

**ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING
EXHIBIT 2B RESERVE STUDY**

1. PROVIDE A GENERAL DESCRIPTION OF THE ACTUARIAL METHODOLOGIES USED TO DETERMINE AND MONITOR CARRIED LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES FOR THE MEDICAL MALPRACTICE BUSINESS WRITTEN, INCLUDING FREQUENCY OF REVIEWS.

PACO's internal actuary monitors carried reserves on a quarterly basis and communicates findings to the independent opining actuary. At year end, the independent opining actuary performs his own analysis to make sure that carried reserves are appropriate. Both actuaries are Fellows of the Casualty Actuarial Society and perform their duties using sound actuarial procedures including the utilization of four methodologies in the estimation of loss and loss expense reserves.

2. DISCUSS THE ADEQUACY OF MEDICAL MALPRACTICE LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES AS OF THE MOST RECENT YEAR-END AND IDENTIFY AND DESCRIBE ANY MATERIAL CHANGES IN THE PAST FIVE YEARS IN AMOUNTS OF CARRIED RESERVES AND IN RESERVING METHODS. IF A MATERIAL UNFAVORABLE TREND EXISTS, INDICATE WHAT ACTIONS WERE TAKEN TO ADDRESS THIS ISSUE. IDENTIFY THE MATERIALITY STANDARD USED TO RESPOND TO THIS QUESTION AND PROVIDE THE BASIS FOR THIS STANDARD.

Both PACO's independent opining actuary and actuaries for PACO's independent auditor have determined that PACO's carried reserves at year end 2006 are adequate. No material changes have occurred the last five years in regards to reserving methods.

3. COMPARE COMPANY TRENDS TO INDUSTRY TRENDS, WITH REGARDS TO THE MEDICAL MALPRACTICE LINE OF BUSINESS AND INCLUDE INFORMATION ABOUT THE SPECIFIC BUSINESS WRITTEN BY THE COMPANY AND, IF NECESSARY, REASONS WHY COMPANY TRENDS ARE DIFFERENT FROM THE INDUSTRY.

PACO's loss and loss adjustment expense trends are consistent with the medical malpractice industry as a whole. Like other companies, PACO is observing a slightly negative frequency trend and a small positive severity trend. The combined loss cost trend is slightly positive but lower than that of most medical malpractice companies due to PACO's lower exposure to claims resulting from catastrophic medical errors.

**ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING
EXHIBIT 2B SURPLUS STUDY**

1. PROVIDE A GENERAL DISCUSSION REGARDING THE ADEQUACY OF SURPLUS REPORTED ON ANNUAL STATEMENT, PAGE 3 (LIABILITIES, SURPLUS AND OTHER FUNDS), LINE 35, SURPLUS AS REGARDS POLICYHOLDERS, AS OF THE LAST YEAR-END.

The net financial position of PACO improved in 2006. Policyholders' surplus increased \$0.7 million (7.2%). The primary reasons for the increase were net income of \$0.8 million partially offset by a decrease in net admitted assets of \$0.1 million.

PACO's total adjusted capital of \$11.5 million, compared with its RBC requirement of \$2.5 million is well above the required minimum.

2. IDENTIFY AND DESCRIBE ANY MATERIAL EVENTS OR KNOWN MATERIAL TRENDS, FAVORABLE OR UNFAVORABLE, IN THE INSURER'S SURPLUS ACCOUNT IN THE PAST FIVE YEARS. THE DESCRIPTION SHOULD INCLUDE ANY SIGNIFICANT CHANGES IN THE SURPLUS RATIOS SHOWN ON EXHIBIT A. IF A MATERIAL UNFAVORABLE TREND EXISTS, INDICATE THE COURSES OF REMEDIAL ACTIONS ALREADY TAKEN OR THAT ARE AVAILABLE TO THE INSURER AND THE EFFECTS OR POTENTIAL EFFECTS OF EACH. IDENTIFY THE MATERIALITY STANDARD USED TO RESPOND TO THIS ITEM AND PROVIDE THE BASIS FOR THIS STANDARD.

