the budget, I meet with the Personnel Committee and they decide whether the 3 points is okay for merit or whether it should be more or less, or whatever the case might be, and that's how we implement it with a 1/1 effective date. So, that's what I did on a salary line. That hasn't really varied very much. And, that is what it is. And, that's as of today.

Payroll tax, I mean, everything speaks to itself. Health Insurance, which we originally thought was going to be a 13% rate increase, working with Sue, we were able to make major changes and ended up, as you see now, we've actually ended up with a decrease in our medical costs, and I would presume that everybody else is going through an increase in their health costs, but we were able to reduce that cost. Dental insurance, likewise, we just made some changes. We capped the benefit number. We lowered that again, and we were able to also bring about a reduction in the dental insurance. Life insurance is what it is.

Other than that, the big ticket item was employee service. In our manual it has provided that for years of service, I present—CAR presents a check for X amount of years over the history of employment here. We've eliminated all of those benefits. I've told my employees that we will not be presenting those awards this year. So, if somebody worked here 15 years for example, their service award was, I think, \$750 that we used to give them. But, we're eliminating all of those benefits. We did—the only thing we keep is we keep our kids Christmas party over the weekend, and we kept money for bereavement policies that we have had in the past, and other than that, everything has gone away.

The defined benefit retirement liability reflects the difference between the liability that we owe and the present obligation, which shows a substantial increase. We've had to increase that by virtue of IRS regulations, by that \$350,000, which I rounded up, which we're all familiar with. Our employee savings plan, which is our 401k at 6% is level funded almost with a slight reduction. And tuition reimbursement has remained consistent. We've checked with our counsel. We have eight present employees that are taking advantage of tuition reimbursement, and we were advised that if in fact they have enrolled in a class, we are continued an obligation to pay for that benefit. All the employee costs that are on Page One, as you can see, have been level funded to the budget that was approved in 2009.

Mr. Hofmann: You did a nice job. Anybody have any questions on the first page? Go ahead, Bob.

Mr. Suglia: Buddy, what were the significant changes in the health insurance that you used to bring down those costs?

Mr. Iannaco: Why don't I defer to Sue, if I may, okay.

Mr. Suglia: Okay, sure.

Mr. Iannaco: I just have a sore throat. Sue, do you mind?

Ms. Lodemore: Sure, no, not at all.

Mr. Iannaco: And she has been sitting here very patiently.

Ms. Lodemore: Okay. Sorry. Really in our role, what we did is we looked out to the market place, and with the existing carrier who is Blue Cross Blue Shield. So, our starting point as Buddy mentioned with the renewal was close to 13.9%. In initial negotiation we were able to get that down to a little bit over 10% without making any plan design changes. Then what we did is went through a very exhaustive process of looking at a number of different strategies with respect to plan design changes, and we also did some benchmarking as has been talked about on the active employee plan, looking at co-pays, hospital co-pays, deductibles, those types of things. So, it was through a combination of the negotiation and making plan design changes to the existing platform, so increasing the actual expense

that employees incur when they utilize services we were able to reduce costs.

In addition, on the retiree side, what we were doing is taking the platform from what is a Medex 3 Plan, which has very comprehensive drug coverage at very low out-of-pocket expense and putting that onto a platform that's more consistent with what we're seeing in the market today. There have been a number of new programs that have come, and without getting too into the weeds on it, this represents a change to what we call the Medex 2 Platform with a drug program that really is tied to Medicare Part D. So, it was through a combination of those both on the actives and on the retirees that we were able to secure that reduction.

And, just to elaborate a bit on Buddy's point, I mean, this is evolution in the process. It's not done and dusted here. There are a number of strategies that we're looking as we go forward to continue to, you know, focus on cost, both on the active population and has been talked about, reduce liability on the retirees. Things like HSA strategies as Buddy mentioned, looking at spousal surcharges on the benefits, looking at additional ways through the plan design that we can have employees participate in the share of the cost, looking at a defined contribution approach so that as we move forward if there are increases to CAR's medical expenses, that's borne more by the employees as opposed to the organization. So, I did make it long-winded.

- Mr. Suglia: No, no that was great. I just want to know if employees have any choice of plan? Do they have an option to buy up to higher level at their own expense?
- Ms. Lodemore: Yes. Yes, that's absolutely the strategy that is being employed at this renewal having a base buy-up plan.
- Mr. Iannaco: Everyone's going into the HMO, right?
- Ms. Lodemore: Exactly.
- Mr. Iannaco: Then, they can buy-up.
- Ms. Lodemore: Yes, right.
- Mr. Suglia: But, CAR's contribution stays the same.
- Ms. Lodemore: It's the lower plan.
- Mr. Gautieri: It's the same.
- Ms. Lodemore: Exactly right. It's cost neutral to them what plan the employee wants.
- Mr. Suglia: Okay. Thanks.

- Mr. Hofmann: Other questions on this first page, anybody? Did you get a drink of water so you can go to the second page?
- Mr. Iannaco: Yup. Excuse me. There were some questions at the last meeting about tax escalations, and...
- Mr. Carpentier: Don't worry about those.
- Mr. Iannaco: Okay.
- Mr. Hofmann: Thank you, Andy.
- Mr. Iannaco: I should point out that when we were at Summer Street and we looked at the location we had there and we talked about relocating, we went out and decided to pursue an opportunity to relocate, which we did. And, some of you or many of you were on the Governing Committee back then, and we went out and we looked and we spent a long time looking at different properties, and an opportunity presented itself here, where I was able to move here and have the entire 13th floor and then have the 14th floor available on a part-time, excuse me, on a limited lease, which is only for five years versus the ten-year lease that I signed here. So, when we moved from Summer Street, despite a lot of opposition from my then Governing Committee, we moved here and we saved a lot of money. And despite a lot of opposition about having two floors from members of the Governing Committee, we're able to get off that 14th floor in two years. So, when we talk about the rent, I would just like to point out, that we do in fact have an ability to get out of our 14th floor pursuant to our lease in two years, Paul or Steve, is that it or something like that?
- Mr. Gautieri: January 2012.
- Mr. Iannaco: Whatever it is. For whatever that's worth, I think we just want to think about that. So unfortunately, after all that great strategizing, the building decided to renovate downstairs and they decided to do all those things, so all these escalations came across that were never really thought about when we did come here. But, overall, when we did relocate from Summer Street to here, we were able to save a lot of money, obviously, because of the base rent that we have signed on for that. Dave asked me to look around to see if there is any ability to sublease, and rather than bore you with the gory details, there's such a flux of unused commercial property in this neighborhood, that was not too possible anyway. I still have out of the original 22 people that are on the 14th floor, I think I have 17 or 16, 17 up there now. And, I have a couple of spots down here, so I can almost fit everybody down here now if in fact I could move someone in. I'm still considering doing some hotelling, and if I do in fact have a reduction in work force, I could accommodate everybody off of 14 within the year. So, that's still my plans, and I might be able to save some costs by not even utilizing that space for that next year. And, we have actually thought about some things we can do up there as well. So, anyway, that's sort of the overview of all of those operating expenses. I don't know if anyone.

