

**The Minnesota Workers Compensation Assigned Risk Plan
(MWCARP)**

Servicing Carrier

REQUEST FOR PROPOSAL

(“RFP”)

ISSUED

July 24, 2009

Revised – August 4, 2009
& Revised – August 31, 2009

Issued by
Affinity Insurance Services, Inc.
Plan Administrator
Minnesota Workers Compensation Assigned Risk Plan

MWCARP Servicing Carrier RFP

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PART I. INTRODUCTION AND INSTRUCTIONS

A. Introduction

The Minnesota Workers Compensation Assigned Risk Plan (hereinafter “Plan” or “MWCARP”) is the source of workers compensation and employers liability coverage for Minnesota employers who have been unable to secure such coverage through the voluntary market. In accordance with Minnesota law, coverage provided through the Plan is substantially the same as coverage available from licensed workers compensation insurance companies writing in the voluntary market in Minnesota.

Through this Request For Proposals (hereinafter “RFP”) process, the Plan is soliciting proposals from qualified entities to act as Servicing Carriers and to provide the Plan Services more fully described below. Plan Services would include such activities as the issuance of policies of workers compensation coverage, the handling of claims under such policies and the administration of managed care services. A qualified Bid Respondent must meet the requirements set forth in this RFP, and must possess sufficient professional, administrative, and personnel resources to provide the proposed services.

B. Authority

As authorized pursuant to Minnesota Statutes, Sections 15.061 and 79.251, subd. 4, the Minnesota Department of Commerce has designated Affinity Insurance Services, Inc., as the Plan Administrator of the Plan, effective September 15, 2008. In its role as Plan Administrator, Affinity is hereby issuing this Servicing Carrier RFP soliciting proposals for Plan Services commencing January 1, 2010.

The Plan is not a state agency and is not subject to the laws, rules and procedures governing the issuance, approval or execution of a contract between a private party and an agency of the State of Minnesota. Minn. Stat, § 79.251, subd, 1(a)(4) (2008). **Any entity responding to this RFP must include the following acknowledgement in the cover letter described in Part I.G.1 below: “We understand that the Plan is not an agency of the State of Minnesota and that the issuance, approval or execution of a Servicing Carrier Contract with the Plan is not subject to the laws, rules and procedures governing contracting between a private party and a state agency.”**

C. Definitions

For purposes of this RFP, these terms shall be defined as follows:

“Allocated Loss Adjustment Expense (ALAE)” shall mean those expenses directly associated with a particular claim, including those expenses incurred by a Servicing

Carrier, the Plan Administrator, or the Plan in the investigation, negotiation, and settlement of claims, suits or legal proceedings directly associated with declaratory judgment action on a particular claim. ALAE shall include, but are not limited to the following expense allocable to a workers compensation claim made under a Plan policy: expert witness fees, legal fees, legal expenses incurred in the pursuit of subrogation, private investigator fees, expert witness fees, costs for birth and death certificates, fees for hospital or other medical records and related copy services, appeal bond costs, court filing fees, costs of securing medical or legal documents to determine liability, fees for a medical examination of a claimant to determine the apportionment of liability, causal relationship, maximum medical improvement (by a non-treating physician), and permanent partial disability rating, legal and other expenses incurred in the pursuit of collections of unpaid premiums, and arbitration fees¹.

In addition, ALAE shall also includes any interest payable on judgment or award, prejudgment interest or delayed damages, except prejudgment interest or delayed damages which are considered to be part of losses: (1) by the terms and conditions of the policy, or (2) by law or regulation of the governmental body having jurisdiction.

“Bid Respondent” shall mean the entity submitting a proposal in response to this RFP, provided that the entity meets the minimum bidder qualifications set forth in Part I - D. below.

“Bid Response” shall mean a proposal submitted by a Bid Respondent to this RFP.

“Collected Standard Premium” shall mean the premium charged to the policyholder and collected by the Servicing Carrier, excluding the Special Compensation Fund assessment or any other special assessments approved by the Plan or the Commissioner. Collected Standard Premium shall also include premiums recovered by the Plan’s collections vendor, net of the vendor’s retained fee.

“Commissioner” shall mean the Commissioner of the Minnesota Department of Commerce or his properly appointed designee.

“Department” shall mean the Minnesota Department of Commerce.

“MWCARP or Plan” shall mean Minnesota Workers Compensation Assigned Risk Plan, as created and operated pursuant to Minnesota Statutes, Sections 79.251-253.

“Plan Administrator” shall mean Affinity Insurance Services, Inc.

“Plan Services” shall mean the services which the Bid Respondent proposes to provide to the Plan and which are described in the Bid Response.

¹ ALAE may or may not include managed care costs. See Part I – G.8 below.

“Plan Servicing Carrier Response – Cost Proposal” or “Cost Proposal” shall mean the information provided as part of the Bid Response under Part I - F.2, G.7, G.10 and Part IV below.

“Plan Servicing Carrier Response – Cover Letter” or “Cover Letter” shall mean the cover letter and attached exhibits and materials submitted by the Bid Respondent which contain information responsive to the RFP that is not contained in the Plan Servicing Carrier Response – Cost Proposal or the Plan Servicing Carrier Response – Technical Proposal.

“Plan Servicing Carrier Response – Technical Proposal” or “Technical Proposal” shall mean the information provided as part of the Bid Response under Part I - F.2 and Part III – Technical Proposal below and shall include (a) responses to each of the areas of a detail explanation of how the Bid Respondent proposes to handle all aspects of the Plan Services, including but not limited to (a) each aspect of the issuance of policies or certificates of insurance on behalf of the Plan, (b) the servicing of policies during the policy period, (c) the collection and handling of premiums, (d) the processing and handling of claims, (e) and the reporting of information to the Plan Administrator and other applicable data collection entities. If the Bid Respondent has manuals (or portions of manuals) describing the procedures to be utilized in providing such Plan Services, one copy of such manuals or applicable portions thereof should be provided with the Bid Response.

“RFP” shall mean this Servicing Carrier Request For Proposal, including all exhibits and any subsequent amendments made thereto, which have been distributed to potential Bid Respondents via the Plan’s website – www.mwcarp.com – or any other available means of distribution.

“Servicing Carrier” shall mean an insurance company or self-insurance administrator that is selected from among the Bid Respondents to provide the Plan Services responsive to this RFP, but subject to the specific terms, conditions and limitations of a Servicing Carrier Contract entered into between the successful Bid Respondent and the Plan.

“Servicing Carrier Contract” shall mean the final contract entered into between the Plan and a successful Bid Respondent designating that Bid Respondent as a Servicing Carrier and describing the Plan Services to be provided. The terms, conditions and limitations of that Servicing Carrier Contract shall, unless otherwise specifically stated, supersede any provisions or statements in this RFP. A draft of that contract is attached as Exhibit V, provided that the final Servicing Carrier Contract may vary from this draft.

“Subcontractor” shall mean any business entity that the Bid Respondent identifies as providing Plan Services for, to, or on behalf of the Bid Respondent in the Bid Response.

D. Required Bidder Qualifications

A Bid Respondent must be able to meet the following minimum qualification criteria to be considered a Bid Respondent for purposes of this RFP. Each Subcontractor must meet the same minimum qualification criteria. The failure of a Bid Respondent to maintain these minimum qualification criteria throughout the terms of the Servicing Carrier Contract awarded to a Servicing Carrier shall result, at the option of the Plan, in immediate termination of the Servicing Carrier Contract.

1. A Bid Respondent that is an insurance company must provide documentation that it is licensed pursuant to Minnesota Statutes, Section 60A.06, subd. 1(5) (b). A Bid Respondent that is not an insurance company must provide documentation that it is a self-insurance administrator licensed or exempt from licensure pursuant to Minnesota Statute, Sections 176.181, subd. 2(b) and 60A.23, subd. 8. A Bid Respondent with a license pending must provide a copy of the license applications.
2. A Bid Respondent must demonstrate that it is legally organized under the laws of one of the states within the United States of America or the District of Columbia.
3. A Bid Respondent must demonstrate that it has at least three (3) years of experience in fields or activities that are relevant to the duties, responsibilities, and obligations associated with the servicing of workers compensation insurance policies and policies issued by workers compensation residual market mechanisms, such as the Plan.
4. A Bid Respondent must have an office in the State of Minnesota from which most Plan Services would be performed.
5. A Bid Respondent must demonstrate an ability to maintain an adequate staff to fulfill its obligations to provide all of the Plan Services.
6. A Bid Respondent must demonstrate an ability to facilitate an on-line computer link with the Plan Administrator or its designees for the communication and reporting of information regarding policies issued by the Servicing Carrier so as to enhance the overall administration of the Plan and Servicing Carrier activities.

Unless otherwise stated in this RFP, information responsive to this section should be included in or be an attachment to the Plan Servicing Carrier Response – Cover Letter.

E. Subcontractors

Generally the use of subcontractors is neither prohibited nor discouraged and will not adversely impact the evaluation of a response to this RFP. However, a Bid Respondent electing to use subcontractors must identify and fully describe the licensure, qualifications and Plan Services being provided by all subcontractors (either on a full-time or a part-time basis). The Bid Respondent must also fully describe how those subcontracted services will be monitored by the Bid Respondent to assure appropriate and ongoing quality control.

The Servicing Carrier Contract will require a Servicing Carrier to be fully responsible for, and save and hold the Plan harmless with respect to, any Plan Services provided by a Servicing Carrier's subcontractors.

Unless otherwise stated in this RFP, information responsive to this section should be included in or be an attachment to the Plan Servicing Carrier Response – Cover Letter.

F. Instructions For Proposal

1. General Instructions

A Bid Respondent is expected to comply with all requests for information found in the RFP and to address all requests as completely and thoroughly as is reasonably practical. Any proposal that does not satisfactorily address all requests found in the RFP may be deemed to be non-responsive. While a general description of the proposed methodology for evaluation of Bid Responses is provided in Part V below, the Plan in its sole discretion may utilize such criteria in evaluating responses to the RFP as it deems necessary and appropriate, and may accept or reject any or all of the responses to the RFP. The Plan in its sole discretion may waive any deficiencies in a Bid Response to the RFP as part of its evaluation process.

Each Bid Respondent will be solely responsible for all costs and expenses incurred in the preparation of its Bid Response. The Plan Administrator may gather any information necessary from all available sources to complete or complement the evaluation process. Further, the Plan is in no way obligated to award a Servicing Carrier Contract to the Bid Respondent or Bid Respondents with the lowest Cost Proposal.

2. Bid Response Format

Each of the following must be submitted to the Plan Administrator prior to the filing deadline:

One (1) signed original Plan Servicing Carrier Response – Cover Letter and attachments.

One (1) signed original and five (5) copies of the Plan Servicing Carrier Response – Technical Proposal required by this RFP. The technical proposal must be enclosed in a sealed envelope or container, which must be clearly marked, **“Plan Servicing Carrier Response – Technical Proposal”**.

One (1) Cost Proposal to the Plan Administrator in a separately sealed envelope that is clearly marked, **“Plan Servicing Carrier Response – Cost Proposal”**.

The sealed Technical Proposal and the separately sealed Cost Proposal may be shipped in the same package or container.

The Bid Respondent is expected to examine all sections of this RFP and attach all of the information and required exhibits set forth in this RFP.

3. Modification or Withdrawal

A Bid Response that has been submitted to the Plan Administrator may be withdrawn or modified, provided that such modifications are received by the Plan Administrator prior to the filing deadline. A Bid Response not modified or withdrawn prior to the filing deadline shall be considered to be final and shall be deemed a binding and final offer for at least 120 days after the filing deadline.

4. Written Bid Response

All portions of the Bid Response must be submitted in writing and no oral communications will be deemed a part of the Bid Response. A Bid Response that is written or printed with any material other than ink will be rejected. If a Bid Respondent makes any handwritten corrections to its proposal prior to submission, those corrections must be made in ink and initialed by the person executing the proposal.

5. Bid Response Execution

A Bid Response must be signed and dated by an officer or other authorized individual employed by the Bid Respondent (including his or her title), having the authority to enter into contracts on behalf of the Bid Respondent.

6. Confidential and Proprietary Information

Any information contained within the Bid Response that may be considered by the Bid Respondent to be proprietary or confidential should be clearly labeled confidential. The Plan may, but is not obligated to, reject any materials submitted as confidential as not qualifying for confidential status and return such materials to the Bid Respondent.

While the Plan will make reasonable efforts to treat information that is confidential as such, the Plan is not in a position to guarantee confidentiality and the Bid Respondent in

submitting such information assumes all risks that such information may become public information under provisions of Minnesota law governing data privacy.

Bid Proposals submitted in response to this RFP shall become the property of the Plan. A Bid Respondent is advised that the terms and conditions of all Servicing Carrier Contracts will be publicly available.

A Bid Response, excluding material marked confidential, shall be made available for review by any person beginning one year after the Servicing Carrier Contract resulting from this RFP has been signed, or prior to that time if the Plan Administrator so chooses. The Plan, the Department, and the Plan Administrator do not assume liability for the use or disclosure of any unmarked proprietary or confidential information.

7. Subcontractors

As noted above, if a Bid Respondent proposes to provide any part of the Plan Services through subcontractors, all relevant information regarding the qualifications of and the Plan Services to be provided by the subcontractor shall be provided to the same level of detail as would be required if the Bid Respondent were directly providing those Plan Services.

8. Most Favorable Terms

A Bid Respondent should submit a proposal on the most favorable terms from a price and technical standpoint. The Bid Respondent must assume that there will not be any opportunity to alter its pricing at any time after the proposal submission deadline. However, the Plan Administrator may seek a clarification regarding the Cost Proposals and/or Technical Proposals at any time during the evaluation period.

G. Required Information in Proposal

1. General

A Bid Respondent shall include a cover letter with its Bid Response to the RFP. This cover letter shall be signed by an officer or representative of the Bid Respondent having sufficient authorization to enter into contracts on its behalf. The Cover Letter should designate the contact person for the Bid Respondent, including their telephone number and email address.

It is important that a Bid Respondent indicate in its Cover Letter if and where it may have deviated from the requirements found in the RFP, and if and where it has relied upon any assumptions or conditions in making the Bid Response. Deviations, conditions or assumptions may be unilaterally rejected, unless in the sole judgment of the Plan reasonable sufficient information is included that would justify such deviations, conditions or assumptions.

2. License Requirements

The licensure information described in Part I - D should be provided in or as an attachment to the Cover Letter.

3. Organizational History and Experience

A Bid Respondent must provide materials or information demonstrating that it has at least three (3) years of experience in fields or activities that are relevant to the duties, responsibilities, and obligations associated with the servicing of workers compensation insurance policies and policies issued by workers compensation residual market mechanisms, such as the Plan.