There have been no material events or known material trends, favorable or unfavorable, in the company's surplus account in the past five years.

**ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING**

THE CONSULTING ACTUARIAL REPORT AND DATA SUPPORTING THE COMPANY'S RATE FILING SHALL BE INCLUDED IN FILE 4, AS REFERENCED IN APPENDIX B. EACH COMPANY SHALL FILE THE ACTUARIAL REPORT PROVIDING JUSTIFICATION AND DATA SUPPORTING THE MOST RECENT MEDICAL MALPRACTICE RATE FILING.

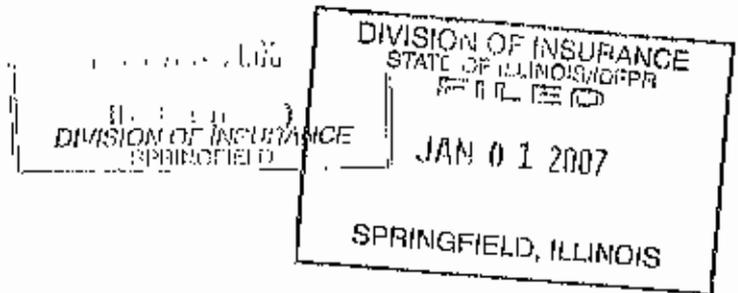
Attached is a copy of PACO's most recent Illinois rate filing which became effective January 1, 2007. In the State of Illinois, the company writes medical malpractice coverage for chiropractors only; therefore, the attached filing contains actuarial data specific to chiropractors only.



COPY

August 22, 2006

Ms. Gayle Neuman
Illinois Department of Insurance
320 West Washington Street
Springfield, Illinois 62767



RE: PACO Assurance Company, Inc.
NAIC Group# 3504 - NAIC Company# 10222 - FEIN# 36-3998471
Line 11.0003 Medical Malpractice Claims Made and Occurrence/Chiropractors
OUM Chiropractor Program
2007 Revised Rate Filing
Company Filing Number: IL-781-C
Proposed Effective Date: January 1, 2007

Dear Ms. Neuman:

We are submitting for your approval revisions to the currently approved rates for the above referenced program. The last revision of the rates currently approved for the program were approved under SERFF Tracking SERT-67WNVD939/00-00/00-01/00 approved on 2/23/2005 with an effective date of 6/1/2005 and State Tracking # PACOILCRA04010501.

With this filing, we are requesting a rate change of +6.0%. Our request is based upon the attached exhibits prepared by our Chief Actuary, John E. Daniel, FCAS, MAAA, whose Actuarial Memorandum is also enclosed to provide a more detailed explanation with respect to the materials being filed.

We have included any required transmittal forms or supporting documents as well as any applicable filing fee

Please do not hesitate to contact me if you need any additional information. Your review and consideration is appreciated.

Sincerely,

Brenda G. Crawford

Brenda G. Crawford
Regulatory Affairs Coordinator
1-800-251-5727 Ext. 2150

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**ACTUARIAL MEMORANDUM
CHIROPRACTIC PROGRAM
UNDERWRITTEN BY PACO ASSURANCE COMPANY, INC. (PACO)
2007 CHIROPRACTIC RATE INDICATION**

Enclosed are Tables and Exhibits to support PACO's proposed statewide average chiropractic rate change of +6.00% (Table 1, Line 17) in Illinois. The point estimate indicated rate change is +6.22% (Table 1, Line 16). The selected rate change reflects PACO management's consideration of underwriting, legislative, and marketing issues.

It is my belief that the attached Tables and Exhibits indicate that the proposed rate change is not inadequate, excessive, or unfairly discriminatory. If you have any questions concerning these Tables and Exhibits, please call me at (615) 984-2030 or email me at jdaniel@picagroup.com.

Sincerely,

John E. Daniel

John E. Daniel, FCAS, MAAA
Chief Actuary
The PICA Group

John E. Daniel, FCAS, MAAA, Chief Actuary
110 Westwood Place • Brentwood, TN 37027
1-800-251-5727 ext 2030 or 615-984-2030 • Fax 615-370-4803

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ILLINOIS CERTIFICATION FOR MEDICAL MALPRACTICE RATES

(215 ILCS 5/155.18)(3) states that medical liability rates shall be certified in such filing by an officer of the company and a qualified actuary that the company's rates are based on sound actuarial principles and are not inconsistent with the company's experience.