- Mr. Carpentier: So, when can we go back to Summer Street?
- Mr. Iannaco: When we go back to Summer Street, I'll be going along the tube.
- Mr. Hofmann: Thank you, Andy. Any other questions, Andy, or is that it? Does anybody have any other questions on this page to be serious about it? Any questions from anybody? If not, okay.
- Mr. Iannaco: Somebody was asking about hardware lease, hardware and software expenses at the last meeting. I forget who that was. We provided a very detailed report where those monies are going and what they are for.
- Mr. Carpentier: What's the implication of abandoning this MAIP application with the access to the Registry? What does that actually do to producers who are placing business through the MAIP?
- Mr. Iannaco: That was, we were setting up, trying to set up a pipeline into the Registry so we would be able to access SDIP points and merit information pursuant to all the new regulations. If we were able to do that and if we can do all that, it would actually be a savings to companies versus producers. That was something that we have been going back and forth on, and as we looked at that and we had some numbers that we thought made sense, with some time sensitivity, we just decided that that was an enhancement that didn't make sense to go forward. So, we pulled that off the table.
- Mr. Hofmann: Andy, are you okay with that? Are there other questions here on Page Three, that basically has to do with the...
- Mr. Iannaco: I don't think you want—we'd be very happy to go through every line item, if you want relative to these hardware and software costs, but...
- Mr. Hofmann: Does anybody want to do that?
- Mr. Jones: No.
- Mr. Cahill: Absolutely not.
- Mr. Iannaco: I just finally found out what everything meant after 12 years. I was all ready to answer anything if you want to know about our Blex expenses.
- Mr. Hofmann: Seriously, anybody have any questions on this page of Page Three of the—okay.
- Mr. Iannaco: On Page Four, we—you can see what we did there. We've eliminated a lot of things. We've cut down wherever possible on anything we could possibly do. I don't expect we'll have a problem living with those reductions, postage, industry publications, all of those things. Agent reimbursement I should speak to, because you all have been reimbursed per meeting and Governing Committee meetings when I looked at level funding. I told Bill about a month ago that one of the things I was going to do was propose the elimination of agent reimbursement effective

1/1/10, which would save approximately 60 odd thousand dollars. And, Bill was gracious enough not to put up too much of a complaint about it, but that agent reimbursement policy was put in effect many years ago. There was no Rule or statute requiring the reimbursement. It was put in effect when people had small shops and had to be away from their business, and so a decision was made that agents should be reimbursed. We've looked at that now and it's something that is on the board; it's not an attractive offering; it's not an attractive suggestion, obviously. And, I said to Bill, if—I really want you speak to it, because I think we should discuss that. If, you know, we feel there is a need to keep it. If we want to keep it, I think we can certainly find a way to do that, but I thought that should be a point to discuss as we're getting everything else on the table. I did speak to you about it, as you know, at the very beginning, Bill, before I did go forward on that.

Mr. Hofmann: Mr. Cahill, would you take the gavel for a moment?

Mr. Cahill: Sure.

Mr. Hofmann: I will speak to this issue. I understand what's going on in the need for reduction of expenses, however, I do think from an agent's perspective that while there may be small shops and so on, I think that the amount of time, and the amount of time I could tell you, personally, that I put in here this year, apart from committee meetings is rather substantial. And, I think the couple of hundred bucks that we pay agents to show up at these meetings and to participate in it, is pretty short money. And, I guess having been an agent for 47 years, knowing that my only compensation is in selling, and my time is all that I've got. I don't get a salary the way you company people do. I said to Buddy, I understand where you're coming and I appreciate what you're doing, but, you know, we've got a gentleman at the end of the table down here who is from Springfield, who spent two hours driving in here, he spent two plus hours here and two plus hours to drive back; that's six hours out of his day that is non-productive time for him.

As you companies—as I say, I don't begrudge you company people whatever it is that you get, but you get paid X number of dollars a week, a month, a quarter or whatever the heck it is, and you do whatever it is your company asks you to do and you show up where ever you're supposed to show up. But those of us that are showing up here, we're donating our time. The gentleman over here on my left, who is an old and dear friend of mine among other things, you know, has just come through 11 years on the Massachusetts Insurance Agents Board of Directors, you know, all time totally donated. And, I think if we want to get quality people and the caliber of people that we'd like to have, and which I would like to see us continue on here at CAR. Both the agent side, and I made a very big thing of mine in the 12 years that I've been here to make sure that the years that I've been the chairman, that we get quality people serving from both the company side and the agent side. And, I just think that when we look at this in the scheme of a \$12 million budget, to say to agents that we're not going to pay you for your time, I just have a hard time doing

that. So, I would like to make a motion that we reinstate this particular item. And, with that, I'll be quiet. Thank you.

Mr. Carpentier:

Second.

Mr. Cahill:

Okay, can I just speak to that?

Mr. Hofmann:

Yeah.

Mr. Cahill:

You can have the gavel back.

Mr. Hofmann:

Go ahead, I've got it, Bill.

Mr. Cahill:

Bill, I just agree with everything you said. I mean, the perspective that I have as a company person coming in is that the time that anybody from an agency office is putting in is definitely, as you say, it's taking you away from where you were going to be making your income, and this is a small amount to sort of reimburse you for that lost time. So, I don't have any problem with that at all.

Mr. Hofmann:

Thank you. Well, I make a motion that we reinstate that expense.

Mr. Cahill:

It's been seconded.

Mr. Hofmann:

Is there a second on that?

Mr. Iannaco:

Yeah, Andy did.

Mr. Hofmann:

Thank you. Does anybody have any other discussion on the item?

Ms. Cora:

Well, it's not only the time; it's the commuting expense, the parking.

Mr. Hofmann:

I understand. I didn't want to go through all that, Karen, I understand.

Mr. Cochrane:

The better focus as we talk about savings is trying to, I guess, where ever possible limit and consolidate committees, so you have less meetings versus trying to do away with payments.

Mr. Hofmann:

You know we had reduced—no I can't—we've reduced the number of people on committees.

Mr. Cochrane:

No, and that's a better focus, to go with reduce the numbers, reduce the meetings...