A Bid Respondent should detail its familiarity with, and understanding of, Minnesota statutes affecting the Plan.

The Plan operates under the supervision of the Minnesota Department of Commerce and through a series of contracts with entities such as the Plan Administrator, the Minnesota Workers Compensation Insurers Association, Inc. (MWCIA), Servicing Carriers, claims attorneys, accountants and actuarial service providers. The Bid Respondent should include a description of its ability to work with the variety of entities involved in these operations of the Plan.

A Bid Respondent should describe its expertise and operating capabilities in the areas related to the proposed Plan Services.

A Bid Respondent should supply a list of organizations to which it is currently, or has previously provided services similar to the proposed Plan Services, detailing the nature of the services provided to each. A Bid Respondent may supply a list of organizations or individuals as references.

Organizations listed as references in addition to other sources, may be contacted as part of the evaluation process.

Unless otherwise stated in this RFP, information responsive to this section should be included in or be an attachment to the Plan Servicing Carrier Response – Cover Letter.

4. Insurance and Financial Requirements

(a) Information To Be Included With Bid Response.

A Bid Respondent must submit the following information:

1. A copy of a valid Certificate of Insurance indicating limits of at least \$5,000,000 in General Liability and Errors & Omissions, and Workers Compensation & Employers Liability Coverage (one copy only)
2. Documentation of a positive credit or financial rating, determined by an accredited credit bureau or rating agency such as A.M. Best Company within the last six (6) months (one copy only).
3. A copy of the Bid Respondent's most recent Annual Report or current audited financial statement (corporate holding company report will suffice); (one copy only).

Unless otherwise stated in this RFP, information responsive to this section should be included in or be an attachment to the Plan Servicing Carrier Response – Cover Letter.

(b) Information Required Of A Successful Bid Respondent

If a Bid Respondent is selected as a Servicing Carrier, it will need to provide the following:

1. A fidelity bond covering officers, employees, and subcontractors entrusted with the handling of Plan premiums, funds, or investments under a fidelity bond in the amount of \$5,000,000. The Bid Respondent shall be responsible for all bond premium payments.
2. A performance bond within thirty (30) days after the effective date of the execution of the Servicing Carrier Contract. This bond shall provide for indemnification of the Plan against any and all failures of the Servicing Carrier to provide the Plan Services described in the Servicing Carrier Contract and shall be in a form acceptable to the Plan Administrator. The performance bond shall be in an amount equal to the annual contract value. A Bid Respondent shall be responsible for all bond premium payments. In lieu of providing a performance bond, the Bid Respondent may provide a Letter of Credit meeting specific requirements as determined by the Commissioner.

The Plan Administrator reserves the right to request additional data from a Bid Respondent as it deems necessary.

5. Certifications

A Bid Respondent is required to provide as attachments to the Plan Servicing Carrier Response – Cover Letter the following completed and signed certifications as are found in this RFP:

- (a) The Non-Collusion Affidavit – see Exhibit I.

- (b) The Affirmative Action Data Page – see Exhibit II.

A Bid Respondent must also warrant that they comply with all applicable requirements of the Americans with Disabilities Act (ADA). A Bid Respondent awarded a Servicing Carrier Contract will be required to comply with all requirements of the ADA throughout the term of its Servicing Carrier Contract with the Plan.

6. Bid Respondent and Affiliates Disclosures

To the extent not provided in response to other sections of the Bid Response², a Bid Respondent must include with its Bid Response the following information:

- (a) A brief history of the Bid Respondent's organization.
- (b) State whether it is owned by, affiliated or associated with an insurance company. If so, please explain.
- (c) State whether it is owned by, affiliated or associated with a medical service provider. If so, please explain.
- (d) State whether it is owned by, affiliated or associated with a managed care vendor. If so, please explain.
- (e) Disclose the number and nature of any and all contracts with a medical service provider.
- (f) State the number of employees currently employed in Minnesota. Also, indicate the approximate number of employees currently employed in Minnesota that will provide Plan Services (assuming the Bid Respondent will be handling policies which generate a 50% share of Plan's annual premium). Supplying this information does not mean that if the Bid Respondent is a successful bidder, it will be awarded as Servicing Carrier Contract to provide Plan Services to policies which generate a 50% share of Plan's annual premium. The actual percentage of Plan polices to be serviced by a successful Bid Respondent may vary to a material degree from that amount. *See Part I. G.10 below.*

Unless otherwise stated in this RFP, information responsive to this section should be included in or be an attachment to the Plan Servicing Carrier Response – Cover Letter.

7. Compensation

In response to Part IV – Cost Proposal a Bid Respondent must state its proposed Servicing Carrier fee as a percentage of Collected Standard Premium. The Servicing Carrier fee provided in the Servicing Carrier Contract will be the sole compensation paid to the Servicing Carrier for the Plan Services described in the Servicing Carrier Contract.

A Servicing Carrier will not be responsible for the payment of any medical or indemnity benefits, or the ALAE related to, any claims made under a Plan policy serviced by the

² A Bid Respondent may provide information responsive to more than one Parts of the RFP in a single part of the Bid Response. If this option is elected, the response should clearly indicate all Parts of the RFP being addressed by a single portion in the Bid Response.

Servicing Carrier. See also Part I – G.8 (Managed Care) below. The Servicing Carrier will be responsible for its own costs and expenses, including but not limited to any unallocated loss adjustment expenses (ULAE) associated with providing Plan Services under the Servicing Carrier Contract.

8. Managed Care

At the current time, the Plan has not yet determined whether managed care services will be treated as ALAE for pricing purposes or whether managed care services should be included as part of the Bid Respondent's Cost Proposal. Accordingly, a Bid Respondent's Cost Proposal should address both alternatives.

Alternative A should assume that managed care services will be treated by the Plan as ALAE.

Alternative B should assume that the Bid Respondent will provide managed care services as part of the compensation paid the Servicing Carrier by the Plan. In pricing Alternative B a Bid Respondent should identify the costs associated with the primary components of managed care – ~~Preferred Provider Organization (PPO) network pricing discounts from the Minnesota Fee Schedule~~; Bill Review charges per bill; and hourly rates for Nurse Case Management.

9. Conflict of Interest

A Bid Respondent must describe any known or potential conflicts between its current business and the Plan business. In the event of such a conflict, a Bid Respondent must specify how it would seek to avoid or eliminate such conflicts.

Unless otherwise stated in this RFP, information responsive to this section should be included in or be an attachment to the Plan Servicing Carrier Response – Cover Letter.

10. Service Share

A Bid Respondent must indicate in its Cover Letter the percentage share of overall Plan business it would be willing to service, e.g. 25%, 50%, 75%, and/or 100%. A qualified Bid Respondent must be willing to provide services at either the 25% or 50% levels. The Plan Servicing Carrier Response – Cost Proposal must state a separate price for each proposed share level. The actual percentage level of Plan business awarded to a successful Bid Respondent will be determined by the Plan after its review of all of the bids submitted and a Bid Respondent's willingness to provide services to a stated percentage of the Plan's business does not mean that percentage will be awarded to a Bid Respondent if its bid is accepted.

H. Contract Required

This RFP is a solicitation of interest to enter into a Servicing Carrier Contract with the Plan and is not an offer to contract for any Plan Services. Any contractual arrangement between a Bid Respondent and the Plan will require the parties entering into a definitive Servicing Carrier Contract covering all materials terms of that arrangement which may be different from materials provided in this RFP.

In addition to reviewing the Bid Proposal prior to making a determination to accept some, all or none of the Bid Responses, the Plan may supplement this RFP process with requests for additional information, oral presentations and/or interviews, discussions with key management or supervisory personnel of the Bid Respondent, or other information the Plan deems useful in this process.

I. Contact Person

All Bid Respondents should remit proposals and any written questions regarding this RFP to the person and address listed below:

Mr. Thomas G. Redel
Affinity Insurance Services, Inc.
8300 Norman Center Drive, Ste. 1000
Minneapolis, MN 55437
Tele: (800) 471-6767
Email: tom_redel@ars.aon.com

Any questions regarding this RFP should be directed to the Plan Administrator. Only written responses to such questions shall be deemed to be responses of the Plan. Any questions and responses, at a minimum, will be made available to all potential bidders through the Plan's website – www.mwcarp.com. The Plan Administrator will not be responsible for communication directly to any potential Bid Respondent.

J. Evaluation Process

The evaluation of Bid Responses will be undertaken by a panel of individuals designated by the Plan Administrator and the Department staff, with approval of the Commissioner. This panel will include representatives of the Plan Administrator, and may include representatives of the Department. Information on the evaluation process will be deemed confidential and proprietary to the Plan and may be released by the Plan in whole or in part in the Plan's sole discretion. See Part V below.

K. Timetable

1. Request For Proposals Issued – July 24, 2009.
2. Deadline for receipt of Written Inquiries – 4:00pm CDT; August 14, 2009.
3. Proposals Due – 4:00pm CDT; September 11, 2009.
4. Interviews, if any – week of September 21, 2009.
5. Projected Contract Award Date – September 30, 2009.
6. Contract Duration – Three (3) years from the contract effective date with the option of two, one-year extensions.
7. Contract Effective Date - January 1, 2010.

PART II. PLAN DATA

The following Plan data is intended to be a guide for a prospective Bid Respondent and is provided for the sole purpose of enhancing a Bid Respondent's knowledge and understanding of the Plan Services described in this RFP. All claim information is provided as of 12/31/2008. Losses are state net of losses ceded to the WCRA and reimbursements from the Special Compensation Fund.

Policy/Premium Information

<u>Year</u>	<u>Approx. Number of Policies Written</u>	<u>Gross Written Premium</u>
1999	36,372	\$28,369,933
2000	35,397	\$33,189,398
2001	37,107	\$51,780,371
2002	39,912	\$79,594,994
2003	42,031	\$93,477,248
2004	42,048	\$100,801,908
2005	38,483	\$85,232,880
2006	34,764	\$63,512,810
2007	31,186	\$44,204,309
2008	29,013	\$36,774,628
2009 – as of 06/16/2009	15,537	\$19,278,092

Claims

<u>Year</u>	<u>Reported Claims</u>	<u>Incurred Claims</u>	<u>Selected Ultimate Claims to Close with Payment</u>
2002	7,238	5,118	5,204
2003	7,816	5,560	5,670
2004	8,126	6,018	6,169
2005	6,383	4,976	5,128
2006	4,633	3,662	3,793
2007	3,011	2,416	2,537
2008	2,191	1,760	2,009

Losses

<u>Year</u>	<u>Paid</u>	<u>Case Reserves</u>	<u>Booked IBNR Reserve</u>	<u>Booked Ultimate Losses</u>
1999	\$16,539,000	\$ 1,066,000	\$ 1,322,000	\$18,927,000
2000	\$15,032,000	\$ 491,000	\$ 1,599,000	\$17,122,000
2001	\$21,784,000	\$ 1,547,000	\$ 2,738,000	\$26,069,000
2002	\$34,606,000	\$ 2,781,000	\$ 6,282,000	\$43,669,000
2003	\$43,680,000	\$ 3,289,000	\$ 8,846,000	\$55,815,000
2004	\$43,764,000	\$ 6,668,000	\$11,409,000	\$61,841,000
2005	\$34,880,000	\$ 6,033,000	\$11,409,000	\$52,322,000
2006	\$27,126,000	\$ 8,720,000	\$16,382,000	\$52,228,000
2007	\$14,992,000	\$ 9,346,000	\$15,915,000	\$40,253,000
2008	\$ 8,232,000	\$15,094,000	\$24,244,000	\$47,550,000

Note that 2006-2008 losses are net of the middle WCRA retention, whereas 1999-2005 are net of the high retention.

PART III. TECHNICAL PROPOSAL

A. Introduction

A Servicing Carrier is expected to provide virtually all services associated with the issuance and maintenance of workers compensation insurance policies issued to Minnesota employers by the Plan, the handling of claims arising from those policies, and the reporting of information to the Plan Administrator and other data collection entities such as the MWCIA and the Minnesota Department of Labor and Industry. Plan Services do not include the handling of Plan applications prior to acceptance and assignment to a Servicing Carrier by MWCIA but include, without limitation, limited underwriting, policy issuance, safety and loss control, claims administration, policy servicing, auditing, billing, policy renewal and premium collection. In providing Plan Services, the Servicing Carrier must comply with the Servicing Carrier Minimum Performance Standards enclosed as Exhibit III.

B. General

The Plan Servicing Carrier Response – Technical Proposal submitted by a Bid Respondent must include all of the information requested in this Part III. A copy of all or part of any manual or other document maintained by the Bid Respondent that describes any practices or procedures to be utilized by the Bid Respondent in providing Plan Services should be submitted as part of the Bid Response. A Bid Respondent may refer to any such document in lieu of providing a detailed narrative of a response to any issue addressed in the Technical Proposal, provided that the reference is identified by page(s) and section number(s) and/or heading(s), and directly responsive to the RFP item.

In preparing the Technical Proposal, the Bid Respondent should give due consideration to requested information in Part III, in addition to the information found in the Servicing Carrier Minimum Performance Standards (Exhibit III), the Servicing Carrier Operational Guidelines (Exhibit IV), and the Servicing Carrier Contract (Draft) (Exhibit V). Those materials are included to provide the Bid Respondent with further information concerning the duties and responsibilities of a Servicing Carrier and the issues which the Bid Respondent should address in preparing its Technical Proposal.

C. Staffing

1. Management

The Bid Response must identify the personnel who will be responsible for managing the Plan Services, including a detailed description of each such person's responsibilities, qualifications, experience (particularly with similar services) and expected level of involvement in Plan Services. The resume of an individual may be submitted to provide

some or all of the specific information requested. The Bid Response must also identify which management personnel will be responsible for interfacing with the Plan Administrator and other entities providing services to the Plan.

2. Non-management Staff

The Bid Response must identify non-management personnel, described by name and/or position, who will be responsible for providing Plan Services, including, with respect to each such person or position, specific responsibilities with respect to Plan Services, minimum qualifications, previous experience with similar projects, and their expected level of involvement in Plan Services.

3. Additional Information

(a) State whether your underwriting, loss control, claims, managed care, and/or premium audit staff will be solely dedicated to the Plan Services or if they will service other accounts.

(b) If not stated in response to Subparts C.1 or C.2 above, state the number of years of workers compensation related experience for underwriters, loss control professionals, claims representatives, managed care professionals and audit professionals expected to provide Plan Services. If individual persons are not named in your response, please state the average number of years of experience for the persons assigned to specific area of Plan Services.