I, Douglas Webb, a duly authorized officer of PACO Assurance Company, Inc., am authorized to certify on behalf of the Company making this filing that the company's rates are based on sound actuarial principles and are not inconsistent with the company's experience, and that I am knowledgeable of the laws, regulations and bulletins applicable to the policy rates that are the subject of this filing.

I, John E. Daniel, FCAS, MAAA, a duly authorized actuary of PACO Assurance Company, Inc. am authorized to certify on behalf of PACO Assurance Company, Inc. making this filing that the company's rates are based on sound actuarial principles and are not inconsistent with the company's experience, and that I am knowledgeable of the laws, regulations and bulletins applicable to the policy rates that are the subject of this filing.

[Signature] Douglas Webb, Chief Financial Officer Date 8/21/06

[Signature] John E. Daniel, FCAS, MAAA Date 8/21/06

Insurance Company [IN 36 399847] Filing Number [IL-781-C]
Insurer's Address [110 Westwood Place]
City [Brentwood] State [TN] Zip Code [37027]
Contact Person's Name and E-mail [Brenda G. Crawford] [bcrawford@picagroup.com]
Direct Telephone and Fax Number [1-800-251-5727 x. 2150] Fax: [615-370-4803]

ILLINOIS FORM RF-3

50 Ill. Adm. Code 754 Exhibit A Summary sheet (Form RF-3)
§ 754. Exhibit A Summary sheet (Form RF-3)

COPY

SUMMARY SHEET

Change in Company's premium or rate level produced by rate revision effective 1/1/2007.

(1) Coverage	(2) Annual Premium Volume (Illinois)*	(3) Percent Change (+ or -)**
1. Automobile Liability Private Passenger Commercial		
2. Automobile Physical Damage Private Passenger Commercial		
3. Liability Other Than Auto		
4. Burglary and Theft		
5. Glass		
6. Fidelity		
7. Surety		
8. Boiler and Machinery		
9. Fire		
10. Extended Coverage		
11. Inland Marine		
12. Homeowners		
13. Commercial Multi-Peril		
14. Crop Hail		
15. Worker's Compensation		
16. Other: <u>Medical Malpractice</u> Line of Insurance - <u>Chiropractic</u>	\$635,159 [2005 Direct Written Premium]	+6%

Does filing only apply to certain territory (territories) or certain classes? If so, specify: This filing applies to all Territories in Illinois and Chiropractic rates only.

Brief description of filing. (If filing follows rates of an advisory organization, specify organization) This is a revised rate filing requesting a 6% increase in rates for the OUM Chiropractor Program

*Adjusted to reflect all prior rate changes.

**Change in Company's premium level which will result from application of new rates

Name of Company PACO Assurance Company, Inc.

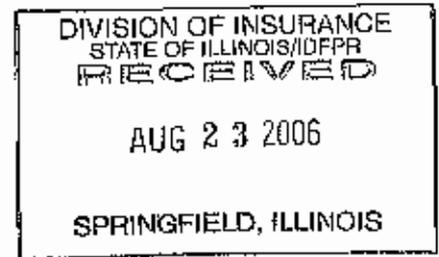
Official - Title John E. Daniel
John E. Daniel, FCAS, MAAA
Chief Actuary

Authority.-- Implementing Articles VII-A and XXVI of the Illinois Insurance Code (Ill. Rev. Stat. 1989, ch. 73, par. 735A) and authorized by Section 401(a) of the Illinois Insurance Code (Ill. Rev. Stat. 1989, ch. 73, par. 1013).

HISTORY Filed September 9, 1975, effective September 30, 1975; codified at 7 Ill. Reg. 7458.