Mr. Hofmann:

But, the number of meetings, we talked about when we started MAIP, I mean, you know it was unbelievable.

Mr. Cahill:

It was unbelievable. But, just technically, I mean, so essentially what you're doing here is it's just, because we haven't taken up the whole budget, it's basically just getting everybody's agreement, or see where everybody stands on this particular point. Right, Dan?

- Mr. Judson: Right.
- Mr. Cahill: I mean, because we haven't technically—and then we'll deal with the large budget.
- Mr. Hofmann: Can we do the motion now or later.
- Mr. Judson: It can wait until later.
- Mr. Hofmann: Okay, we'll do it later. Thank you.
- Mr. Cahill: I'm all for it though.
- Mr. Hofmann: Okay. Thank you. Any other discussion on the items on this page besides the committee piece? Thank you, sir. I appreciate your allowing me the time to do this.
- Mr. Iannaco: Sure. Page Five. You know that this Governing Committee approved the retention of PwC to conduct an unqualified opinion. So, we've talked to PwC at length. We've had maybe five meetings with them. I asked them to come up with ways that we can eliminate the cost associated with their fees and through a combination of increased work by CAR staff and some additional efforts that they will do, we've been able to reduce that from the 2009 approved budget to the number that's before you today. So, we're actually going to reduce that substantially. We—where do we have the Division's audit, Steve? Is that...
- Mr. Cochrane: That was one of my questions. It used to be below the line, and you don't have it...
- Mr. Hofmann: It's below the line, yeah.
- Mr. Iannaco: Well, I took—somebody said don't print anything below the line. I've had 18 people tell me do 18 different things. So, I put nothing below the line. I didn't put anything in for certification fees. I didn't do anything but what everybody wanted so we can try to get to the next stage.
- Mr. Hofmann: I object to the stuff below the line.
- Mr. Cochrane: Yeah, it should be in there but I think you had, what, \$54,900 there before.
- Mr. Iannaco: I was going to put it—I just want to find out where I put it. Is it in there?
- Mr. Gautieri: No, we accrued that into our fiscal 2009 expenses.
- Mr. Iannaco: Right, right. They let us do it that way.
- Mr. Cochrane: Oh, so you actually did take it off of it?

Mr. Iannaco: Yeah, it's all—so we got it off, right. We were going to send the \$54,000 to the liability but it was such a small amount.

Mr. Cochrane: So the agents get it, right, then? You better watch that.

Mr. Hofman: What?

Mr. Cochrane: Well, you got the \$50,000 on the agent reimbursements.

Mr. Hofmann: You company guys all think the same way.

Mr. Iannaco: So, the audit fees are—have been reduced and we, as a result, have commenced our initial review of the audit process. Our Audit Department's been out to different companies and we were working closely with PwC and we don't think we'll have a problem there. They've told us they'll be very mindful of my request to reduce that cost and I'm pretty comfortable with that. Outside contracts we've talked about, which is the next line item. Other than the \$210,000 for the AIB for their actuarial services, everything else speaks for itself. Other than that, you can see our budget came in level, per your direction last year, and that's where we are.

I reduced—we made an agreement many years ago that we would level fund legal bills to the prior year. So when we did the budget two months ago we hadn't completed the last look. We didn't have the actuals in. Right now, if you look at this proposal, we've taken actuals from FY09 and we put them into FY10. So the actual expenditures from—outside legal expense actually was down, so we only appropriated the same amount, \$100,000, so that further reduced the budget. So, there's nothing below the line. Everything you have is before you.

I did not talk about producer certification fees because that seemed to be an issue. The only thing I wanted to add was one piece. Regardless of what we do in the benefit piece, or whatever you want to do, whatever we're going to do going forward, we do have a look coming from the Operations Committee relative to penalty dollars. I have said that I thought that might be a good amount that we might be able to use to further help us in our short-term look to eliminate that pension liability rather than—it's not going to be material. It's not going to be like it was a year ago when we had a very substantial settlement. I think that those dollars actually would be big to us, and I think that if we were able to keep those dollars and send them towards the liability, the pension liability, that would help in that case. So that's something I did want to get back on the table today.

Mr. Suglia: Just, while you mentioned the penalty dollars, how much money is that in income to CAR?

Mr. Iannaco: Next year, what we're projecting?

Mr. Suglia: Or what is it currently, because I know there's a significant...

- Mr. Iannaco: Well, it varies depending on how bad people are failing to report and comply. Last year we had a very substantial company situation that we all looked at that was several million dollars.
- Mr. Suglia: Right, right.
- Mr. Iannaco: Prior to that, it was well over a million dollars. But now, because of all the changes and everything, we're not going to be doing the old residual market, therefore; the penalties are reduced dramatically. On a going-forward basis, we're looking at approximately \$250 to maybe \$300,000 annual. That's what our earliest guess is. Does that sound about right, Nat, something like that?
- Mr. Hofmann: And that would be used towards the reduction of these liabilities that we're talking about?
- Ms. Cora: That would be good, yeah.
- Mr. Iannaco: Right.
- Mr. Hofmann: David?
- Mr. Cochrane: Just to follow up, the items from last time, the below and above, there was a Division audit. You've answered that one. But we have \$600,000 to fund the pension liability. That's not in there.
- Mr. Iannaco: I took that off.
- Mr. Cochrane: So you're not looking to fund that. You're going to try to look to fund that through either reductions that will come during the year...
- Mr. Iannaco: Yes.
- Mr. Cochrane: or...
- Mr. Iannaco: Both.
- Mr. Cochrane: or these penalty dollars.
- Mr. Iannaco: If we—after we finish this look, regardless of what we do with benefits, which could affect costs up or down, if we eliminate benefits then that could potentially be an increase in the cost. What ever that happens, it happens. But, let's set aside any benefit costs, whether they be reduced or not, but any budgetary savings, whether through elimination of cost, benefit cost, and/or elimination of staff resources, any of those salary dollars, if you people appropriate this budget I would put that also towards the liability.
- Mr. Cochrane: And I think that makes sense other than it probably should come back to the Budget Committee. What if it was a million dollars, you don't want

to—I mean, you know, somewhere that's 3 to 4, you know, it'd probably be worth getting a final approval of that number.

Mr. Iannaco: We're talking about which now?

Mr. Hofmann: I think he's talking about any amounts—this ought to come back to the Budget Committee to approve.

Mr. Cochrane: What if you had a \$3 million penalty that came up, that's probably not what we want to do with that. So I think the concept makes sense but it probably makes sense to try to go and kind of agree what the hell that number is, that gets put in there.