(c) State any professional designations of persons assigned to provide any of the Plan Services.

(d) If you intend to provide Plan Services from more than one location, identify all locations and the estimated number of employees at each location and the Plan Services to be supplied from each location.

D. Plan Services

1. General Policy Standards and Servicing Carrier Performance Standards

The Plan operates under the same standards applicable to private insurers issuing workers compensation policies in the State of Minnesota. As such the workers compensation policies must comply with the standard workers compensation policy forms published by MWCIA, and the Servicing Carriers must comply with the pricing and data reporting standards set forth in the manuals issued by MWCIA or other plans designated or orders issued by the Commissioner.

In performing Plan Services, Servicing Carriers will be required to comply with the Servicing Carrier Minimum Performance Standards set forth in Exhibit III. As part of the Technical Proposal, a Bid Respondent should submit a statement that it will comply with the minimum standards in Exhibit III in their entirety, and should also include, to the extent applicable to each standard, a statement of Bid Respondent's proposal to meet or enhance the minimum performance required in the stated standard. Any standard that the Bid Respondent proposes to exceed or enhance must include a description of the proposed enhancement(s). A Service Carrier's performance under the Servicing Carrier Contract will be measured against the Servicing Carrier Minimum Performance Standards, including any enhancements proposed by such Bid Respondent in its Bid Response and accepted by the Plan.

2. Policy Issuance

(a) General

The Servicing Carrier receives the application and assignment from the MWCIA. The Servicing Carrier will be responsible to identify and provide such additional underwriting prior to policy issuance as is necessary and appropriate, and is responsible for issuance of the policy after assignment from the MWCIA.

The Servicing Carrier shall provide normal policy servicing functions during the term(s) of the policy and respond to policyholder questions.

At a minimum, renewal offers to eligible policyholders with in force policies shall be sent no less than sixty (60) days prior to expiration in a format established by the Plan, subject to renewal ~~application~~ procedures established by the Plan. Estimated payroll for all renewal policies shall use information normally and reasonably accessible to the Servicing Carrier, including audit information and standard payroll escalation amounts approved by the Plan Administrator. Proposed premiums shall be based upon the most recent schedule of rates then in effect.

(b) Application Processing, Underwriting, and Policy Renewal Services

The Technical Proposal must provide the following information related to application processing, underwriting and policy renewal services:

(i) Describe the procedures that Bid Respondent employs in processing newly assigned applications and renewal quotations, including any automation systems, information sources, or other systems that are used to timely process applications and otherwise affect the initial underwriting of the account. This response should include a step-by-step description of the process for completing these tasks.

(ii) Describe the procedures implemented for reviewing or evaluating accounts during the policy term, processing cancellation requests, processing endorsement

requests, initiating cancellation for reasons authorized under the Plan, and any other underwriting services proposed to be provided during the policy term.

(iii) Describe the procedures used for the computation and payment of producer commissions.

(iv) Describe the procedures utilized to ensure that effective external communication and reporting occurs with the insured, the producer, the Plan Administrator and MWCIA.

(v) Describe the procedures utilized to ensure that effective internal communication occurs among your employees, managers, business units and subcontractors that provide Plan Services.

(vi) The Servicing Carrier may propose a more efficient process for the distribution of policies, subject to the approval of the Plan Administrator and the Department.

3. Managed Care

(a) General

As noted above, the Plan has not currently determined the most appropriate pricing mechanism for managed care services. However, in the evaluation of Bid Responses a Bid Respondent should describe its ability to establish and maintain managed care services, throughout the term of the Servicing Carrier Agreement, for all employees covered by the Plan. ~~Such a program should address the use of a provider network with (A) access to an evaluating and primary treating health care provider within thirty (30) miles of either the employee's place of employment or residence, if either is within the Minneapolis-St. Paul seven county metropolitan area, or (B) access to an evaluating and primary treating health care provider within fifty (50) miles if both the employee's residence and place of employment are outside Minneapolis-St. Paul the seven county metropolitan area.~~

(b) Managed Care Services

The Technical Proposal must provide the following information related to a Bid Respondent's ability to provide managed care services:

(i) In general terms, describe your procedures for providing effective managed care services in connection with case management and cost controls.

(ii) In more specific terms, describe any return to work programs, medical case management programs, utilization review, bill review, duration guidelines or clinical

protocols/programs, physical rehabilitation programs, vocational rehabilitation, and any catastrophic case management programs used in your overall managed care program.

(iii) Describe any computer systems used for managed care operations and whether or not any such system can communicate with your claims administration system. If so, please describe the level of communication between the systems, describing what information can be made available to staff in either the claims or medical management areas.

(iv) State the number of medical-only and lost time claims, on the average, that will be assigned to each of your claims representatives. If medical-only claims will be handled by lower-level personnel, please indicate so and, in general terms, describe the qualifications of a medical-only claims representative, compared to that of a lost-time claims representative.

(v) State whether any managed care services will be provided by subcontractors, and if so, identify the subcontractors and the specific services to be provided by each.

4. Payroll/Premium Audits

(a) General

The Servicing Carrier shall audit Policies in conformance with the requirements and standards provided in the Workers' Compensation and Employers' Liability Manuals, the Servicing Carrier Minimum Performance Standards, and any other guidelines and rules established by the Commissioner and/or Plan Administrator from time to time.

(b) Premium Audit Services

The Technical Proposal must provide the following information related to premium audit services:

(i) Describe the criteria used in determining which accounts will receive a preliminary payroll audit and describe the procedures followed in carrying out those audits.

(ii) Describe the criteria that will be used to determine which accounts, if any, should be audited on an interim basis (as an enhancement to the requirements in the Servicing Carrier Performance Standards).

(iii) Describe the procedures that you will follow in providing final audits (addressing mail, telephone, and physical audits), and state if these services will be subcontracted.

(iv) Describe the communication process that will be used to share audit information or discrepancies with the underwriting and loss control functions.

(v) Describe the procedures that you will utilize when communicating with the insured and its agent, if any, a change in classification or exposure which will have a significant financial impact on the insured.

5. Loss Control and Safety

(a) General

The Servicing Carrier shall provide policyholders with loss control, safety and industrial hygiene surveys, consultations, and related services in conformance with generally accepted insurance industry practices, and according to the specifications in the Servicing Carrier Performance Standards and other guidelines and rules established by the Commissioner and/or the Plan Administrator from time to time.

(b) Loss Control And Safety Services

The Technical Proposal must provide the following information related to loss control and safety services:

(i) Describe your administrative, functional, and logistical procedures for providing loss control services and how any such services may be enhanced (in qualitative terms) from the loss control services prescribed in the Servicing Carrier Minimum Performance Standards set forth in Exhibit III..

(ii) Describe any special loss control services that you provide for unique situations (e.g. follow-up, OSHA compliance, etc.), services for small employers, or for certain types of industries.

(iii) Identify any loss control services that will be subcontracted, including the amount to be subcontracted, conditions upon which such services will be subcontracted, and the identity of the subcontractor including a description of its organizational history and experience.

(iv) Submit a copy of your sample loss control survey form and a generic copy of a sample loss control report that is normally issued to the employer. If the format of either the survey form or report varies by industry, a copy of each type should be submitted.

6. Claims Administration

(a) General

The Servicing Carrier shall handle claims and provide related services in conformance with generally accepted insurance industry practices, and according to the specifications in the Servicing Carrier Minimum Performance Standards and other guidelines and rules established by the Commissioner and/or the Plan Administrator from time to time.

(b) Claims Administration Services

The Technical Proposal must provide the following information related to claims administration services:

(i) Describe the overall claims administration process and procedures used to investigate claims, including procedures used to determine compensability, meeting all reporting requirements of state administrative agencies (report of injury, etc.), verify classification, potential subrogation opportunities, etc.

(ii) Describe the claims administration procedures that you employ to ensure compliance with established performance standards, including any qualitative enhancements that you may perform.

(iii) Describe any fraud detection activities that you will utilize to prevent, deter, and detect fraudulent activity conducted by employers, employees, or medical providers.

(iv) Describe how you will maintain your records regarding performance as a Servicing Carrier and how you will provide reports of claims and access to claims records to the Plan Administrator or its designee.

PART IV. COST PROPOSAL

A. Introduction

The sole compensation for providing Plan Services under the Servicing Carrier Contract is the Servicing Carrier Fee. A Servicing Carrier will not be responsible for the payment of any medical or indemnity benefits, or the allocated loss adjustment expenses (ALAE) related to any claims made under a Plan policy serviced by the Servicing Carrier. The Servicing Carrier will be responsible for its own costs and expenses including, but not limited to, any unallocated loss adjustment expenses associated with providing Plan Services under the Servicing Carrier Contract. If the accepted bid includes the costs of managed care services, the Servicing Carrier will be responsible for those costs. The Servicing Carrier fee will be determined as a percentage of Collected Standard Premium.

B. General

The Plan Servicing Carrier Response – Cost Proposal submitted by a Bid Respondent must include all of the information requested in this Part IV.

In preparing the Cost Proposal, the Bid Respondent should consider all Plan Services to be provided in light of the Servicing Carrier Minimum Performance Standards (Exhibit III), the Servicing Carrier Operational Guidelines (Exhibit IV), the Servicing Carrier Contract (Draft) (Exhibit V), and the Plan Data included in Part II. Those materials are included to provide the Bid Respondent with further information concerning the duties and responsibilities of a Servicing Carrier to be taken into account in preparing its Cost Proposal.

C. Servicing Carrier Fee

1. Service Share

The Bid Response must state the proposed Servicing Carrier fee as a percentage of Collected Standard Premium for the percentage share of overall Plan business the Bid Respondent is willing to service. **At a minimum, the Bid Response must include proposed fees for services at the 25% and 50% levels.** The Bid Respondent may also state a proposed fee for services at the 75% and/or 100% levels. **A separate fee must be stated for each proposed share level.** A Bid Respondent's willingness to provide services at a stated level does not mean that such percentage will be awarded to the Bid Respondent if its bid is accepted.

2. Managed Care

As noted above, the Bid Response must state a separate proposed Servicing Carrier fee as a percentage of Collected Standard Premium for each proposed share level assuming the two alternatives for the pricing of managed care services: (a) *inclusive* of all managed care services costs (Servicing Carrier’s expense), **and** (b) *exclusive* of all managed care services costs (Plan’s ALAE expense).

State whether any managed care services will be provided by subcontractors, and if so, identify the subcontractors and the specific services to be provided by each.

3. Additional Managed Care Pricing Information

The Plan requests that each Bid Respondent provide the following information for informational purposes only. Managed care charges will not be reimbursed in this manner. Please provide retail pricing for the following basic managed care components:

~~(a) — The percentage of savings discounted by your selected Preferred Provider Organization(s) (PPO) from the Minnesota Medical Fee Schedule.~~

~~(b)~~(a) The nominal charge for each bill review/bill re-pricing action.

~~(e)~~ The average hourly rate charged for Nurse Case Management.

D. Pricing Format

To aid in the comparison of Bid Responses, the Plan requests that cost proposal pricing information reflected as a percentage of Collected Standard Premium be provided in the following format:

	<u>25% Share*</u>	<u>50% Share*</u>	<u>75% Share</u>	<u>100% Share</u>
w/ Managed Care _____	_____	_____	_____	_____
(Servicing Carrier Expense)				
w/out Managed Care _____	_____	_____	_____	_____
(Plan Expense)				

***Mandatory Quote**

PART V. PROPOSAL EVALUATION

A. General

As described above, while the Plan in its sole discretion may utilize such criteria in evaluating responses to the RFP as it deems necessary and appropriate, and may accept or reject any or all of the responses to the RFP, it has adopted the following proposed methodology for evaluation of Bid Responses. The Plan in its sole discretion may waive any deficiencies in a response to the RFP as part of its evaluation process.

The evaluation of Bid Responses will be undertaken by a panel of individuals designated by the Plan Administrator and the Department staff, with approval of the Commissioner. This panel will include representatives of the Plan Administrator, and may include representatives of the Department. In addition, professional staff members of, or outside professionals designated by, the Department and/or the Plan Administrator may assist in the evaluation process for such purposes as reviewing Bid Responses for compliance with mandatory requirements, contacting references and providing technical assistance and advice to the evaluation committee.

B. Evaluation Criteria

Bid Responses will be evaluated on the following:

1. The quality and completeness of the submitted Bid Response as it relates to the objectives and scope of the RFP.
2. The demonstrated knowledge and expertise of the Bid Respondent in the areas of the Plan Services.
3. The Bid Respondent's ability to provide the Plan Services as demonstrated by successful past experience.
4. The professional expertise and quality of staff to be assigned by the Bid Respondent to perform the Plan Services.
5. The Bid Respondent's demonstrated ability to effectively provide, manage and control services to be provided by the Servicing Carrier.
6. The cost effectiveness of the Cost Proposal.

C. Scoring Methodology

It is anticipated that Bid Responses will be evaluated and scored on the following basis:

<u>Category</u>	<u>Maximum Possible Points</u>
Technical Proposal – Plan of Operation/ Performance Standards	125
Technical Proposal – Organizational History and Experience	50
Cost Proposal – Servicing Carrier Fee	<u>75</u>
Total Points	250

Where possible, the methodology used in scoring each Bid Response in the stated categories will rely on quantifiable information. However, due to the nature of the Plan Services, much of the scoring involves subject matter that is difficult to measure in objective terms. With respect to the identified scoring categories, the methodology used to grade each category, and the specific items or issues to be addressed in a Bid Response are as follows:

Technical Proposal – Plan of Operation/Performance Standards

Bid Respondents must include all of the information requested in Part III. – Technical Proposal that describes any practices or procedures to be utilized in providing Plan Services. These practices or procedures that are provided in the Plan Servicing Carrier Response – Technical Proposal constitute the Servicing Carrier’s plan of operation.

Bid Respondents must address all requirements of the Servicing Carrier Minimum Performance Standards in Exhibit III, including identification of any such standards that the Bid Respondent expects to exceed or enhance. Failure to address a particular Performance Standard will be given a score of zero (0). Higher points will be awarded for exceeding or enhancing Servicing Carrier Minimum Performance Standards, but such points may vary based upon the nature of the particular standard and the extent to which the Bid Respondent proposes to exceed or enhance such standard.

Technical Proposal – Organizational History and Experience

Information provided in the Bid Response will be evaluated to determine the Bid Respondent’s knowledge and experience in providing services included in the Plan Services, with particular attention to knowledge and experience in servicing workers compensation insurance in the State of Minnesota, providing services to workers compensation assigned risk programs, and providing services to the Plan.