CROSS REFERENCE 215 ILCS 5/401

DOCUMENT ID IL REGS RG 50 Ill. Adm. Code 754 Exhibit A



COPY

PACO Assurance Company, Inc.
OUM Chiropractor Program

Illinois 01 - Cook County

Effective 1/1/07

Sole Chiropractor

Limits (000 omitted)	Claims Made				Occurrence
	1st Year	2nd Year	3rd Year	4th Year	
100/300	\$856	\$1,285	\$1,820	\$2,141	\$2,248
200/600	\$1,027	\$1,542	\$2,184	\$2,569	\$2,697
250/750	\$1,104	\$1,658	\$2,348	\$2,762	\$2,900
500/1000	\$1,198	\$1,799	\$2,548	\$2,997	\$3,147
500/1500	\$1,233	\$1,850	\$2,621	\$3,083	\$3,237
1000/1000	\$1,327	\$1,992	\$2,821	\$3,319	\$3,485
1000/3000	\$1,455	\$2,185	\$3,094	\$3,640	\$3,822

DIVISION OF INSURANCE
STATE OF ILLINOIS/IDFPR
F I L E D

JAN 01 2007

SPRINGFIELD ILLINOIS

COPY

PACO Assurance Company, Inc.
OUM Chiropractor Program

Illinois 02 - All counties except Cook

Effective 1/1/07

Sole Chiropractor

Limits (000 omitted)	Claims Made				Occurrence
	1st Year	2nd Year	3rd Year	4th Year	
100/300	\$838	\$1,257	\$1,781	\$2,095	\$2,200
200/600	\$1,006	\$1,508	\$2,137	\$2,514	\$2,640
250/750	\$1,081	\$1,622	\$2,297	\$2,703	\$2,838
500/1000	\$1,173	\$1,760	\$2,493	\$2,933	\$3,080
500/1500	\$1,207	\$1,810	\$2,565	\$3,017	\$3,168
1000/1000	\$1,299	\$1,948	\$2,761	\$3,247	\$3,409
1000/3000	\$1,425	\$2,137	\$3,028	\$3,562	\$3,740

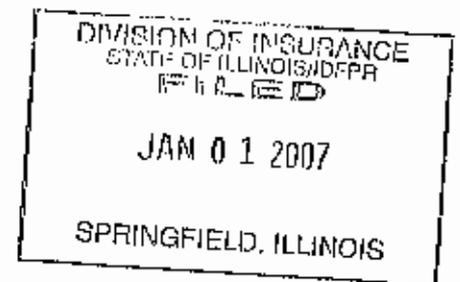


TABLE 1

PACO ASSURANCE COMPANY, INC.
 OUM CHIROPRACTOR PROGRAM

ILLINOIS

PROPOSED RATE CHANGE FOR 1/1/2007

Expense Item	Percent of Direct Earned Premium
(1) General Administration	23.44%
(2) Underwriting Profit Provision	5.00%
(3) Commissions	0.00%
(4) Investment Income Offset	-8.34%
(5) Taxes, Licenses, and Fees	0.50%
(6) Total Expenses	20.59%
(7) Target Loss + LAE Ratio	79.41%
(8) Expected Losses + ALAE	73.64%
(9) ULAE	5.30%
(10) Total Loss + LAE Ratio	78.94%
(11) Indicated Rate Change	-0.59%
(12) Annual Trend Factor	1.030
(13) Years of Trend	2.58
(14) Complement of Credibility for Indicated Rate Change	7.92%
(15) Credibility Factor for Indicated Rate Change	20.00%
(16) Credibility Weighted Indicated Rate Change	6.22%
(17) Selected Rate Change	6.00%

Notes:

- (1) - (3) From PACO's budget for 2007
- (4) Item (9) from Appendix, Exhibit 5.
- (5) Sum of (1) - (3).
- (7) = $100.00\% - (6)$
- (8) Item (7) from Table 5
- (9) From PACO's budget for 2007
- (10) Sum of (8) - (9).
- (11) = $\{(10) / (7)\} - 100.00\%$
- (12) Item (6) from Appendix, Exhibit 3.
- (13) Years from Effective Date of most recent rate filing to one year beyond Requested Effective Date of this filing
- (14) = $\{(12) ^ (13)\} - 100.00\%$
- (15) From Column (3) of Appendix, Exhibit 6.
- (16) = $\{(11) \times (15)\} + \{(14) \times [100.00\% - (15)]\}$
- (17) Selected by PACO management.