Mr. Iannaco: Yeah. Right now, I don't know if we have year-to-date, we're only two months into it. So are you suggesting before we take any of those penalty dollars, bring back the Budget Committee and say we have this much?

Mr. Cahill: It's sort of, really all it is—I'm sorry. It's just really the utilization of the funds that come into that account and sort of applying them to another account, right?

Mr. Hofmann: Yeah.

Mr. Cahill: Isn't that really what you're...

Mr. Iannaco: Yeah, but Dave's saying we shouldn't go in...

Mr. Cahill: That you'd come back. I guess what I'm saying is that I'm agreeing with David, because it's coming in to sort of a penalty, you're going to use it to defray an expense.

Mr. Iannaco: What we generally have done is in our Settlement of Balances we have money coming in and money going out every month, every quarter. So what we do is...

Mr. Hofmann: I'm just saying, I think it's a substantial amount, Buddy,

Mr. Iannaco: No, I know.

Mr. Hofmann: You need to run it through the Budget Committee.

Mr. Iannaco: No but, I'm just trying to get clear what you want to do. Do you want any penalty dollars before we—to bring back to the Budget Committee? Is that what I'm hearing?

Mr. Cochrane: My thought process would be just something outside the ordinary. So you're thinking that it could be \$250,000 a year, say.

Mr. Iannaco: Yeah.

- Mr. Cochrane: So, you know, that's fine. If that's what it turns out to be I have no issues with that. If it turns out that it happens to be a \$2 million penalty comes in...
- Mr. Iannaco: Or something material.
- Mr. Cochrane: Right.
- Mr. Iannaco: That's what I said. It's not material.
- Mr. Cochrane: And just like this budget savings, you know, you become super efficient and you save \$2 million off this budget, we probably should talk about that...
- Ms. Cora: Yeah.
- Mr. Cochrane: whether that should be returned or how that should be spent versus, so you know, outside the norm, you know, in the \$250-\$300,000 kind of range, that's great. After that, why don't we—I think it makes sense just to come back and go, okay, you know, these dollars are out there so that everybody knows.
- Mr. Iannaco: Well, I mean, you know, they come in from—alright.
- Ms. Cora: So, like anything over \$500,000 or something like that?
- Mr. Cochrane: Yes.
- Mr. Carpentier: It never happens like that.
- Mr. Cochrane: It's probably not going to happen but you could have a weird thing like you did last year with penalty dollars or something. It just seems like it should make sense, because, I mean, it's good to fund that liability.
- Mr. Hofmann: I think that's part of what you leave up to the chief gentleman here, to come back based on using his judgment and the size of it. Go ahead, Steven.
- Mr. Gautieri: Logistically, those penalties would be returned to the companies on a quarterly basis. And if you're suggesting that as long as the penalties seem to be in this norm, that we go ahead and hold those penalties, would you have us hold them until the end of the fiscal year or only when we know something substantial is going to come up?
- Mr. Cochrane: I made the mistake of talking, didn't I?
- Mr. Gautieri: As an example, last year, there was a substantial penalty. We were well aware of that in advance. So I think that if, logistically, on a quarterly basis, we held back the penalty income and gave it to the pension fund, you would still be notified through committee activity that there is

something substantial that's coming up, at which point we could discuss that with you. Is that kind of the way you're proposing it?

Mr. Cochrane: I think so, yeah. I mean, you know, pick a number, even per quarter if you want, \$100,000 a quarter. As long it's under that, just do it. If something's over that I think it's worth talking about just because something extraordinary happened. I'm willing to go with the President's judgment on it. You don't want something—set up something that seems normal, all of a sudden you have a—it generates too much money. That's all I'm saying.

Mr. Gautieri: Right. I think we were looking at it, though, from the standpoint of, we do have this unfunded liability. And, of course, once—if that were satisfied, we would cease the sending penalty dollars there.

Mr. Cochrane: Right.

Mr. Gautieri: But, that's kind of the way we were operating.

Mr. Cochrane: But, as the—funding that liability of \$2.7 million, I mean, you'd like to do it quick but if someone is on the other side paying, everybody's got different market shares. Paying it all year one is great if you're growing and bad if you're shrinking. So there is some desire—I don't know what the prize is for paying it less than seven years. I think you want to fund it, but recognize there could be real dollars. The company's involved as their market share change whether it's up or down. So, you know, I think funding it in a normal, orderly process makes sense, but I think that if you try to fast-track it too much. You really would, you know, you could shift around the dollars.

Mr. Iannaco: When I started this whole thought process I was never really expecting anything material anyway of nature. I had to run some historical charts, quite similar to what Bob just asked me. We looked at what is out there now, what the changes are, to where we're going, and our best guesstimate is we're not talking about anything that's material at all.

Mr. Cochrane: Right.

Mr. Iannaco: I can go forward in any fashion this committee wants. We can bring in—we can do this before we do anything. We can take each quarter's result; we can see what the penalty dollars are. I can communicate to the Chairman of the Budget Committee and the Chairman of the Governing Committee that I've got \$125,000 in penalty dollars I'm planning on sending down to the, I mean, we can set it up in any fashion we want if we want to do that. I'd be very happy to do that, however this committee would like us to proceed.

Mr. Cochrane: From my standpoint whatever would work for you. We could use the \$100,000, kind of a quarter number or any kind of thing. I just think it makes sense to have something in there.

- Mr. Hofmann: I think, Buddy, we're giving you the opportunity. The one other item that Buddy just alluded to, that I want to comment on, I'd like Buddy's comment as well, is the Agent Certification Fees which we have talked about several times with past various groups and so on. I think it's an issue, personally, we ought to proceed with. Agents have agreed to it. The Agents Association, as I understand, has said, you know, they understand the cost here at CAR and, quite frankly, it's the way to—and I think agents—and I, you know, just gave this impassioned plea for getting agents to be compensated for their time here. But, I think agents ought to pay for, and should have no problem with making a nominal contribution towards the cost that CAR has to get every one of us certified to do business with the MAIP. I just don't think that that's a problem and I think we ought to proceed with it. That's my opinion. I don't know if you have any...
- Mr. Iannaco: We discussed it at the last meeting. Some people thought it made sense, some people thought we shouldn't do it, some people thought it was an extra assessment. So I just decided to take it off the table.
- Mr. Cochrane: Well, Bill can speak for himself. I don't there was opposition to the concept. I think there was opposition to, let's see how much revenue we can get and then spend that revenue. I think once we figure out what is the expense that CAR can operate at the most efficient level then we should look for fairness. So, I think it was more the cart before the horse.
- Mr. Cahill: Right.
- Mr. Cochrane: I mean, Bill, you can speak for yourself.
- Mr. Hofmann: Yeah.
- Mr. Cochrane: The idea of those fees, you know, I think it does make sense that we have everybody chip in. Where there is benefit gained then there should be some...
- Mr. Hofmann: You companies chip in a little more than us agents do to run those organizations.
- Mr. Cochrane: Sometimes.
- Mr. Hofmann: Go ahead, Bill.
- Mr. Cahill: David's got it right. I'm not ruling that out. It's just the timing of it. At the last discussion we had a limited amount of information. We all asked a lot of questions. This has been a great session. There's been a lot of information that's been disseminated here today. But even, you know, as we move forward here in this discussion, Bill, there is so much—there is a lot of information. I think there's a request for some additional information. David had made an observation, which I agree with, with regard to looking at the other similarly situated employers like AIB and the other bureaus to see what they're doing, going forward, as opposed to