Cost Proposal – Servicing Carrier Fee

The Bid Respondent with the lowest fee will receive the maximum score in this category. All other Bid Respondent scores will be determined by applying the following equation:

$$(\text{Lowest Bid Respondent Fee} / \text{Subject Bid Respondent Fee}) \times 75 \text{ (pts)} = \text{Score}$$

As noted above, while the evaluation of the above factors are a proposed component in the evaluation process, the Plan is under no obligation to accept the lowest bid or indeed any bid based on cost or the overall score of any Bid Respondent relative to other Bid Respondents.

Exhibit I - Non-Collusion Affidavit

After having sufficiently reviewed the “MWCARP Servicing Carrier Request for Proposal” (“RFP”), I, being an officer or employee of the Bid Respondent that is duly authorized to enter into contracts on behalf of the Bid Respondent, do hereby agree and affirm to the following:

1. That the all activities associated with the submission of the proposal have been completed in an independent fashion and has been submitted without collusion, or by agreement, understanding, or in conjunction with any competing entity, whether a Bid Respondent or subcontractor to a Bid Respondent, that would in any way inhibit or limit the competition or bidding for a contract under this RFP;
2. That information contained within this proposal will not be shared in any fashion with any other non-related entity prior to contract award.

SIGNED: _____

TITLE: _____

BID RESPONDENT NAME: _____

DATE OF SIGNATURE: _____

TIME OF SIGNATURE: _____

Exhibit II – Affirmative Action Data Page

The Bid Respondent must complete the following information. Failure to do so may result in rejection of this proposal.

1. Have you employed more than 40 full-time employees in Minnesota on any single day in the last 12 months?

_____ Yes _____ No

2. If your answer to the above question is “Yes”, your proposal will be rejected unless you have an affirmative action plan for the employment of minority persons, women, and the disabled that has been approved by the Minnesota Department of Human Rights. Bid Respondents must be certified prior to 4:00pm CDT on September 11, 2009.

3. Please check one (1) of the following statements:

_____ Yes, we have a current certificate of compliance that has been issued by the State of Minnesota, Department of Human Rights. Please include a copy of your certificate with your proposal.

_____ No, we do not have a certificate of compliance. However, we have applied to the Department of Human Rights for certification and understand that if our plan is not approved prior to 4:00pm CDT on August 28, 2009, our proposal will be rejected.

PLEASE NOTE:

Affirmative action plans approved by the federal government, a county, or a city are not sufficient. You must have a certificate issued by the State of Minnesota. If you do not have a “Certificate of Compliance”, for further information contact the Department of Human Rights; 190 E 5th Street, Suite 700; St. Paul, Minnesota 55101; phone: 651-296-5663 or consult their website at www.humanrights.state.mn.us

Exhibit III – Servicing Carrier Minimum Performance Standards

At a minimum, Bid Respondents will be expected to comply with the performance standards of the MWCARP (see **Exhibit III**). In submitting a proposal, Bid Respondents must indicate that it will meet the minimum performance standards outlined below, and may state which performance standards will be exceeded or enhanced. The Bid Respondent must specifically indicate their enhancements or acceptance of the minimum standards by completing the side-by-side comparison found in this exhibit. Also, Servicing Carrier performance will be measured against these minimum performance standards and any proposals to exceed or enhance those standards accepted by the Plan.

Responses should be complete, but as brief as possible. Answers should be given in the side-by-side format of the exhibit form.

<u>Task</u>	<u>Minimum Standard</u>	<u>Proposed Enhancement</u>
<i>New Business</i>	Policy accurately issued within twenty-five (25) calendar days of receipt of initial premium.	
<i>Renewals</i>	<p>Renewal notice sent at least sixty (60) calendar days prior to expiration.</p> <p>Policy accurately issued within twenty-five (25) calendar days of receipt of initial premium.</p>	
<i>Endorsements</i>	When requested, endorsements issued within thirty (30) calendar days after receipt of request. Requestor contacted within five (5) business days if additional documentation is needed.	
<i>Endorsements – Additional Premium</i>	Additional Premium Endorsement issued within forty-five (45) calendar days of receipt of information leading to premium increase of at least \$500 or 25% of estimated annual premium, whichever is the lesser amount.	
<i>Certificates</i>	Certificate of Insurance issued within three (3) business days after receipt of request.	
<i>Welcome Packet</i>	Within <u>five (5) business days of initial assignment or renewal policy issuance</u> , provide the policyholder with information that clearly describes procedures for filing claims; terms of premium payment; payroll audit	

<u>Task</u>	<u>Minimum Standard</u>	<u>Proposed Enhancement</u>
	<p>procedures; loss control and safety services; other items deemed necessary; and procedures for obtaining answers to any employer questions.</p>	
<i>Preliminary Premium Audits</i>	<p>Must be completed on all accounts with estimated annual premium in excess of \$50,000; and all construction, masonry, and carpentry accounts above \$25,000.</p>	
<i>Regular Premium Audits</i>	<p>Audits completed, billed and recorded within seventy-five (75) calendar days after policy expiration or cancellation.</p> <p>Physical Audits – required as follows: premium > \$10K – annually; premium \$3K to \$10K – once every 3 years; whenever reasonable; when requested by the employer; when requested by the Plan.</p> <p>Premium < \$3K – mail audit. (Mandatory compliance for policyholder to avoid cancellation).</p> <p>Audit disputes resolved with forty-five (45) calendar days from the receipt of written notice of dispute.</p>	
<i>Claims – General</i>	<p>A file shall be established for all reported claims, and the claim shall be assigned to a qualified adjuster within two working days of receipt.</p>	

<u>Task</u>	<u>Minimum Standard</u>	<u>Proposed Enhancement</u>
<i>Claims – Lost Time</i>	<p>Personal or telephone contact or documented attempts of contact with injured work within one (1) business day from date of assignment; policyholder and witness(es) within one (1) business day of assignment; and treating doctor within one (1) business day of assignment.</p> <p>Investigation substantially completed within thirty (30) calendar days of assignment.</p>	
<i>Claims Action Plan – Indemnity</i>	<p>Target dates set in file within fifteen (15) calendar days and reviewed every thirty (30) calendar days thereafter.</p>	
<i>Claims Reporting</i>	<p>24/7 “1-800” claim reporting capabilities must be made available to all insured employers.</p>	
<i>Severe Claims On-site Review</i>	<p>Within three (3) business days of receipt of the loss report, a physical visit must be made to the site of the accident involving death or certain paralysis.</p>	
<i>Reserve Adequacy</i>	<p>Reviewed every ninety (90) calendar days.</p>	

<i>Claim Auditing</i> <u>Task</u>	Extensive claims auditing system designed for “peer review” every <u>Minimum Standard</u>	<u>Proposed Enhancement</u>
	one-hundred-eighty (180) calendar days on all claims with reserves of \$100,000 or more.	
<i>Cancellation Requests</i>	Processed and issued within three (3) business days after receipt of the request.	
<i>Managed Care</i>	Servicing Carriers agree that they shall be responsible to the Plan for the coordination and selection for choosing managed care services.	
<i>Loss Control</i>	Mandated Surveys: -Under \$15K – As requested -\$15K to 75K – 1 Annual -\$75K & above – 2 Annual	
<i>Loss Control Reports</i>	All loss control reports and recommendations must be completed within ninety (90) calendar days after the effective date of coverage or the date assigned to the carrier, whichever is later.	
<i>Loss Records</i>	Available upon written request within thirty (30) calendar days.	
<i>Billing & Collections</i>	Less than \$100 – collect or write off. More than \$100 – Diligently pursue collection until it is determined that the services of a	

<u>Task</u>	collection agency will be required. Pursue collection for no more than ninety (90) days from the last day of the month billing <u>Minimum Standard</u>	<u>Proposed Enhancement</u>
	was sent or thirty (30) days from date last payment was received.	
<i>Data Reporting</i>	Servicing Carriers shall maintain all records relating to Plan business in a manner sufficient to allow the preparation of required reports to the Commissioner and/or Plan Administrator and in a manner to allow independent auditing of all books and records related thereto.	
<i>Office</i>	Except as otherwise agreed by the Commissioner, Servicing Carrier shall maintain an office within the state of Minnesota for the purpose of performing its primary obligations to the Plan. Primary obligations include, but are not limited to the following: underwriting, policy issuance and premium collection, claims administration (including adjusting), auditing, loss control, accounting, and billing functions.	

Exhibit IV - Servicing Carrier Operational Guidelines

Part A. – Policy Issuance Services

Section 1. The Workers' Compensation and Employers' Liability Manuals.

The Servicing Carrier shall administer Plan policies in conformance with the requirements and standards provided in the Workers' Compensation and Employers' Liability Manuals as approved for use in Minnesota by the Commissioner, or as approved for use by members of a licensed data service organization pursuant to Minn. Stat, Sect. 79.62 and related rules, except where such requirements and standards are contravened by Minnesota Statute, rule or by the terms of this document. For the purposes of the guidelines, the manuals include: (A) the Basic Manual for Workers' Compensation and Employers' Liability Insurance; (B) the Workers' Compensation Statistical Plan Manual; (C) the Experience Rating Plan Manual for Workers' Compensation and Employers' Liability Insurance; (D) the Classification Codes for Workers' Compensation and Employers' Liability Insurance; (E) the approved Workers' Compensation and Employers' Liability Insurance Policy and Endorsement Forms; and (F) such other manual(s) designated for use by the Commissioner.

Section 2. Applications. The Servicing Carrier shall receive and accept from the Commissioner's designee for assignments and data collection (A) new applications for workers' compensation and employers' liability coverage, and (B) transfers of assigned risk policies, including binders, riders and endorsements of such new applications and transfer policies.

Section 3. Renewals. The Servicing Carrier shall mail renewal offers to eligible policyholders who have in force policies with the Plan in compliance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any) no less than sixty (60) days prior to expiration. The offer of renewal shall state clearly that coverage will unconditionally lapse if payment is not received ~~on or before~~ ~~prior to~~ the effective date. The Servicing Carrier may propose a more efficient process for the distribution of these materials, subject to the approval of the Plan Administrator and the Department.

Section 4. Payroll Estimates. The Servicing Carrier shall estimate the payroll for all renewal policies in conformance with generally accepted insurance industry practices. The estimate shall incorporate all information normally and reasonably accessible to the Servicing Carrier, including current information submitted by the employer.

A) Renewal Policies. The Servicing Carrier shall utilize payroll estimates based on the most recently conducted audit of policyholder, or on submissions from the policyholder to determine an estimated premium to be collected for the renewal policy period. However, the payroll estimates may be modified during the policy period based upon information obtained during a previous year's audit or other more accurate information.

B) Payroll Adjustments. The Servicing Carrier may routinely increase estimated payroll by 5% (or such other amount approved by the Plan Administrator) for inflation, provided that the increase shall not be made if information submitted by the employer indicates the increase is unwarranted.

C) Division of Payroll. The Servicing Carrier shall divide the payroll of individual employees into more than one classification, or divide total payroll into multiple classifications where the Basic Workers' Compensation and Employers' Liability Manual allows such action in accordance with Minnesota Stat., Sect. 79.211, Subd. 2 and guidelines and rules governing such division of payroll.

D) Employee Status. The Servicing Carrier shall include in its payroll estimates the payments to be made by the employer to persons who, in the Servicing Carrier's judgment, would probably be considered employees for workers' compensation purposes pursuant to the guidelines for distinguishing between employees and independent contractors, or as determined by the Minnesota Department of Labor and Industry or a court. Such payments shall be included notwithstanding that the employer maintains the persons are not employees. The Servicing Carrier shall base its judgment on the statutes, rules, and court decisions which apply to employee and independent contractor status.

Section 5. Rating. The Servicing Carrier shall calculate the premium for all renewal policies according to the most recent rate schedule and rating plan approved or adopted by the Commissioner for the Plan, including any applicable experience modification or merit rating, based on the most recent information available to the Servicing Carrier. Experience modification factors and merit rating factors for Plan policyholders will be developed and maintained by the Commissioner's designee for assignments and data collection.

Section 6. Terms of Coverage. Assigned risk policies shall provide Minnesota statutory Workers' Compensation Coverage (Part One) and Employers' Liability Coverage (Part Two). The Servicing Carrier shall conform with all reasonable instructions concerning terms of coverage as indicated by the Commissioner, the Commissioner's designee for assignments and data collection and/or the Plan Administrator. Should the circumstances of the policyholder subsequently change, the Servicing Carrier may alter the terms of coverage to accommodate such changes, subject to the terms and standards of this section.

A) Effective Time. For new policies, coverage shall be effective as of: (1) 12:01 A.M. the day after the postmark date on the envelope containing the application and deposit premium; or (2) 12:01 A.M. the day after receipt of the application and deposit premium if not postmarked or if made by personal delivery; or (3) 12:01 A.M. on any future date requested. For renewals, coverage shall be effective as of 12:01 A.M. on the date of the prior policy's expiration date.

B) Policy Term. Policies shall provide coverage for one year, unless the Servicing Carrier and the policyholder agree to an alternative term of coverage which complies with the requirements and standards applicable under Part A. - Section 1 of this guideline.

C) Employers Liability. Part Two shall provide the standard limit of liability of \$100,000. The Servicing Carrier may permit a Part Two limit of liability of up to \$1,000,000 if requested by the policyholder.

D) Item 3. No state other than Minnesota may be designated in Item 3 of the policy unless otherwise instructed by the Commissioner.

Section 7. Endorsements. The Servicing Carrier shall attach appropriate endorsements to the policy which are approved for use in Minnesota to effect allowable changes or terms requested by the policyholder or the agent, to correct clerical errors, or to otherwise bring the policy into compliance with applicable statutes, rules, or other required procedures.

A) Name Change. When the Servicing Carrier receives a written request to change the name of the policyholder on, or add another name to, a policy, the Servicing Carrier shall either (1) amend the policy as requested or (2) issue a new policy after receipt of an assignment letter from the Commissioner's designee for assignments and data collection.

B) Timing. All endorsements shall be issued in compliance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any), as stated within thirty (30) days after receipt of the request for change, subject to the recommendation of the Commissioner's designee for assignments and data collection and/or Plan Administrator, if appropriate.

C) Other-States Endorsement. The Servicing Carrier shall not attach the Other-States Endorsement to any policy issued through the Plan.

D) Experience Modification. If the applicable experience modification or merit rating is not available at the time of policy issuance, the Servicing Carrier shall apply the current modification or merit rating and attach an Experience Rating Modification Factor Endorsement. When the experience modification or merit rating becomes available, premium shall be adjusted in accordance with the rules, and the employer notified of the adjustment

E) Federal Programs. The Servicing Carrier may attach endorsements to provide coverage under "Program I" of the United States Longshore and Harbor Workers' Act or the Federal Employers' Liability Act, as specified in the Basic Manual for Workers' Compensation and Employers' Liability Insurance, unless otherwise instructed by the Commissioner.