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TABLE 2

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

ESTIMATED ULTIMATE LOSSES + ALAE
LOSS DEVELOPMENT METHODS

A. Paid Loss Development Method

(1) Report Year	(2) Direct Paid Loss+ALAE as of 12/31/2005	(3) Direct Paid Loss+ALAE Development Factor	(4) Estimated Ultimate Loss+ALAE
2003	40,408	1.444	58,338
2004	30,181	2.432	73,408
2005	29,722	13.373	397,484
	100,311		529,229

B. Reported Loss Development Method

(5) Report Year	(6) Direct Reported Loss+ALAE as of 12/31/2005	(7) Direct Reported Loss+ALAE Development Factor	(8) Estimated Ultimate Loss+ALAE
2003	647,431	1.100	712,174
2004	107,088	1.584	169,575
2005	117,198	2.960	346,886
	871,717		1,228,635

Notes.	
(3)	Cumulative factors from Appendix, Exhibit 1.
(4)	= (2) x (3)
(7)	Cumulative factors from Appendix, Exhibit 2
(8)	= (6) x (7)

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TABLE 3

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

ESTIMATED ULTIMATE LOSSES + ALAE
BORNHUETTER-FERGUSON METHODS

A Initial Estimated Ultimate Losses + ALAE

Report Year	(1) Direct Earned Premium	(2) Initial Estimated Loss+ALAE Ratio	(3) Initial Estimated Ultimate Loss+ALAE
2003	306,414	63.0%	193,041
2004	490,536	65.0%	318,848
2005	636,980	64.0%	407,667
	1,433,930		919,556

B. Paid Bornhuetter-Ferguson Method

Report Year	(4) Initial Estimated Ultimate Loss+ALAE	(5) Expected Percentage Unpaid as of 12/31/2005	(6) Expected Loss+ALAE Unpaid as of 12/31/2005	(7) Direct Paid Loss+ALAE as of 12/31/2005	(8) Expected Loss+ALAE Paid as of 12/31/2005	(9) Estimated Ultimate Loss+ALAE
2003	193,041	30.7%	59,333	40,408	133,708	99,740
2004	318,848	58.9%	187,754	30,181	131,094	217,936
2005	407,667	92.5%	377,184	29,722	30,484	405,906
	919,556		624,271	100,311	295,286	724,582

C Reported Bornhuetter-Ferguson Method

Report Year	(11) Initial Estimated Ultimate Loss+ALAE	(12) Expected Percentage Unreported as of 12/31/2005	(13) Expected Loss+ALAE Unreported as of 12/31/2005	(14) Direct Reported Loss+ALAE as of 12/31/2005	(15) Expected Loss+ALAE Reported as of 12/31/2005	(16) Estimated Ultimate Loss+ALAE
2003	193,041	9.1%	17,549	647,431	175,492	664,980
2004	318,848	36.8%	117,494	107,080	201,356	224,582
2005	407,667	66.2%	269,934	117,190	137,734	387,132
	919,556		404,977	871,717	514,580	1,276,694

Notes:

- (3) = (1) x (2)
- (6) = 100% - (1,000 / Paid Loss+ALAE Development Factor)
- (7) = (5) x (6)
- (9) = (5) - (7)
- (10) = (7) + (8)
- (13) = 100% - (1,000 / Reported Loss+ALAE Development Factor)
- (14) = (12) x (13)
- (16) = (12) - (14)
- (17) = (14) + (15)

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TABLE 4

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

ESTIMATED ULTIMATE LOSSES + ALAE
SELECTION AND TRENDING

A. Selected Estimated Ultimate Losses + ALAE

(1) Report Year	(2) Estimated Ultimate Losses + ALAE				(6) Selected
	(2) Paid Loss Development Method	(3) Reported Loss Development Method	(4) Paid Bornhuetter- Ferguson Method	(5) Reported Bornhuetter- Ferguson Method	
2003	68,338	712,174	99,740	664,980	383,808
2004	73,408	169,575	217,936	224,582	171,375
2005	397,484	346,886	406,906	387,132	397,019
	529,229	1,228,635	724,582	1,276,694	952,202