what they've done in the past. My suggestion is that we can take up this discussion about the producer fee, but I think we should do it along the lines of with some of these other things.

The timing would be such that, yeah, we've got a Governing Committee meeting tomorrow and we have basically done a, you know, a one-sixth budget to get us to the end of November. But there's nothing that would preclude us from doing a 1/12 budget for the month of December, have us come back again and have a further discussion, having an opportunity to digest an awful lot of what's contained here and what Erik shared with us, as well as—I think what David was suggesting wasn't so much that the Personnel Committee that we're all on would all sort of get together and sort of decide something right away, but more that there be—I think the HR director here has gone out and looked at and gotten some information to bring in to that Personnel Committee. And, David, I think—weren't you sort of in the direction of getting that kind of information from the other employers to the extent that you can?

Mr. Cochrane: It seems like you should get the HR directors and reach out to AIB, too, until we define a common kind of thing that maps out at those companies.

Mr. Cahill: And then we come back and have a discussion with Buddy and sort of look at how this all fits in. We've all had a chance to sort of look at this and sort of digest it and then we approve a budget, hopefully, for Fiscal Year 2010, and then move forward.

Mr. Hofmann: I guess, Bill, I think that, you know, we put a hold on and did a two-month budget as it was. I think it's time to approve the budget because there's always going to be things that are going to impact it, whether it's the Agent Certification Fee, which I think we need to proceed with, whether it's David's suggestion of getting HR people together. I don't think we're going to have, in 12—in one more month, the opportunity to really sit down and get all these people together and come up with stuff. It's taken two months to get as far as we've gotten now with people like Erik. I understand what you're saying. I don't disagree with you. We need to look at all those things.

Mr. Cahill: Right.

Mr. Hofmann: But I think to continually postpone the budget at piecemeal, is not something that I recommend we do. I think we need to approve this budget. We need to let the staff and everybody else go on with where we are right now. And if we're going to make future changes to benefits, etc., etc., which I have no problem dealing with, Agent Certification, etcetera. I think we need to make those items outside of approving this budget. I think we need to get this budget approved. We're already two months into the year. To go another month, I just think, you know, enough at this point. Let's look at all these other issues, I'm not disagreeing with that, but let's get this budget approved so that staff and everybody knows the road that we're going to run on and then go an look

at these other things. I think Agent Certification is one, quite frankly, we absolutely need to do.

Ms. Cora: On the Agent Certification, is that done every year?

Mr. Hofmann: Yes, I believe it will be done every year.

Ms. Cora: It's done every year. Do we have any idea...

Mr. Hofmann: Agent certification will be done every year?

Mr. Iannaco: The proposal would be done on an annual basis.

Mr. Hofmann: Yeah.

Ms. Cora: Okay. And, do we have any idea what it cost to, you know to process it?

Mr. Hofmann: I think that's why we need to look into this. I'm just suggesting that we go ahead with the concept.

Ms. Cora: Oh, okay.

Mr. Hofmann: Okay? I mean, I've got a dollar amount to...

Ms. Cora: Because I mean, like...

Mr. Iannaco: We're you looking at the—what I had proposed was that we would implement a certification fee of \$200 per certified entity. If an entity has five shops there would only be one certification fee. For example, Rich has five locations, I think.

Mr. Jones: At one place, yes.

Mr. Iannaco: I'm sorry, I thought you more than one.

Mr. Jones: No, just one.

Mr. Iannaco: But anyway, regardless of if you have one or five locations it would be one certification fee of \$200 per location—per certification. So, we have 1,700 certified agencies out there and we were thinking that would be an additional revenue source.

Ms. Cora: Because, all agents have to be certified, correct?

Mr. Iannaco: Correct.

Ms. Cora: So that's number one. But, number two, to write a worker's comp. assigned risk, we don't have to pay a fee. I mean, I guess I look at it from a selfish standpoint. We have one MAIP policy. Well, I just blew that commission out the door.

Mr. Hofmann: You can make the determination at your agency.

Ms. Cora: No, but see, you have to.

Mr. Hofmann: No, you cannot do business here.

Ms. Cora: I thought everyone had to be certified.

Mr. Iannaco: Yes, everyone has to be certified.

Mr. Hofmann: Everyone has to be certified, no you're right, okay.

Ms. Cora: So then I sit there and I go, man, I just took it in the shorts.

Mr. Cochrane: Well, if you're of that size.

Mr. Hofmann: Well, but by the same token, running the Worker's Comp. Bureau is a little different than running this organization.

Ms. Cora: Oh, I know. I know. But I'm just saying that...

Mr. Cochrane: You can vary it by size, too, if you want to.

Mr. Hofmann: Yeah.

Mr. Cochrane: Because again, if you bring the direct writers into this some where.

Mr. Hofmann: And again, rather than get into the nitty-gritty of this, what I would like to suggest, okay, is that we look at these two issues, refer these items back to the Budget Committee to look at the agent certification, and to the Personnel Committee to look at your suggestion of getting some HR people together to look at what benefits and the whole package, I mean, we've just spent a lot of time with this gentleman looking at this issue over the last two months. But, I have no problem with going forward with it. So, my suggestion is to put these two issues, one to the Budget Committee, one to the Personnel Committee, going forward

Mr. Cochrane: And I understand the desire to get the budget done. I also am interested in—it's my desire—I want to try to close the loop on this, process. Could you help me in terms of putting any kind of picture of your timeframe you expect this Personnel Committee would come back with it, because that would make me feel comfortable if I knew, within a couple of months, we get some kind of...

Mr. Hofmann: You know, if I knew—let me just tell you, as quickly as possible. I would assume within a couple of months. But I don't want to sit here and tell you it's going to be 30 days or 60 days because I need to talk to Buddy and I want to talk to the HR person here and see what a reasonable timeframe is. If I can tell you I will get this going as quickly as I can. Is that without putting...