F) Maritime. The Servicing Carrier may attach the Maritime Coverage Endorsement to provide coverage for masters and members of the crew of vessels subject to standard limit of liability of \$25,000.

G) Voluntary Coverage. The Servicing Carrier shall not endorse policies to provide Voluntary Compensation Coverage.

Section 8. Terms of Payment. The Servicing Carrier shall require premiums to be paid according to the following terms and conditions:

A) Basic Terms. For policies of less than \$2,000 estimated annual premium, 100% of premium shall be paid in advance. For policies of \$2,000 - \$9,999 estimated annual premium, the employer shall have the option of paying 100% or 50% of premium in advance. For policies of \$10,000 estimated annual premium or more, the employer shall have the option of paying 100%, 50% or ~~35%25%~~ of premium in advance. If 50% of premium is paid in advance, the remainder shall be paid in three equal quarterly installments, If ~~35%25%~~ is paid in advance, the remainder shall be paid in ~~eightnine~~ equal ~~monthly~~ installments. All such advance payments shall be credited to the estimated annual premium.

B) Installment Payments. For policies which permit installment payments, the due date for each installment shall be no less than 30 days prior to the period to which the premium applies to allow time to issue a cancellation for non-payment of premium. The first quarterly payment applies to the second quarter after the policy's inception. The first monthly payment applies to the third month after the policy's inception.

C) Volatile Payroll. Notwithstanding the options permitted to the employer under Section 7 (A) above, for policies with estimated annual premium greater than \$2,000 where payroll is volatile and the amount of annual premium is difficult to estimate, the Servicing Carrier shall reduce the risk of underpayment by doing one or more of the following, as appropriate to the size of the potential error in estimation, the type of business, and (if possible) the requests of the employer: (1) permit the same options as provided under Section 7 (A) above, but require the employer to report payroll periodically to the Servicing Carrier such that if large underpayments are indicated the Servicing Carrier may arrange a premium adjustment with the employer; (2) increase the estimated payroll towards the higher portion of the reasonable range of the estimate; or (3) put the employer on a payment plan, subject to interim reporting pursuant to the provisions of Section 7 (E) below, with an initial deposit premium.

D) Guide to Volatility Restrictions. The Servicing Carrier shall exercise its judgment concerning the risk of underpayment and the need for the precautions cited in Section 7 (C) above. In general, seasonal businesses, construction contractors, and other types of employers with volatile payroll commonly require some form of precaution provided that the degree of precaution shall be proportional to the degree of risk; and provided that the type of

business is not an absolute indicator of whether precautions are or are not necessary. For example, a contractor who can demonstrate stable payrolls over several years may require few or no precautions. Conversely, if an employer's record shows erratic levels of payroll from year to year, some precautions should be imposed regardless of the industry. The Servicing Carrier may impose any of the precautions cited in Section 7 (C) above on policies of less than \$2,000 estimated annual premium when, in the Servicing Carrier's judgment, such precautions would be cost effective and in the best interests of the Plan.

E) Interim Reporting. Unless otherwise stated in the Servicing Carrier Minimum Performance Standards (and enhancements, if any), the Servicing Carrier may issue a policy on an interim reporting basis requiring either monthly or quarterly payroll report forms. For policies subject to interim reporting, the deposit premium shall be credited to the estimated annual premium. For policies of \$2,000 - \$9,999 estimated annual premium, the deposit premium shall be 50%. For policies of \$10,000 or more estimated annual premium, the deposit premium shall be 25%. The Servicing Carrier shall mail interim payroll report forms no less than five (5) days before the end of the period to be reported. Each report form shall state clearly that it must be returned no later than twenty (20) days after the end of the quarter or month being reported.

If a payroll report is submitted when due, the Servicing Carrier shall bill the employer for the premium indicated as soon as reasonably possible, and no later than thirty (30) days after the end of the quarter or month being reported. The interim premium payment shall be due twenty (20) days after the billing is sent. If a payroll report or interim payment is not submitted when due, the Servicing Carrier shall mail such additional notices as the Servicing Carrier considers appropriate; provided that when payroll reports or interim payments become delinquent to a significant extent the Servicing Carrier shall bill the employer. The Servicing Carrier's best estimate of earned premium due, such that if the premium is not paid by the specified due date (and assuming the estimated annual premium is accurate) the Servicing Carrier shall have time to cancel the policy for non-payment of premium without the Plan being required to extend coverage without premium.

In addition, any employer who fails to meet any due dates for more than two payroll reports and/or interim payments shall be notified by the Servicing Carrier that any further delinquency regarding that policy (1) may cause the policy to be changed to an annual audit basis, with the employer required to pay the Servicing Carrier's estimate of the remaining annual premium (allowing credit for the deposit premium) and (2) may forfeit the employer's right to any form of interim reporting or installment-based payment plan on the next renewal. If this becomes necessary, the Servicing Carrier shall estimate the remaining annual premium sufficiently high to provide reasonable protection against risk of underpayment, considering the nature of the employer's business, and/or continue to require the employer to report payroll periodically.

Section 9. Policy Issuance. After receipt of the initial premium due, the Servicing Carrier shall issue and deliver said new and renewal policies, including any endorsements, to Plan insureds on forms approved by the Commissioner or Plan Administrator.

A) Use of Plan Name. The policy forms, endorsement forms, and other materials used by the Servicing Carrier in its capacity as a Servicing Carrier for the Plan shall be issued on standard forms prescribed by the Commissioner and/or the Plan Administrator.

B) Timing. Policies shall be mailed to the employer in accordance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any) within thirty (30) calendar days after receipt of the initial premium, or ten (10) days after the policy's inception date, whichever is later. The Servicing Carrier may propose a more efficient process for the distribution of these materials, subject to the approval of the Plan Administrator and the Department.

C) Filings. The Servicing Carrier shall submit all required filings to the Commissioner's designee for assignments and data collection concerning the employer's acceptance or rejection of the offer of renewal.

D) Receipt of Premium. Unless otherwise approved by the Plan Administrator, the Servicing Carrier shall not issue renewal or transfer policies to employers if the initial premium due is not received by the policy's inception date, or received by mail postmarked on or before the policy's inception date within seven (7) days after the inception date. If payment is received within twenty (20) days after the inception date (other than as provided above), the Servicing Carrier shall issue a new policy to the employer without requiring the employer to reapply to the Plan. The new policy will be effective as of 12: 01 A.M. the day after the payment is received. If payment is received more than twenty (20) days after the inception date, the Servicing Carrier shall instruct the employer to reapply to the Plan for coverage and shall indicate that the employer will not be accepted if it has an outstanding debt to the Plan.

E) Signature. All Plan policies issued under this document shall bear the signature of an authorized officer of the Plan Administrator, which signature may be a facsimile provided by the Plan Administrator.

Section 10. Agent Relations. For policies with a designated agent of record, the Servicing Carrier shall keep the agent informed of the status of the policy, and consult with the agent as is customary and appropriate in the insurance industry concerning transactions and issues associated with the policy.

A) Information. The Servicing Carrier shall provide the designated agent of record with copies of offers to renew, all information unique to the policy in force, notices of

cancellation, and any other correspondence or filings where it is customary and appropriate that the agent be informed.

B) Change of Agent. The Servicing Carrier shall permit the agent of record to be changed, pursuant to a written request from the policyholder, on renewal of the policy only and not midterm. The Servicing Carrier shall not designate an agent of record if the employer fails to name one.

C) Commission. The Servicing Carrier shall pay commission to the agent of record, if any, on all Plan policies issued. The commission shall initially be paid on estimated Annual Premium by the 15th day of the month next following receipt of the deposit premium by the Servicing Carrier. When a policy is endorsed mid-term and results in a change in estimated Annual Premium, the commission shall be adjusted by the 15th day of the month next following the endorsement. If the policy is audited and the earned Annual Premium is less than the estimated Annual Premium, the commission shall be adjusted at the time of the next regularly scheduled commission payment. If the earned Annual Premium is more than the estimated Annual Premium, the commission shall be adjusted at the time of the next regularly scheduled commission payment provided, however, the commission shall not be adjusted if the additional premium is collected by the Plan's collection agency.

D) Return Commission. If the final premium adjustment results in a return premium to the policyholder and a return commission due from the agent, the Servicing Carrier shall draft a check to the policyholder for the full amount of the return premium due and forward the check to the policyholder, and obtain from the agent a refund of the return commission due or offset the amount of the return commission due against other amounts owed to the agent.

E) Removal from Plan. For employers covered through the Plan for ninety (90) days or less, the Servicing Carrier shall not write the policy on a direct voluntary basis or make arrangements for the employer to join a self-insurance pool, until thirty (30) days after giving notice to the agent of record of its intent to offer the employer such a policy or pool membership.

Section 11. Policyholder Relations. The Servicing Carrier shall provide each policyholder with information which is reasonably sufficient to enable it to understand and exercise its rights

Section 12. Initial Information. At the time of each policy issuance, the Servicing Carrier shall provide each policyholder with information which clearly describes: (1) the procedure for filing claims; (2) the terms of payment applicable to the policy, (3) the procedure for auditing payroll and billing or refunding based on final audit; (4) the loss control and safety services available through the Plan; (5) any other information which, in the judgment of the Servicing Carrier, the Commissioner and/or Plan Administrator, would be helpful to the policyholder; and (6) the procedure for obtaining answers to any questions the employer may have about its rights

or obligations under the policy. The Servicing Carrier may propose a more efficient process for the distribution of these materials, subject to the approval of the Plan Administrator.

Section 13. Special Issues. The Servicing Carrier shall prepare literature which clarifies or explains in detail certain issues where policyholders' misunderstandings are common, or which would significantly promote the interests of the Plan. Such literature may include: (1) instructions concerning the recordkeeping necessary for accurate payroll reporting; (2) explanations of work classifications, experience modifications, rating, payroll estimation, and similar issues; (3) information regarding subcontractors; and (4) any other issues which the Servicing Carrier, the Commissioner and/or Plan Administrator considers are commonly misunderstood or inadequately understood. The Servicing Carrier shall distribute such literature to employers which it considers may benefit significantly from it, and shall make reasonable and appropriate revisions to such literature at the request of the Commissioner and/or Plan Administrator,

Section 14. Loss & Premium Report. Pursuant to the Servicing Carrier Minimum Performance Standards (and enhancements, if any), the Servicing Carrier shall, within thirty (30) days, comply with the reasonable written requests of a policyholder for a written statement concerning its losses and/or premiums under a current or recent Policy administered by the Servicing Carrier.

Section 15. Certificates of Coverage. The Servicing Carrier shall issue certificates of coverage as soon as reasonably possible, and no later than the time constraints found in the Servicing Carrier Minimum Performance Standards (and enhancements, if any). All certificates shall state whether the policyholder/employer, where applicable, has elected coverage for him/herself

Section 16. Disputes. As deemed appropriate by the Servicing Carrier or as requested by the Commissioner and/or Plan Administrator, the Servicing Carrier shall review with the Commissioner and/or Plan Administrator any complaint or dispute of a policyholder; provided that the Servicing Carrier shall not unnecessarily involve the Commissioner and/or Plan Administrator in an issue of Policy administration.

Section 17. Collections and Delinquencies. The Servicing Carrier shall make reasonable efforts to collect premium due on Policies, and any other money due to the Plan on behalf of Policies issued by the Servicing Carrier. If the Servicing Carrier finds any premium due to be uncollectible after normal and reasonable collection efforts have been made, the Servicing Carrier shall act as provided in subsection (A) or (B) below.

A) Small Delinquencies. On accounts where uncollectible premium due is less than \$100, the Servicing Carrier shall take such further steps to collect or write-off the account as, in the Servicing Carrier's discretion, are warranted and in the best interest of the Plan.

B) Large Delinquencies. On accounts where uncollectible premium due is \$100 or more, the Servicing Carrier shall diligently pursue collection of delinquent accounts until it is determined that the services of a collection agency will be required. The Servicing Carrier shall pursue collection of a delinquent account for no more than sixty (60) days from the billing date. The Servicing Carrier shall place all uncollected large delinquent accounts with a collection agency previously designated by the Commissioner on behalf of the Plan.

C) Service Fee. The Servicing Carrier shall not receive its fee on uncollectible premium which is referred to the designated collection agency for the Plan. However, the Servicing Carrier shall be paid its fee on the amount of premium collected by the designated collection agency for the Plan, net (less) of the collection agency fee. The Servicing Carrier shall report the amount of uncollectible premium referred to the designated collection agency for the Plan on its monthly transactions report. The collection agency fee is a Plan expense.

Section 18. Cancellation.

A) Cancellation Procedures. The Servicing Carrier shall cancel policies only at the request of the policyholder or for non-payment of premium or refusal to permit the completion of a payroll audit, unless otherwise authorized by the Commissioner and/or Plan Administrator. If cancellation is initiated by the Servicing Carrier for non-payment of premium, written notice of cancellation shall be sent to the policyholder with proof of mailing, permitting thirty (30) days for payment to be made. If cancellation is initiated by the Servicing Carrier for refusal to permit the completion of a payroll audit or for other reasons approved by the Commissioner and/or Plan Administrator, written notice of cancellation shall be sent to the policyholder, with proof of mailing, in accordance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any) sixty (60) days prior to the scheduled date of cancellation. The Servicing Carrier shall act on written requests for cancellation from the policyholder as soon as reasonably possible, and no later than three (3) business days after receipt of the request. The Servicing Carrier shall not honor requests to cancel policies retroactively beyond the date of request except in cases of duplicate coverage. A copy of the notice of cancellation shall be sent to the agent of record, if any, by regular mail. Notice of cancellation shall also be sent to the Commissioner's designee for assignments and data collection, with an indication of the reason for cancellation. Unearned premium shall be returned according to the provisions of subsection (C) below.

B) Third Party Requests for Cancellation. If the written request for cancellation originates from a party making payments on the policyholder's behalf, such as an agent or premium finance company, the Servicing Carrier shall initiate cancellation according to the procedures provided in subsection (A) above only after receiving (1) notice that the policyholder has defaulted on its obligations to the paying party; and (2) evidence that the paying party has obtained any required delegations of authority from the policyholder, such as power of attorney, permitting the paying party to request cancellation.