B. Trended Estimated Ultimate Losses + ALAE

(7) Report Year	(8) Selected Estimated Ultimate Loss+ALAE	(9) Years of Trend	(10) Loss Trend Factor	(11) Trended Estimated Ultimate Loss+ALAE
2003	383,808	4.5	1.142	438,411
2004	171,375	3.5	1.109	190,054
2005	397,019	2.5	1.077	427,468
	952,202			1,055,934

Notes
(2) From Column (4) of Section A of Table 2
(3) From Column (8) of Section B of Table 2.
(4) From Column (10) of Section B of Table 3.
(5) From Column (17) of Section C of Table 3
(6) Average of all methods for 2003-2004 Average of the Bornhuetter-Ferguson methods for 2005.
(9) Years from midpoint of Report Year to one year beyond Requested Effective Date of this filing.
(10) = (100.00% ÷ Item (6) from Appendix, Exhibit 3) ^ (9)
(11) = (8) x (10)

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TABLE 5

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

ESTIMATED ULTIMATE ON-LEVEL LOSS + ALAE RATIO

(1) Report Year	(2) Direct Earned Premium	(3) Premium Adjustment Factor	(4) On-Level Direct Earned Premium	(5) Trended Estimated Ultimate Loss+ALAE	(6) Estimated Ultimate On-Level Loss+ALAE Ratio
2003	306,414	1.00000	306,414	438,411	143.08%
2004	490,536	1.00000	490,536	190,054	38.74%
2005	636,980	1.00000	636,980	427,468	67.11%
	<u>1,433,930</u>		<u>1,433,930</u>	<u>1,055,934</u>	<u>73.64%</u>
				(7) Selected =	73.64%

Notes:
(3) From Column (6) of Appendix, Exhibit 4.
(4) = (2) x (3)
(5) From Column (11) of Section B of Table 4.
(6) = (5) / (4)

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APPENDIX, EXHIBIT 1

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

COUNTRYWIDE PAID LOSS & ALAE DEVELOPMENT FACTORS
(Losses and ALAE are Unlimited.)

Treaty Yr	Age of Treaty Year in Months						
	12	24	36	48	60	72	84
1999			6,300	6,449	6,449	6,449	6,449
2000	269	15,490	15,490	15,490	15,490	15,490	
2001	507,009	522,849	522,849	522,849	522,849		
2002	80,098	765,050	2,715,096	2,852,462			
2003	155,598	2,136,502	2,541,567				
2004	212,661	1,814,611					
2005	425,134						

Treaty Yr	Age to Age Factors						
	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84	84 to Ult
1999			1.024	1.000	1.000	1.000	
2000	57.583	1.000	1.000	1.000	1.000		
2001	1.031	1.000	1.000	1.000			
2002	9.561	3.549	1.051				
2003	13.731	1.190					
2004	8.533						

Weighted Average	5.498	1.685	1.042	1.000	1.000	1.000	
Selected	5.498	1.685	1.250	1.100	1.050	1.000	1.000

Cumulative	Age to Age Factors						
	12 to Ult	24 to Ult	36 to Ult	48 to Ult	60 to Ult	72 to Ult	84 to Ult
	13.373	2.432	1.444	1.155	1.050	1.000	1.000

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APPENDIX, EXHIBIT 2

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

COUNTRYWIDE REPORTED LOSS & ALAE DEVELOPMENT FACTORS
(Losses and ALAE are Unlimited.)