- Mr. Abelli: Just to jump in, I think Buddy made an eloquent argument earlier for, this needs to happen fast.
- Mr. Hofmann: Oh, I agree.
- Mr. Abelli: So I think we need—it behooves us to set a timetable on it, you know, 60 days or 90 days, we'll just pick a date, because we can do all the analysis in the world but at some point we just need to make some choices.
- Mr. Hofmann: How about we go with the 90 days, and that gives everybody a reasonable time to give us time to put stuff together?
- Mr. Abelli: I would think that that's reasonable.
- Mr. Cochrane: I don't think it's that bad. I think the HR people get together with, you know, there's only so many different flavors to this thing.
- Mr. Abelli: Right.
- Mr. Iannaco: What's today? This is November. Do you want to try to go to the February meeting? Let me ask you a question. If we approve a budget today and then we say now—we have a different venue than we had two months ago. You told me to do a level budget and do this, go over the defined benefit. Now we're talking about a total benefits review which is something else. We're saying the AIB is doing certain things. Whatever they're doing, we're asking for additional information. My thoughts were that any budget cuts we get would be certainly monies that we could use towards our liability. If we keep talking about the AIB, which is a decision that you people want to make, about what the AIB is or isn't doing. So let's talk about what the AIB did. The AIB had an appropriation two years ago to fund X amount of people, but they reduced their staff substantially. So they were able to take 100% of their funding, but they reduced their staff in half. So, they were able to retain all of those funding dollars to offset any of these liabilities they had, and also to put up a cash reserve to offset their retiree liability monies.
- Mr. Carpentier: Yes.
- Mr. Iannaco: Okay, my budget, you can see how much I came in with last year. I had \$12 left out of the appropriation from last year or something like that. So every dollar we get we have to spend. Now, if we're going to go forward, would it not make sense to approve a budget for whatever this amount is today? After we do a benefits review, if we decide we're going to eliminate benefits that's going to be a substantial reduction in the cost I will need for the rest of that remaining year. If I'm going to reduce staff it's also going to be another substantial reduction in cost.
- Mr. Cochrane: Right.
- Mr. Iannaco: But the monies that would have been approved today could certainly help offset this liability number dramatically in the first year. If we're going to

make those decisions—if I pay money—and I’ll defer to my experts—if I pay money prior to December 31st it hasn’t made an impact on that liability versus waiting until March to do it. So if we want to be thinking about reductions and if you’re going to appropriate this budget, I think that’s a sound fiscal strategy to develop, and then we can look at the benefits, whenever we reduce the benefits. I don’t know what our lawyers will tell us we can do or we can’t do. Let’s do it by the book. Let’s reduce benefits if we have to. But I think, in theory, it makes sense to get this budget piece done with and then come back on a benefits review. You don’t need the Budget Committee then.

Mr. Hofmann: I’m going to make a motion so we get this issue on the table, that we approve the budget as is presented, adding back the committee expense, which we had talked about, which I didn’t hear any disagreement on. So there’s a motion on the table to accept the budget, re-work the budget that’s been presented by staff.

Mr. Cochrane: Can you add a timeframe for the Personnel Committee’s review?

Mr. Hofmann: I will tell that I will get the Personnel Committee together, because I forgot I was always the Vice-Chairman of that; I’m now the Chairman of that. I will get the committee together. We will look at the various issues that have been raised here and I will get the Budget Committee together. I’ll give you the same period, 90 days, to look at the Agent Certification piece so that we can be back within 90 days to review those items. But I want to get this budget on the table and approved and go forward with it.

Mr. Carpentier: I’ll second that.

Mr. Hofmann: Thank you. Is there any discussion on the motion which is to approve the budget with the one caveat of...

Mr. Cahill: Yeah, go ahead, Andy.

Mr. Carpentier: With the understanding that, as in the past, the merit increase that is funded in the budget is actually something that gets implemented or not or adjusted by the action of the Personnel Committee when it will meet in December and deciding what to do for the next year. I mean, this is just a budget item.

Mr. Hofmann: That’s right.

Mr. Iannaco: Well, that’s a given.

Mr. Hofmann: That’s a given.

Mr. Carpentier: Well, I just want to make sure that, you know...

Mr. Hofmann: You’re right.

Mr. Carpentier: that we’re working with them.

Mr. Hofmann: The answer is yes. Okay, anybody else?

Mr. Cochrane: That's fine. You've got the caveats of the three things.

Mr. Hofmann: Yeah.

Mr. Cochrane: As long as you put a box around it. I think we should get the budget because then that's up there. If it turns out we can save it—I mean there's other things. He's going to be looking at organization changes. We should see what those dollars are. Let's lock it in then we'll go from there. We've got to put a box around it, time-wise.

Mr. Hofmann: And bear in mind on the two issues now, the personnel issue and the Agent Certification. We're coming back with a report. I don't know what that may say. It may say we're not going to do Agent Certification. It may say that we're not going to do any further amendments immediately with the staff's benefits as well, okay? So what we're coming back with is a report based on that.

Mr. Cahill: So, if I could just offer a comment. I'm still of the same mind that taking one more month is not going to slow us down that significantly. I think my frustration is that around—or my concern, I think, is a better way to put it. My concern is around the fact that when we first started to talk about this, back in September of 2008, I was advocating to say we should move as quickly as we can on this whole topic. I've been advocating moving as fast as we can out of the interest of the employees that are here and everybody else. I'm still of that same mind.

But the fact of the matter is that we've taken until now, November of 2009, to get around to really some very substantive discussions about what the real cost drivers are. And, we talked at the last—the September 2009 budget meeting—about getting—just doing this flat budget for two months and having a discussion. And, I was concerned about the prospect of having a budget meeting the day before the Governing Committee meeting for fear that we would sort of get pushed into not really having the chance to digest the materials that were going to be disseminated and the discussion that would take place. So I'm just—I continue to be concerned that what we're going to do is, with this action we're going to move forward, the budget will get put into place for Fiscal Year 2010, and that, with the best of intentions—I believe everyone has—with the best of intentions, we will have these other things that are supposed to be worked on and looked at, but they will fall by the wayside as far as the timing. And, that's my overriding concern.

So, if I could just finish. I am definitely supportive of the idea of the agent fee—excuse me, the—yeah, the agent payment...

Mr. Hofmann: Certification fee.

Mr. Cahill: No, no, no, the agent...

Mr. Hofmann: Committee reimbursement.