C) Return of Unearned Premium. Unless the policy was financed by a premium finance company, unearned premium shall be returned to the policyholder, and final earned premium shall be calculated (1) on the basis of a final audit; or (2) if the final audit cannot be conducted within seventy-five (75) days after the effective date of cancellation, on a pro rata basis determined by the Servicing Carrier's best estimate, provided that the policyholder shall pay no less than the minimum premium applicable to the governing classification. If the policy was financed by a premium finance company, unearned premiums shall be returned in accordance with Minn. Stat., Sect. 59A. 12.

D) Non-Payment of Premium. For the purposes of this section, the Servicing Carrier shall initiate cancellation for non-payment of premium: (1) for installment basis Policies, if payment is not received thirty-five (35) days prior to the first day of the quarter or month period to which the installment payment was to apply; (2) for interim reporting basis Policies, if any payment is not received by the due date imposed pursuant to Section 8, subsection (E) above, to protect the Plan from being required to extend coverage without premium; (3) for expiring Policies if the initial premium payment for the renewal policy is not received thirty-five (35) days prior to the expiration date; or (4) for failure of the policyholder to repay a debt owed to the Plan for a previous policy in accordance with terms established by the Servicing Carrier.

E) Reinstatement. The Servicing Carrier shall reinstate a policy without lapse of coverage if the basis for cancellation is removed (in most cases, payment is received) before the cancellation is to take effect for renewal policies, ~~if payment is received less than thirty-five (35) days before the new policy's inception, the Servicing Carrier shall file Notice of Reinstatement with the Commissioner's designee for assignments and data collection.~~ If the basis for cancellation is removed after the cancellation has taken effect, the Servicing Carrier shall instruct the employer to re-apply to the Plan for coverage and shall indicate that the employer will not be accepted if it has an outstanding debt to the Plan. Any exceptions to this operational guideline must be approved by the Plan Administrator prior to execution.

F) Prior Policy Debts. Unless otherwise instructed by the Commissioner or Plan Administrator, the Servicing Carrier shall not issue a new policy when there is outstanding premium due the Plan for coverage under a prior policy. The Servicing Carrier shall not issue a renewal policy when there is outstanding premium due the Plan for coverage under a prior policy unless the policyholder has agreed with the Servicing Carrier to repayment terms and is meeting such terms.

G) Non-Premium Cancellation. The Servicing Carrier may apply to the Commissioner and/or Plan Administrator for a finding that a policyholder is not in good faith entitled to insurance for reasons other than non-payment of premium or refusal by the employer to permit the completion of a payroll audit. Such grounds may include but are not limited to:

(1) repeated submission by the employer of misleading or erroneous payroll information; (2) flagrant disregard by the employer of the safety or loss control recommendations of the Servicing Carrier to the significant detriment of the Plan; or (3) refusal to provide information or otherwise cooperate with the Servicing Carrier to the significant detriment of the Plan.

Part B. – Managed Care Services

~~**Section 1. — Provider Network.** The Servicing Carrier shall use its best efforts to establish and maintain throughout the term of the Servicing Carrier Contract, for all employees covered by the Plan, a provider network with (A) access to an evaluating and primary treating health care provider within thirty (30) miles of either the employee’s place of employment or residence, if either is within the seven county metropolitan area, or (B) access to an evaluating and primary treating health care provider within fifty (50) miles if both the employee’s residence and place of employment are outside the seven county metropolitan area.~~

Section 12. 24-Hour Telephone Line. As provided in the Servicing Carrier Minimum Performance Standards (and enhancements, if any) the Servicing Carrier shall maintain a 24-hour toll-free telephone line, appropriately staffed for purposes of disseminating information regarding the medical services available under the Servicing Carrier’s managed care plan. The Servicing Carrier may provide this service under the same number used to provide claims information.

Section 23. Invoice Review. The Servicing Carrier shall adjudicate all medical invoices. The process will include 1) electronically reviewing each invoice for appropriateness of the charges and billing categories; 2) comparing the charges to the Minnesota approved fee schedule for workers’ compensation; ~~3) further manual reviewing of selected invoices to a Preferred Provider Network (PPO) or specialized hospital bill review organization for further discounting.~~

Section 34. Other Managed Care Services. The Servicing Carrier shall; ~~(f)~~ provide utilization review, case management and other managed care services as described in its Bid Response.

Part C – Premium Audits

Section 1. General. The Servicing Carrier shall audit Policies in conformance with the requirements and standards provided in the Workers’ Compensation and Employers’ Liability Manuals, any other guidelines and rules established by the Commissioner and/or Plan Administrator, including the Servicing Carrier Minimum Performance Standards (and enhancements, if any), and the following provisions:

A) Timeliness. Payroll audits shall be completed and recorded on the Servicing Carrier's records, and the final billing or return premium mailed no later than seventy-five (75) days after the cancellation or expiration of a policy issued through the Plan.

Section 2. Physical Audits. The Servicing Carrier shall conduct physical audits (A) annually on all Policies producing an estimated annual net premium of more than \$10,000; (B) at least once every 3 years on all Policies producing an estimated annual net premium of \$3,000 - \$10,000; (C) whenever otherwise warranted in the Servicing Carrier's judgment by the type of business, questions concerning the amount of exposure or the accuracy of classifications, or the reliability of previous mail or physical audits; (D) whenever requested by the policyholder on reasonable grounds; or (E) whenever requested by the Commissioner and/or Plan Administrator. Physical audits need not be performed on Policies producing estimated annual net premium of less than \$3,000. Physical audits may not be performed if there is consistent resistance by the policyholder or other obstacles erected by the policyholder. However, when such situations occur, the Servicing Carrier shall notify the policyholder that it will be in violation of the rules governing the Plan and shall effect cancellation of such policy. If there is reason to doubt the accuracy of the exposure base as reported by the policyholder and a physical audit is resisted, the Servicing Carrier shall cancel the policy as provided in Part A. – Section 18. The Servicing Carrier shall audit by mail all policyholders not audited physically.

Section 3. Division of Payroll. The Servicing Carrier shall divide the payroll of individual employees into more than one classification, or divide total payroll into multiple classifications where the Basic Workers' Compensation and Employers' Liability Manual allows such action in accordance with Minnesota Stat., Sect. 79.211, Subd. 2 and guidelines and rules governing such division of payroll.

Section 4. Employee Status. The Servicing Carrier shall include in its audits the payments made by the employer to persons who, in the Servicing Carrier's judgment, would probably be considered employees for workers' compensation purposes pursuant to the guidelines for distinguishing between employees and independent contractors, or as determined by the Minnesota Department of Labor and Industry or a court. Such payments shall be included notwithstanding that the employer maintains the persons are not employees. The Servicing Carrier shall base its judgment on the statutes, rules, and court decisions which apply to employee and independent contractor status.

Section 5. Disputes. As deemed appropriate by the Servicing Carrier, or as requested by the Commissioner and/or Plan Administrator, the Servicing Carrier shall review with the Commissioner and/or Plan Administrator any complaint or dispute of a policyholder relating to a premium audit.

Part D. – Loss Control and Safety

Section 1. General. The Servicing Carrier shall provide policyholders with loss control, safety and industrial hygiene surveys, consultations, and related services in conformance with generally accepted insurance industry practices, and according to the specifications contained in this section. Providing such services does not warrant or promise, expressly or otherwise, to the Plan, Commissioner, the Plan Administrator, policyholder, or other persons, that any employer's place of business is free of risk either as to those items specifically surveyed or in general. Each policyholder shall retain and exercise sole responsibility for the institution and administration of its safety and health programs.

A) Mandated Surveys. In accordance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any), the Servicing Carrier shall perform loss control and safety surveys: (1) at least twice annually, spaced no more than six (6) months apart, for policyholders with estimated annual net premium of over \$75,000; (2) at least once annually, spaced no more than eighteen (18) months since the most recent inspection, for policyholders with estimated annual net premium of \$15,000 - \$75,000; (3) whenever otherwise warranted by the circumstances, experience or claims of a policyholder, according to the judgment of the Servicing Carrier; and (4) whenever reasonably requested by a policyholder, the Commissioner and/or Plan Administrator. In conducting loss control surveys for purposes of the safety rating program, the Servicing Carrier shall use procedures established and forms developed by the Commissioner and/or Plan Administrator.

B) Survey Procedures. In accordance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any), loss control and safety surveys shall include but are not limited to: (1) a description of operations for classification purposes; (2) an appraisal of the policyholder's loss potential; (3) an appraisal of the policyholder loss control activities; (4) recommendations for loss control activities to be undertaken by the policyholder, if any; (5) recommendations for continuing service; and (6) comments concerning the compliance of the policyholder with outstanding recommendations provided on the basis of past surveys.

C) Recommendations. The Servicing Carrier shall promptly transmit its recommendations and findings to the policyholder as required in the Servicing Carrier Minimum Performance Standards (and enhancements, if any).

D) Review of Claims Records. The Servicing Carrier shall review a policyholder's claims records to facilitate analysis of accident causes and to identify accident trends.

E) Small Employers. The Servicing Carrier shall develop, promote, and make available literature, seminars, or other methods for educating employers with estimated annual net premium of less than \$15,000 concerning loss control and safety.

F) Disputes. As deemed appropriate by the Servicing Carrier, or as requested by the Commissioner and/or Plan Administrator; The Servicing Carrier shall review with the

Commissioner and/or Plan Administrator any complaint or dispute of a policyholder relating to loss control and/or safety matters.

Part E. – Claims Administration

Section 1. General. The Servicing Carrier shall handle claims and provide related services in conformance with generally accepted insurance industry practices, and in accordance with the Servicing Carrier Minimum Performance Standards (and enhancements, if any) including the following:

A) Initial Action. The Servicing Carrier shall screen all reports of injuries upon receipt. A file shall be established for all reported claims, and the claim shall be assigned to a qualified adjuster within two working days of receipt.

B) Lost Time Claims. For lost time accidents, the Servicing Carrier's staff shall initiate personal or telephone contact with the three primary parties involved within one (1) working day from the time assigned. Such accidents shall be investigated promptly as to the severity of injury, the potential extent of disability, compensability, jurisdiction, and/or liability actions.

C) WCRA Liaison. The Plan is a member of the Workers' Compensation Reinsurance Association (WCRA) and will periodically review its business to determine the appropriate retention limit. The Servicing Carrier shall be the Plan's claim contact for the WCRA for policies issued by the Servicing Carrier. The Servicing Carrier shall comply with the WCRA's plan of operation with regard to the claim contact including reporting large claims and coordinating handling of large claims.

D) Investigation. The Servicing Carrier's investigation of claims shall be substantially completed within thirty (30) days after notice of the injury. Unless inappropriate, investigations shall include, but are not limited to: (1) timely contact with the injured employee, the employer and witnesses to verify details of the accident; (2) timely contact with the treating medical provider(s) to determine history, diagnosis, treatment, prognosis, return-to-work date, and causal relationship; (3) verification of the average wage; and (4) preparation of a summary report covering items of coverage, accident description, date of injury and fist report, liability and medical investigation, subrogation potential, compensability judgment, and recommendations for future handling.

E) Reserving. The Servicing Carrier shall establish timely and accurate estimates of the amounts expected to be paid for each reported accident. All estimates should be made in consideration of the WCRA retention limit applicable to the Plan and reserves should be established in an amount that is gross of the applicable WCRA retention limit. The Servicing Carrier shall (1) revise estimates promptly to reflect additional information received concerning

the status of a claim; (2) employ tables prescribed by the Minnesota Department of Commerce in setting estimates on pension, fatal, and permanent total cases; (3) examine estimates for accuracy on an ongoing basis, or when requested by the Commissioner and/or Plan Administrator, and modify estimates as necessary.

F) Denial of Liability. If denial of liability is in order, the Servicing Carrier shall provide prompt notice thereof to the proper parties, including administrative filings where required. The Servicing Carrier shall provide a vigorous defense for non-meritorious claims. All medical bills shall be screened as to the reasonableness of charges and the necessity of treatment. Where questions of liability or reasonableness exist, the Servicing Carrier shall contact the medical provider promptly to explain why payment has not been made, and the time expected to be necessary for completing the investigation. In evaluating the reasonableness of charges and the necessity of treatment, the Servicing Carrier shall consult appropriate reference materials including, but not limited to cost surveys, peer review panels, and other sources of treatment expertise.

G) Settlement. The Servicing Carrier shall settle all contested claims in conformance with Minn. Stat., Chap. 176 and in the best interests of the Plan. To the extent feasible, settlement negotiations shall be conducted promptly after completion of the claim investigation. The Servicing Carrier shall use its discretion to settle contested claims by trial, by hearing or informally. The Servicing Carrier shall base all settlements of permanency or compromise settlements on sound claims judgment consistent with liability and medical evidence developed, in accordance with the statutory benefit structure. Upon concluding any settlement, the Servicing Carrier shall post the file with a settlement report which adequately and accurately explains the basis of the settlement and the propriety of the amounts paid. The Servicing Carrier shall prepare, or if there is outside counsel involved, cooperate in the preparation of, all settlement agreements, forms, correspondence with the Minnesota Department of Labor and Industry, and legal documents necessary to the settlement of claims. The Servicing Carrier shall insure that all cases are prepared prior to conference, hearing, or trial, and shall (1) be completely prepared in the areas at issue, such as coverage, liability, or medical issues; (2) have available all necessary lay and professional witnesses or their depositions; and (3) if the extent of disability and/or permanency are at issue, have available reports, opinions and/or witnesses ready for testimony or deposition

H) Supervision of Recovery. Insofar as appropriate in each case, the Servicing Carrier shall supervise and arrange for the provision of the most appropriate medical and rehabilitation services on behalf of each policyholder. The Servicing Carrier shall take such actions as it considers fitting to insure the promptness, quality and comprehensiveness of health care, for the soonest possible return to health and work by the employee. Such actions shall include, as appropriate: (1) continuing contact with and active liaison among the employer, the injured worker, the medical provider(s), and the rehabilitation provider(s); (2) obtaining independent medical examinations where there are questions of disability, causal relationship, or

treatment, or where reports from the treating provider are not forthcoming; (3) if necessary, making activity checks consistent with the length of disability (4) if return to work appears medically infeasible or otherwise unlikely, exploring the availability of return to modified or light work duties consistent with medical restrictions; and (5) arranging occupational rehabilitation in the form of job placement, modified work, alternative work or schooling in compliance with Minnesota statutes and rules.

I) Payment. Where the Plan is liable, the Servicing Carrier shall; (i) manage claims made under the Policies, and where the Plan is liable, make compensation, medical and rehabilitation payments promptly, and in conformance with the requirements of Minnesota statutes and rules.

J) Reimbursements and Subrogation. The Servicing Carrier shall seek recovery for the Plan from the Special Compensation Fund, the Workers' Compensation Reinsurance Association, the Second Injury Fund, or through subrogation in appropriate cases.