Mr. Cahill: I absolutely support that. I think that the agent assessment is premature at this point because we still haven't figured out whether significant, you know, with where the savings are and we're sort of adding something on. That was my concern from the beginning. So, with all of that, I'm going to vote opposed to this motion, and I just wanted to give you that rationale.

Mr. Hofmann: Well, I guess, in part, Bill, my answer to you would be that, you know, we've put a lot of pressure on this staff to come back in a two-month period with a totaling revised budget, okay?

Mr. Cahill: Yeah.

Mr. Hofmann: And I think they've done a hell of a job. And, to sit here and not vote to approve, unless we disagree with any pieces, and nobody objected to anything that was in there today, and I realize we didn't have a lot of time to—you've had this for a while to look at. But to sit here and say, okay, we've put all this pressure on staff to come back with this budget in two months...

Mr. Cahill: We'll disagree.

Mr. Hofmann: which they've done. They've done exactly what we asked them to do, okay? Now, if there are more pieces you want to look at—there are always pieces we want to look at, all the way down the road. So, I have a little bit of a hard time with your comments, quite frankly, because I think that, you know, the staff deserves some credit for what—they did what we asked them to do, okay? And, I have a problem saying, you know, I'm not going to vote for this, because they did what we asked them to do. There are other pieces that you and other people around this table would all like to see looked at, okay?

Mr. Cahill: Right.

Mr. Hofmann: The Agent Certification, I don't know why the heck we just don't go ahead with it right away. So I'm not sure—and yet some things you want done right away and other things you want to delay more. So I'm kind of confused, Bill, just to be honest.

Mr. Cahill: No, I guess we're going to just disagree. That's fine.

Mr. Hofmann: Okay. So we can agree to disagree. But I think that, at this point, it's time to get this budget going, to go forward. If there are other issues that this committee wants to look at it's absolutely an obligation to do that. I totally agree with that. I gave both you and he, you know, a 90-day timeframe, looking at employee benefits, etc., again, a further look at it, and on the agent certification to look at why we need it and so on. So I think we've done everything we need to do. And I just—I have a problem

with just constantly delaying this process and not getting it done, and going forward.

Mr. Cahill: Okay.

Mr. Hofmann: Just so you know, end of my comment. Any further discussions on the budget? We have a motion to approve the budget, as is, subject to the committee reimbursement expense. Is there any further discussion on the budget?

Mr. Cochrane: And the caveats.

Mr. Hofmann: And the caveats with the 90 days.

Mr. Cochrane: And the personnel. Okay. Just want to make sure.

Mr. Hofmann: We need to get this approved tomorrow at the Governing Committee. So is there any further discussion on the budget? Paolo?

Mr. Abelli: There's a technicality on the process, but didn't we have a previous motion? Does that have to be withdrawn?

Mr. Hofmann: A previous motion to what—I don't think we had a motion to...

Mr. Cochrane: No, that was on the...

Mr. Abelli: There was a motion and a second—no, no on just the agent fee, I guess is this one.

Mr. Hofmann: No, I put that into my motion.

Mr. Abelli: Okay.

Mr. Hofmann: I said to approve the budget subject to reimbursement of the—that being added back in. So I think I'm okay on that, Paolo, but thank you. You know for a direct company guy, I like you. Go ahead.

Mr. Lukas: In regards to the budget and the health insurance proposal, are you going to be locked into pricing come December 1st?

Mr. Iannaco: Well, each month we delay we'll lose money. We've signed off for this new proposal to take effect 12/1. We've set up—I guess she had to leave. We've set her up to come in and tell our employees what the process is. If I delay it a month—each month of delay I'll lose \$13,500. Does that sound about right, Steve?

Mr. Gautieri: Yeah.

Mr. Iannaco: Something like that. So, we're going to go forward with this plan, the health plan, regardless. If we don't approve the budget, even if you decide not to do anything, we'll still go forward because that's a reduction

on 12/1. But I'd rather get it sooner than later because there's more substantial savings effective 12/1.

Mr. Lukas: That all makes sense but in regards to that 90-day review, will that be off the table?

Mr. Iannaco: Well, I think what you're going to do, are you going to bring in—if we start talking about benefits, you're going to come in and say, look at it, let's get rid of 401k or let's get rid of retiree health and see what the AIB is doing.

Mr. Cochrane: There can't be anything that happens then that precludes something happening out of that first 90-day review.

Mr. Hofmann: Right.

Mr. Cochrane: Right?

Mr. Iannaco: Right.

Mr. Cochrane: I mean, as long as there's nothing that precludes it...

Mr. Iannaco: Exactly.

Mr. Cochrane: you get one stage in and...

Mr. Iannaco: I mean, I believe that's...

Mr. Cahill: Right, right.

Mr. Iannaco: what we're talking about, is looking at all the benefit packages. You're talking about what the AIB has done or not done. So, I presume that what you're going to do is create some committee of pension—benefit experts, to look at it and make certain recommendations or do an analysis with what other entities are doing and come back and tell us if that's what you think we should do. I think that's what you're talking about. I still think that's why I think the budget itself, regardless of if we eliminate any benefits going forward, is actually going to be less costly, unless you have to buy out retirees and that's a whole other story. But, we could see some monies—dollars there. That's why I was advocating we go forward. You have, obviously, your own thoughts.

Mr. Abelli: Just a clarification. It sounds like the health insurance is done and decided. What about the company match? I mean, When do you make that announcement or is there an announcement? Or I guess, do you know what I mean? When does that become effective?

Mr. Iannaco: Paolo, that's an ongoing benefit that exists. If that benefit goes away then that benefit would go away. I mean, that is something we wouldn't...

Mr. Gautieri: We don't make an announcement like...

Mr. Abelli: I'm just thinking—I guess I'm use to the way we do it.

Mr. Gautieri: you had a profit this year and we're going to match this.

Mr. Abelli: Where there's a date and boom, that's when you get told what you get.

Mr. Gautieri: It's ongoing. If it's something that changes, it can be changed at any time.

Mr. Abelli: It can be changed at any time. Got it.

Ms. Cora: So you don't do the match one time a year. You do it ongoing.

Mr. Iannaco: Ongoing.

Ms. Cora: Alright. Okay.

Mr. Abelli: Got it. Okay. That's helpful. Thank you.

Mr. Hofmann: Any other questions? This is a big item. It's been a great discussion. I want to thank everybody, by the way, for all your comments and thoughts even where we disagree. Any further comments? If not, all in favor of the motion please say aye?

Most Committee Members: Aye.

Mr. Hofmann: All opposed? Okay, let the record note, please...

Mr. Iannaco: Yeah, we have it.