K) Legal. The Servicing Carrier shall utilize legal counsel in the defense and settlement of claims in accordance with sound industry practices and in a manner consistent with its practices under prior agreement with the Plan and such policies as may from time to time be established by the Commissioner and/or Plan Administrator. The Servicing Carrier shall endeavor to avoid the unnecessary involvement of legal counsel at the expense of the Plan.

Section 2. Disputes. As requested by the Commissioner and/or Plan Administrator, the Servicing Carrier shall review with the Commissioner and/or Plan Administrator any complaint or dispute of a policyholder relating to a claim.

Exhibit V – Servicing Carrier Contract (DRAFT)

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN SERVICING CARRIER AGREEMENT

THIS AGREEMENT is made and entered into effective _____, by and between the Minnesota Workers' Compensation Assigned Risk Plan (the "Plan") and _____, a _____ (the "Servicing Carrier").

RECITALS

The Plan is the source of workers' compensation and employers' liability coverage to Minnesota employers who have been unable to secure an insurance policy through the voluntary market, which coverage is substantially the same as coverage available from licensed workers' compensation insurance companies writing in the voluntary market in Minnesota.

The Plan desires to contract with Servicing Carrier to provide general administrative, managed care and claims administration services to Plan policyholders.

Servicing Carrier is [an insurance company/a self-insurance administrator] licensed under Minnesota law, and willing to provide services for the Plan upon the terms and conditions in this Agreement.

NOW, THEREFORE, in consideration of the payment of the compensation as provided herein and of the parties' mutual promises, and subject to the terms and conditions of this Agreement, the Plan and Servicing Carrier agree as follows:

1. **Definitions.** The following terms have the following meanings throughout this Agreement unless the context clearly indicates a different meaning.

"Collected Standard Premium" means the premium charged to the policyholder and collected by the Servicing Carrier, excluding the Special Compensation Fund assessment, but including premiums recovered by the Plan's collections vendor, net of such vendor's retained fee.

"Commissioner" means the Commissioner of the Minnesota Department of Commerce.

"Department" means the Minnesota Department of Commerce.

"Minimum Performance Standards" means the minimum performance requirements of the Servicing Carrier prescribed by the Plan, including any enhancements proposed by the Servicing Carrier in its Response to the RFP.

“Plan Administrator” means the party designated by the Department to manage and oversee the operation of the Plan.

“Policy” means a document issued to an employer as evidence of coverage through the Plan.

“Response” means Servicing Carrier’s proposal prepared in response to the RFP.

“RFP” means the Request for Proposal for Servicing Carrier services to be provided to the Plan, issued July 24, 2009.

2. Engagement. The Plan hereby engages Servicing Carrier as an independent Servicing Carrier, and Servicing Carrier hereby accepts such engagement, to perform services for the Plan as set forth in this Agreement with respect to assigned risk policies issued or renewed by Servicing Carrier during the term of this Agreement. Servicing Carrier understands and acknowledges that its service obligations with respect to policies issued or renewed by it throughout the term of this Agreement may continue beyond the termination of this Agreement. Servicing Carrier shall perform services in accordance with applicable laws and regulations, policies and guidelines provided by the Department and Plan Administrator, and the RFP and Servicing Carrier’s Response, except as otherwise expressly stated in this Agreement.

3. Servicing Carrier Services. Servicing Carrier shall provide services to and on behalf of the Plan as from time to time prescribed by the Department and/or Plan Administrator, including, but not limited to: (a) issue, administer and cancel Policies; (b) calculate, assess and collect premiums; (c) provide policyholders with information reasonably sufficient to enable them to understand and exercise their rights and obligations under the Policy; (d) for Policies with a designated agent of record, keep the agent informed of the status of the Policy, consult with the agent as is customary and appropriate, and pay commissions; (e) prepare literature which clarifies or explains issues where policyholders’ misunderstandings are common, or which would significantly promote the interests of the Plan; (f) provide utilization review, case management and other managed care services; (g) audit Policies; (h) provide policyholders with loss control, safety and industrial hygiene surveys, consultations, and related services; (i) manage claims made under the Policies, and where the Plan is liable, make compensation, medical and rehabilitation payments; and (j) use legal counsel in the defense and settlement of claims as necessary. Servicing Carrier shall, at all times during the term of this Agreement, comply with the Minimum Performance Standards.

4. Operations.

4.1 Servicing Carrier Office. Except as otherwise agreed by the Department, Servicing Carrier shall maintain an office in the state of Minnesota for the purpose of performing its primary obligations under this Agreement relating to underwriting, policy issuance and premium collection, claims administration, auditing, loss control, accounting, and billing functions.

4.2 Account Management Team. Servicing Carrier will, throughout the term of this Agreement, maintain an account management team responsible for carrying out Servicing Carrier’s managed care service obligations under this Agreement, and shall keep the Plan Administrator advised of the names of the team members. Such persons will meet with the Plan Administrator at mutually agreed times.

4.3 Staff. Servicing Carrier shall employ and supervise staff; and pay at its own expense any and all salaries, wages, withholding taxes, insurance and other obligations concerning the employees Servicing Carrier hires to fulfill its obligations under this Agreement.

4.4 Affirmative Action. Servicing Carrier shall comply with applicable state and federal statutes and regulations regarding equal employment opportunity and affirmative action, and shall take reasonable steps to insure that its subcontractors also comply with such statutes and regulations.

4.5 Fidelity Bond. Servicing Carrier shall cover its officers, employees, and subcontractors entrusted with the handling of Plan premiums, funds or investments under a fidelity bond or bonds in the minimum amount of \$5,000,000. The initial expense and annual premiums on the fidelity bond shall be paid by Servicing Carrier. Servicing Carrier shall maintain evidence of such coverage on file with the Plan Administrator.

4.6 Support Services. Servicing Carrier shall provide at its own expense all forms such as policy and endorsement forms, claims forms, report forms, employer information packets and billing forms, stationary, postage, telephone and other communications systems, and other supplies and services necessary or incidental to fulfilling its obligation under this Agreement. All forms including form letters, distributed to policyholders and/or agents must be pre-approved by the Department or Plan Administrator.

4.7 Data and Records. Servicing Carrier shall provide such data processing and statistical record-keeping as may be necessary or incidental to fulfilling its obligations under this Agreement. Servicing Carrier shall provide the Plan Administrator with on-line computer access to policy file information as of the effective date of this Agreement or such later date as is mutually agreed upon by the parties. Servicing Carrier shall record and maintain all information essential to the handling of policies, claims, financial transactions, and other obligations of Servicing Carrier. Claim records shall not be destroyed without approval of the Department or Plan Administrator. All records and materials concerning Plan policies and claims shall be used only by Servicing Carrier or its agents, and only for the benefit of the Plan. Except as required by law or regulation, or by the terms of this Agreement, Servicing Carrier agrees to hold confidential and not reveal for the benefit of itself or others, any information regarding the Plan business acquired through this Agreement, unless such revelation is authorized by the Department or Plan Administrator.

4.8 Availability of Records. Servicing Carrier shall make all records, materials, and procedures relating to services provided under this Agreement available for review by the Department and/or the Plan Administrator at reasonable times during normal business hours or such other times as are mutually agreeable. Servicing Carrier shall comply with any reasonable request of the Department and/or the Plan Administrator to provide information concerning Servicing Carrier's performance under this Agreement.

4.9 Program Audits. The Plan may conduct audits of the Servicing Carrier's services from time to time as deemed appropriate by the Department or Plan Administrator. Results of such audit may be used as the basis of financial and other performance measures, to negotiate or modify performance arrangements and/or to make fee adjustments in accordance with the provisions of this Agreement. Servicing Carrier will cooperate in any such audit.

4.10 Performance Bond. Within thirty (30) days after the effective date of this Agreement, Servicing Carrier shall furnish a performance bond to the Plan effective as of the effective date of this Agreement.

The bond shall provide for indemnification of the Plan, the Commissioner, the Department, the State of Minnesota, the Plan Administrator, and their agents and employees, and shall be in a form acceptable to the Department. The initial performance bond shall be in the amount of \$_____. The performance bond shall be adjusted annually based on the Plan's total written premium for the previous calendar year. The initial expense and annual premiums on the performance bond shall be paid by Servicing Carrier. In the event Servicing Carrier is unable to perform its obligations under this Agreement, including those obligations which may continue beyond the termination of this Agreement, the Plan will use the bond to compensate successor Servicing Carriers to the extent any successor Servicing Carrier is not compensated from Plan revenues in the manner contemplated by this Agreement, and to recover any expenses or damages incurred by the Plan, the Commissioner, the Department, the State of Minnesota or any of its agencies, departments or employees, or the Plan Administrator or any of its employees, relating to or arising out of Servicing Carrier's nonperformance.

5. Reporting Responsibilities.

5.1 Plan Business. Servicing Carrier shall maintain all records relating to Plan business in a manner sufficient to allow the preparation of required reports to the Department and/or Plan Administrator and in a manner to allow independent auditing of all applicable books and records. Servicing Carrier shall not include the underwriting experience of Plan business, including any reports relating to premiums, losses and expense data of the Plan in its statistical reports to data service organizations, insurance regulatory agencies, or other agencies and/or organizations which require periodic reports of the direct written business of Servicing Carrier, unless specifically authorized by the Department or Plan Administrator.

5.2 Accounting Methods. Servicing Carrier shall use accounting methods for Plan business as prescribed by the Department, the Plan Administrator, the Plan's certified public accounting firm and/or the Plan's actuary to insure consistent reporting and results for the Plan as a whole.

5.3 Financial Statements. Servicing Carrier shall prepare annual financial statements on the statutory annual report form required of property and casualty insurance companies in Minnesota, according to the instructions of the Department or Plan Administrator. Servicing Carrier shall use an automated statutory accounting software package provided by the Plan at the Plan's expense. One (1) copy of the statement shall be delivered to the Department and one (1) copy to the Plan Administrator no later than March 1 of each year, and shall include only information related to Plan business. Servicing Carrier shall also prepare statutory quarterly financial statements as directed by the Department or the Plan Administrator.

5.4 Data Service Organization Reporting. Servicing Carrier shall cooperate with the data service organization ("DSO") designated by the Department for assignments and data collections (hereinafter in this section, "designee"). Servicing Carrier shall cooperate with the designee in its fulfillment of the requirements of a DSO and its contractual obligations to the Plan with regard to Servicing Carrier's portion of the total Plan business.

5.5 Unit Statistical and Other Reports. Servicing Carrier shall file unit statistical reports on Plan business with the designee in accordance with the Workers' Compensation Statistical Plan Manual. For reporting and assessment purposes, the premiums and losses incurred outside of Minnesota but covered by the Plan shall be reported in Minnesota. Servicing Carrier shall file other special reports and data calls as required by the designee.

5.6 Reserve Analysis. Servicing Carrier shall cooperate with the Department, the Assigned Risk Plan Review Board, and their respective designees in their evaluation of the Plan's losses and reserves. This may include preparation of supplemental reports displaying individual case incurred losses by unit statistical plan injury type, and other reasonable criteria requested by the Department and/or Plan Administrator.

5.7 Management Report. Servicing Carrier shall prepare an annual narrative report for each calendar year or part thereof, during the term of this Agreement. Each report shall describe (1) Servicing Carrier's experience in applying the principles of equal employment opportunity and affirmative action during the past year, pursuant to this Agreement; (2) any suggestions Servicing Carrier may have for the improvement of the Plan's operations, including amendments to this Agreement; (3) any other issues which Servicing Carrier wishes to bring to the attention of the Department and Plan Administrator, and (4) any other issues which the Department and/or Plan Administrator requests Servicing Carrier to include. The report shall be submitted to the Department and the Plan Administrator by April 1 of each year.

5.8 Financial Audit. An annual audit shall be conducted of Plan business. The Plan shall contract with a certified public accounting firm to perform the single Plan audit. The audit shall include the tests and findings appropriate to the evaluation of an insurance company's annual statement, including tests and findings concerning Servicing Carrier's systems of internal accounting and control. Servicing Carrier shall cooperate with the designated CPA firm in its preparation of the Plan's consolidated financial statement by, among other things, complying with its reasonable requests concerning the background and preparation of the information contained in the financial statement. The findings of the audit shall be delivered to the Department and the Plan Administrator and a copy shall be forwarded to Servicing Carrier. Servicing Carrier may be required to make a formal reply to the management letter prepared by the CPA firm conducting the audit. Servicing Carrier will be required to pay for its share of the single Plan audit based on the costs calculated by the CPA firm to be Servicing Carrier's share of the cost of the audit.

5.9 Monthly Reports. Servicing Carrier shall provide to the Department and the Plan Administrator, a monthly report summarizing Servicing Carrier's activity in fulfillment of its obligations under this Agreement (Monthly Transactions Report), and to the Plan Administrator, a monthly report detailing the timeliness of all Policies issued and audits conducted. Each report shall be delivered on or before the 15th day of the month next following the month for which the report is made. These reports shall be in such forms as prescribed from time to time by the Department and/or Plan Administrator.

5.10 Other Filings, Reports and Studies. Servicing Carrier shall provide information and otherwise cooperate in the preparation and filing of any and all premium tax forms, assessment forms, and other reports required of the Plan by law, for Servicing Carrier's portion of Plan business. Servicing Carrier shall not itself be responsible for any assessment or tax liability of the Plan. Servicing Carrier shall cooperate and assist with any studies conducted by the Plan relating to Plan business and provide information requested with respect thereto.

5.11 Staff Liaison. Servicing Carrier shall inform the Plan Administrator on a continuing basis of the principal officer of Servicing Carrier with general responsibility for carrying out Servicing Carrier's obligations under this Agreement; and other individuals and/or subcontractors with major responsibilities under this Agreement.

6. Compensation; Expenses.

6.1 Servicing Carrier's Fee. As full compensation for all services rendered and to be rendered by Servicing Carrier under this Agreement, Servicing Carrier shall be paid an amount equal to ____% of the Collected Written Premium collected by Servicing Carrier during the term of this Agreement on all new and renewal Policies assigned to Servicing Carrier for servicing during the term of this Agreement. Such compensation shall be paid as accrued from Plan funds maintained by Servicing Carrier under the provisions of this Section 6.

6.2 Interest and Expense Accounts. Servicing Carrier shall establish and maintain a separate interest bearing account ("Account") in its name with an independent financial agent of Servicing Carrier's choosing (subject to the prior approval of the Plan Administrator) within the State of Minnesota. Servicing Carrier shall receive and deposit in the Account all premiums and other funds received on behalf of the Plan relating to its performance under this Agreement, and shall make payments from the Account on behalf of the Plan as authorized under this Agreement. The funds of the Plan shall not be commingled with funds of Servicing Carrier or any other person. Servicing Carrier shall have the authority to sign checks and other orders for the payment of money from such Account, and to endorse for deposit therein instruments drawn or endorsed to the order of the Plan, but only as such relate to Servicing Carrier's performance obligations under this Agreement. Servicing Carrier shall not be required to pay any Plan obligations except out of funds in the Account or otherwise provided by the Plan. Interest or other income from the holding of Account funds shall be held and disposed of on behalf of the Plan in the same manner as other funds held in the Account. The Monthly Transactions Report made by Servicing Carrier under this Agreement shall set forth the monthly interest income earned by the Account.

6.3 Servicing Carrier Expenses. All expenses incurred by Servicing Carrier under this Agreement which are not specifically described and identified in this Agreement as Plan expenses are to be paid by Servicing Carrier out of its compensation or its other resources. Specifically, Servicing Carrier shall be responsible for all costs associated with the Plan's conduct of an audit or investigation of Servicing Carrier's services as a result of substantial employee or provider complaints, and costs required to remedy identified inadequacies.

6.4 Plan Expenses. Servicing Carrier shall pay Plan expenses out of Plan funds promptly after they become due and within the period permitted by any applicable statutes or regulations, or as specifically directed by the Department or Plan Administrator. Servicing Carrier shall prepare all reports or filings associated with and required for Plan expenses paid by Servicing Carrier. Certain Plan expenses may, at the Department's direction, be paid by the Department's designee for financial administration, in which case Servicing Carrier shall be released from the requirement to make said payments until directed by the Department. Plan expenses shall consist of:

- (a) Statutory benefits which are the liability of the employer under Minn. Stat., Chap. 176.
- (b) Assessments for the Special Compensation Fund, assessments for the Assigned Risk Plan Review Board, premiums or assessments for the Workers' Compensation Reinsurance Association, fees or assessments associated with the Plan's affiliation with a data service organization, fees or assessments associated with the Plan's affiliation with other professional or industry associations, premium taxes, income taxes associated with income of the Plan, agent commissions, and any other taxes, assessments,

premiums, commissions, or fees specifically provided by law and associated with providing worker's compensation coverage under this Agreement. If any such taxes, assessments, premiums, commissions, or fees are charges against both the Plan and Servicing Carrier, Servicing Carrier shall be reimbursed for such taxes, assessments, premiums, commissions, or fees. The Department shall designate which taxes, assessments, premiums, commissions, or fees Servicing Carrier shall pay directly out of Plan funds.

(c) Costs of collection.

(d) Certain costs associated with copying or abstracting Plan records upon request of the Department, the Plan Administrator or other authorized persons.

(e) Legal fees and costs which constitute allocated loss adjustment expenses. Legal expenses that do not constitute allocated loss adjustment expenses or which, in Servicing Carrier's judgment, are outside the usual and customary legal expenses associated with Servicing Carrier's obligations under this Agreement, must be approved in advance by the Department or Plan Administrator to be reimbursed by the Plan, and reimbursement of such expenses will be made at the sole discretion of the Department or Plan Administrator, but will not be unreasonably refused.

(f) Any judicial, legislative, regulatory or administrative action which requires Servicing Carrier to incur a distinct and measurable increase in expenses beyond what is specifically required under this Agreement, net of any distinct and measurable decrease in expenses caused by said action. However, additional expenses which would effectively increase the Servicing Carrier's fee by more than 10% may be considered cause for termination of this Agreement. The amount and manner of calculating any such Plan expenses shall be determined by negotiation between the Department and/or Plan Administrator and Servicing Carrier.

7. Term and Termination.

7.1 Term. This Agreement shall continue for a term of three (3) years from and after the effective date of this Agreement, unless earlier terminated as provided herein or extended by mutual agreement of the parties for up to two additional one-year periods. No new Plan business will be assigned to Servicing Carrier after termination of this Agreement.

7.2 Early Termination. During the term of this Agreement or any period of extension, either party may terminate this Agreement for material breach by the other party of one or more provisions of this Agreement or for other cause, by giving written notice stating the reason or reasons for termination. Unless the party receiving the notice fully cures the breach within thirty (30) days after the date of the notice, this Agreement shall automatically terminate one hundred eighty (180) days after the date of the notice. Notwithstanding the foregoing, there shall be no right of cure upon any third notice of breach received by a party during the entire term of this Agreement and all extensions, and the party giving such third notice shall have the option to terminate this Agreement one hundred eighty (180) days after the date of such notice.

7.3 Transfer of Files and Records. After termination of this Agreement, Servicing Carrier shall, upon the written request of the Department or Plan Administrator, deliver to the Plan originals or copies of all documents, records and materials received, gathered, developed, or employed by Servicing Carrier for the purpose of providing services under this Agreement which are essential to the ongoing administration of

the Plan. Servicing Carrier shall retain documents, records and materials necessary for continuing service on any open claims. This requirement shall not apply to proprietary materials of Servicing Carrier such as employment records, internal management reports or records, internal financial statements or worksheets, and other materials, software, or procedures purchased or developed by Servicing Carrier for the purpose of servicing this or similar plans or policies; except insofar as such proprietary materials are essential to the ongoing administration of the Plan. The determination of what documents, records and materials are essential to the ongoing administration of the Plan shall be made by the Department and/or Plan Administrator, but with full consideration of Servicing Carrier's proprietary rights. The Department and/or Plan Administrator may permit Servicing Carrier to abstract the essential portion of required proprietary documents, records or materials. The cost of copying or abstracting any such documents, records and materials shall be paid by the Plan.

7.4 Continuing Responsibilities. Notwithstanding the termination, including the early termination, of this Agreement, Servicing Carrier shall continue to service to conclusion all policies issued under this Agreement according to the terms of this Agreement including all reporting requirements.

8. Indemnification.

8.1 Indemnification of Servicing Carrier. The Plan agrees to indemnify, defend and hold harmless Servicing Carrier and its officers, employees and agents, from and against any and all liabilities, losses, damages and expenses, including reasonable attorneys' fees, resulting from, arising out of or incurred with respect to Servicing Carrier's performance under this Agreement, except to the extent such liability, loss, damage or expense results from the Servicing Carrier's material breach of the terms of this Agreement, the negligence or misconduct of Servicing Carrier, or the negligence, misconduct or malpractice of any network provider.

8.2 Indemnification of Plan. Servicing Carrier agrees to indemnify, defend and hold harmless the Plan and its employees, agents and Servicing Carriers, the Plan Administrator and its employees, agents and Servicing Carriers, the Commissioner, the Department and the State of Minnesota, its agencies, departments and employees, from and against any and all liabilities, losses, damages and expenses, including reasonable attorneys' fees, resulting from, arising out of or incurred with respect to a material breach by Servicing Carrier of its performance obligations under this Agreement, Servicing Carrier's negligence or misconduct, or the negligence, misconduct or malpractice of any network provider.

8.3 Procedure. The party seeking indemnification (the "Indemnitee") shall give the party from whom indemnification is sought (the "Indemnitor") notice of any claim or the commencement of action or proceeding promptly after receiving notice thereof. Servicing Carrier shall permit the Plan to assume the defense of any claim or litigation resulting from a claim in which Servicing Carrier is seeking indemnification from the Plan. Servicing Carrier may participate, at its expense, in the defense of any such claim or litigation, provided that the Plan shall direct and control the defense of any such claim or litigation. If any such claim or litigation alleges a material breach by Servicing Carrier of its performance obligations under this Agreement, or negligence or misconduct by Servicing Carrier, the Plan will not, without notice to Servicing Carrier, enter into any settlement that includes an admission that Servicing Carrier materially breached its performance obligations under this Agreement or that Servicing Carrier was negligent or guilty of misconduct.

If the Plan shall not assume the defense of any such claim or litigation resulting therefrom, the Servicing Carrier may defend against such claim or litigation in such manner as it may deem appropriate, provided that expenses relating to such defense, including attorneys' fees, shall be indemnified only to the extent they are reasonable.

Except with the written consent of the Indemnitee, the Indemnitor shall not, in the defense of any such claim or any litigation resulting therefrom, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof, the giving by the claimant or the plaintiff to the Indemnitee of a release from all liability with respect to the claim or litigation. Indemnitor shall promptly reimburse Indemnitee for the amount of all expenses, legal or otherwise, reasonably incurred by the Indemnitee in connection with the defense against or settlement of such claims or litigation which are reimbursable under the provisions of this Section. If no settlement of such claim or litigation is made, the Indemnitor shall promptly reimburse the Indemnitee for the amount of any final judgment rendered with respect to such claim or in such litigation and for all reasonable expenses, legal or otherwise, incurred by the Indemnitee in the defense against such claim or litigation, but only to the extent that such amounts are reimbursable under this Section and have been actually paid, or in the case of the Commissioner, the Department, the State of Minnesota or its agencies, departments and employees, such amounts as have been actually paid and/or otherwise accounted for.

9. Miscellaneous.

9.1 Ownership of Files and Records. Any reports, records, materials, files, or other documents prepared by Servicing Carrier in the performance of its obligations under this Agreement shall be the exclusive property of the Plan and all such materials shall be remitted to or made available for inspection or copying to the Plan or its representative upon its request and upon completion, termination or cancellation of this Agreement. Servicing Carrier shall not use, willingly allow or cause to have such materials used for any purpose other than performance of its obligations under this Agreement without the prior written consent of the Plan. This requirement shall not apply to proprietary materials of Servicing Carrier such as employment records, internal management reports or records, internal financial statements or worksheets, and other materials, software or procedures purchased or developed by Servicing Carrier for the purpose of servicing this or similar plans or policies; except insofar as such proprietary materials are essential to the ongoing administration and servicing of the Plan.

9.2 Source of Compensation. The Plan shall pay or cause to be paid and satisfied all reasonable claims for compensation, fees, charges, expenses and other obligations arising under this Agreement, out of Plan funds, to the extent the same are sufficient for such purpose. Until fully paid, said obligations shall be and remain Plan obligations to be funded in accordance with Minn. Stat., Sect. 79.25 1, Subd. 5. No claim for compensation, fees, charges, expenses or other payments required by this Agreement or any claim for damages relating in any way to this Agreement shall be maintained against the Plan Administrator, the Commissioner, the Department, the State of Minnesota, or any of its agencies, departments or employees, or any funds or property of the State of Minnesota, or its agencies, departments or employees.

9.3 Professional Standards. Servicing Carrier shall at all times perform its obligations under this Agreement with reasonableness and prudence. In performing its obligations, Servicing Carrier shall comply with and implement the requirements of the laws, statutes, and agency rules of Minnesota, as said laws, statutes, and rules may be amended from time to time.

9.4 Servicing Carrier's Delegation. Servicing Carrier's ultimate responsibility for and control of its obligations hereunder shall not be delegated to any other entity except as provided herein, or except with the written approval of the Department or Plan Administrator, which approval may be withheld for any reason at the sole discretion of the Department or Plan Administrator.

9.5 Department's Delegation. After termination of this Agreement, the Department may, upon 60 days written notice to Servicing Carrier, require Servicing Carrier to transfer its continuing responsibilities under this Agreement to a successor Servicing Carrier designated by the Department. The Department may require such a transfer only if the Department determines that the quality of Servicing Carrier's performance of its continuing obligations under this Agreement is unsatisfactory or likely to soon become unsatisfactory; or if the Department determines that Servicing Carrier no longer possesses the financial integrity or insurance expertise necessary to perform its continuing obligations. The Department shall not require such a transfer without first giving Servicing Carrier an opportunity to present evidence warranting that its continuing responsibilities should not be transferred. Servicing Carrier shall supply the successor Servicing Carrier with all essential files and records concerning Servicing Carrier's obligations under this Agreement including records, materials and procedures necessary for continuing service on any open claims. If the Department requires said transfer of responsibilities, the Department may, in its sole discretion, apply all or any part of the proceeds of Servicing Carrier's performance bond required to be maintained under this Agreement to the compensation of any successor service Servicing Carrier for assuming Servicing Carrier's continuing responsibilities to the Plan, to the extent any such successor Servicing Carrier is not compensated from Plan revenues in the manner contemplated by this Agreement. Nothing herein shall limit or prevent the Department from charging Servicing Carrier for any such expenses which exceed the proceeds of the performance bond. Without limiting any other provision of this Agreement, unless Servicing Carrier receives a written discharge or release from the Department for any ongoing costs under this provision, Servicing Carrier shall continue to maintain the performance bond required under this Agreement until it has fully discharged its obligations under this Agreement.

9.6 Applicability to Policies. All duties and obligations of Servicing Carrier under this Agreement relate only to those policies and that portion of Plan business assigned to Servicing Carrier under the terms of this Agreement

9.7 Agent of Process. Servicing Carrier shall be the agent for service of any legal process associated with Servicing Carrier's portion of the total business of the Plan, at Servicing Carrier's offices maintained pursuant to this Agreement.

9.8 Modifications. This Agreement may be modified, altered or amended only by a written agreement signed by the Department or Plan Administrator, and the Servicing Carrier. No agent or employee of any party has authority to waive any provision of this Agreement except as provided herein.

9.9 Headings. All article, section and subsection headings of this Agreement are solely for reference, and do not constitute binding or effective features of this Agreement.

9.10 Contracting Ability. The Plan and Servicing Carrier each on its own behalf warrants and represents that there exists no agreement or other prohibition which prevents them from entering into this Agreement or performing its terms.

9.11 Notification Procedures. All notices between the parties, required or permitted under this Agreement, shall be made in writing and sent by certified mail. Such notice shall be effective as of the date mailed.

9.12 Status of Parties. Servicing Carrier understands and acknowledges that the Plan is not an agency of the State of Minnesota. Nothing herein shall be construed to create the relationship of employer and employee between the parties, it being understood and agreed that Servicing Carrier is an independent Servicing Carrier with all of the rights duties, and powers of such. In addition, employees of Servicing Carrier are not employees of the Plan, the Department, the State of Minnesota, or its agencies or departments, or the Plan Administrator. Servicing Carrier's employees shall at all times be under the sole control of Servicing Carrier.

9.13 Governing Law. The provisions of this Agreement, and all rights and obligations of the parties hereunder shall be governed and construed in accordance with the laws of the State of Minnesota.

IN WITNESS WHEREOF, the Plan and Servicing Carrier have caused this Agreement to be executed by their duly authorized representatives.

MINNESOTA WORKERS' COMPENSATION
ASSIGNED RISK PLAN

By Affinity Insurance Services, Inc., Plan Administrator

Dated: _____

By _____
Its _____

Dated: _____

By _____
Title _____