Mr. Hofmann: that we have one opposed. Okay. Do we have any other business?

Mr. Carpentier: We have to go back to this report.

Ms. Cora: Yeah.

Mr. Hofmann: Oh, we have to go back to the ad hoc report. That's right. Thank you. Yes, thank you.

Mr. Cochrane: Motion to approve.

Mr. Hofmann: Is there a motion to approve the Ad Hoc Budget Committee report and to send it to the Executive Committee for the appropriate action?

Mr. Cochrane: I'll also make that.

Mr. Hofmann: That's the motion you made, right?

Mr. Cochrane: Yeah.

- Mr. Carpentier: I'll second it.
- Mr. Hofmann: Okay.
- Mr. Abelli: Can I ask another clarification? So, earlier, at the beginning, if I recall correctly, people were saying that the vote was unanimous for this hybrid? But I think I heard you saying you disagreed so I was confused by that.
- Mr. Cochrane: I was the Chair. I didn't vote.
- Mr. Hofmann: Andy, you had a question.
- Mr. Carpentier: I don't have a question, I have a statement, which is the action that we take with this vote does accept the adoption of the Hybrid Plan which is an item...
- Mr. Hofmann: Which has to be approved by the Governing Committee. We're just accepting the report.
- Mr. Carpentier: Alright. Okay. And the other two points I would make is that we've talked about how the Hybrid Plan is going to be under continued analysis as we decide what the Audit Plan should look like. And I think, similarly, there is something—another to be fully determined issue relative to the close-out of the private passenger pool. You know, there are still some examinations that will be made. So, there are these two things that are part of this report that are not completely tied down yet, that's all.
- Mr. Hofmann: That's correct.
- Mr. Suglia: Mr. Chairman, likewise, I mean, I will certainly vote to accept the report. I think a lot of work went into it—good job. But as these individual recommendations come up from various committees, and some of them will come up tomorrow, I would reserve the right to vote for or opposed based on information that is presented then.
- Mr. Hofmann: Absolutely. I mean, there's a bunch of individual items that are still being reviewed by certain committees and certain things are going to have to be brought back to the Governing Committee.
- Mr. Suglia: Okay, with that understanding, I would certainly vote to approve.
- Mr. Cochrane: And I would beg that you would oppose some of the—I mean, because I'm still looking at the hybrids. But I think it is a question of is the report—here's the report.
- Mr. Suglia: Yeah. Right.
- Mr. Cochrane: The report is what the report is and then people can go with. There are some issues. There's some tails in these issues. You know, I've made my peace on the audits. I've made my statement and we'll see what the Governing Committee does.

- Mr. Iannaco: I think the Budget—the subcommittee is reporting to the Budget Committee. The Budget Committee is going to vote on this report. The Budget Committee is going to make a recommendation to the Governing Committee tomorrow.
- Mr. Cahill: Right.
- Mr. Iannaco: I have reported to the Division of Insurance of this ongoing effort by the subcommittee. They know and have sent representatives here and they have asked for the working documents on many occasions to look at the various working documents. I have told the Division that it was the intent of this committee that when this report was complete it would be presented to the Governing Committee and then the Governing Committee would submit it to the Division of Insurance. So I think, perhaps, of this motion today, Bill, that we—if the Budget Committee approves that, that the Budget Committee—because you'll be doing the Budget Committee report tomorrow...
- Mr. Cahill: Right, right.
- Mr. Iannaco: which we're probably not going to have much of a summary for you tonight, as you can imagine. But I think part of your report would be—on the subcommittee report, that if the Governing Committee approves the Budget Committee's report we forwarded it to—forward that report to the Division, just so we...
- Mr. Cahill: So, do you want to—you'd like to get the motions amended to reflect that?
- Mr. Iannaco: Yeah.
- Mr. Cahill: Who made the motion?
- Mr. Hofmann: Dave did.
- Mr. Cahill: David, so do you amend the motion?
- Mr. Cochrane: Sure.
- Mr. Carpentier: Me too.
- Mr. Cahill: There you go.
- Mr. Cochrane: Whatever that was.
- Mr. Iannaco: And you're doing the report tomorrow?
- Mr. Cochrane: I mean it's a report, and it should be taken from that point.
- Mr. Cahill: I'll have Bill to the first part.

Mr. Iannaco: I'll do the Budget tomorrow.

Mr. Hofmann: Okay, we have a motion on the floor that's been made and seconded and it's been clarified by the fact that we're sending this to the Division. Is there any further comment on the motion to accept the Ad Hoc Budget Committee report? If not, all in favor please say aye.

All Committee Members: Aye.

Mr. Hofmann: Any opposed? Okay, now I can ask the question. Is there any further business to come before the Budget Committee?

Mr. Carpentier: Move that we adjourn.

Mr. Hofmann: Is there a second?

Mr. Suglia: Second.

Mr. Hofmann: All in favor?

All Committee Members: Aye.

Mr. Hofmann: We're adjourned. Thank you.

(Meeting ended at 4:01 p.m.)

RALPH A. IANNACO
President

Note: This Transcript has not been approved. It will be considered for approval at the next meeting of the Budget Committee.

Attachment

Boston, Massachusetts
February 17, 2010

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ATTACHMENT LISTING

Docket #BC09.02, Exhibit #2

Sign-in Sheet of Meeting Attendees

BUDGET COMMITTEE MEETING
 SIGN-IN SHEET
 TUESDAY, NOVEMBER 17, 2009

Individual's Name

Company / Agency

PLEASE PRINT

| RNT CAD | CAR |
|-------------------|----------------------------|
| Wm & Hufnagel | Pawson Ins Group |
| Don R. Jones | MM L&P |
| Rosanna Sattler | Posjenko, Bludstein & Suss |
| Rich Jordan | Agent - LSN |
| Robert Suglia | Amica Mutual |
| David H. COCHRANE | Commer Ins Co |
| Raymond Lukas | Chase Clarke Stewart |
| PAOLO ABELLI | LIBERTY MUTUAL |
| Karen Coza | Deland, Gibson & Ans |
| Andrew Casper | Quig Mutual |
| William Cahill | HANOVER INS. |
| Eric Barea | Towers Perrin |
| Steve Gaultieri | STAFF |
| Susan C. Lademare | Thorburn |
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BUDGET COMMITTEE MEETING
SIGN-IN SHEET
TUESDAY, NOVEMBER 17, 2009

Individual's Name

Company / Agency

PLEASE PRINT

Valerie Johnson

STATE

Natalie Hubley

CAK

Pamela Wallace

CAK

Sam Costen

CAK

Larry Atha

Posternak