Treaty Yr	Age of Treaty Year In Months						
	12	24	36	48	60	72	84
1999			6,300	6,449	6,449	6,449	6,449
2000	13,768	15,490	15,490	15,490	15,490	15,490	
2001	527,009	528,412	522,849	522,849	522,849		
2002	849,091	1,506,803	3,083,731	2,879,982			
2003	1,585,444	2,953,771	3,582,178				
2004	1,500,645	3,361,743					
2005	1,872,679						

Treaty Yr	Age to Age Factors						
	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84	84 to Ult
1999			1.024	1.000	1.000	1.000	
2000	1.125	1.000	1.000	1.000	1.000		
2001	1.003	0.989	1.000	1.000			
2002	1.775	2.047	0.934				
2003	1.863	1.213					
2004	2.240						
Weighted Average	1.869	1.440	0.944	1.000	1.000	1.000	
Selected	1.869	1.440	1.100	1.000	1.000	1.000	1.000

	12 to Ult	24 to Ult	36 to Ult	48 to Ult	60 to Ult	72 to Ult	84 to Ult
Cumulative	2.960	1.584	1.100	1.000	1.000	1.000	1.000

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APPENDIX, EXHIBIT 3

PACO ASSURANCE COMPANY, INC.
 OUM CHIROPRACTOR PROGRAM

COUNTRYWIDE SEVERITY TREND FACTOR

<u>Treaty Yr</u>	<u>Years of Trend</u>	<u>Estimated Ultimate Unlimited Loss+ALAE</u>	<u>Reported Claims as of 12/31/2005</u>	<u>Estimated Ultimate Average Severity</u>	<u>Logarithm of Average Severity</u>	<u>Fitted Logarithm of Average Severity</u>	<u>Selected Fitted Logarithm of Average Severity</u>
2002	0	2,879,982	35	82,285	11.31795	11.14832	11.14832
2003	1	3,826,343	62	61,715	11.03029	11.20384	11.17832
2004	2	5,016,948	76	66,012	11.09760	11.25937	11.20832
2005	3	5,615,518	58	96,819	11.48060	11.31490	11.23832
2006		17,338,791	231	75,060			
2007							

(1) Slope	5.55%
(2) Intercept	11.14832
(3) R-Squared Value (Goodness of Fit)	12.05%
(4) Selected Severity Trend	3.00%
(5) Selected Trend R-Squared Value (Goodness of Fit)	12.05%
(6) Selected Annual Severity Trend Factor	1.030

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APPENDIX, EXHIBIT 4

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

PREMIUM ADJUSTMENT FACTORS

(1) Treaty Yr	(2) Approved Rate Change	(3) Rate Change Factor	(4) Cumulative Rate Change Factor	(5) Written Premium Adjustment Factor	(6) Earned Premium Adjustment Factor
2002	0.00%	1.0000	1.0000	1.0000	1.0000
2003	0.00%	1.0000	1.0000	1.0000	1.0000
2004	0.00%	1.0000	1.0000	1.0000	1.0000
2005	0.00%	1.0000	1.0000	1.0000	1.0000
2006	0.00%	1.0000	1.0000	1.0000	1.0000

Notes:
(3) = 100% + (2)
(4) = (4) for Prior Year x (3) for Current Year
(5) = (4) for 2006 / (4) for Current Year
(6) Based on expectation of continuously distributed earnings

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APPENDIX, EXHIBIT 5

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

DERIVATION OF INVESTMENT INCOME OFFSET

Discount Rate =

5.00%

(1) Year	(2) Paid Loss+ALAE Development Factor	(3) Expected Percentage of Ultimate Loss+ALAE Paid at Yearend	(4) Incremental Percentage Paid	(5) Discount Factor	(6) Discounted Incremental Percentage Paid
1	13.373	7.48%	7.48%	97.59%	7.30%
2	2.432	41.11%	33.64%	92.94%	31.26%
3	1.444	69.26%	28.15%	88.52%	24.92%
4	1.155	86.58%	17.32%	84.30%	14.60%
5	1.050	95.24%	8.66%	80.29%	6.95%
6	1.000	100.00%	4.76%	76.46%	3.64%
7	1.000	100.00%	0.00%	72.82%	0.00%
8	1.000	100.00%	0.00%	69.36%	0.00%
					<u>88.67%</u>

(7) Investment Income as Percent of Losses + ALAE =	11.33%
(8) Investment Income as Percent of Direct Earned Premium =	8.34%
(9) Investment Income Offset =	-8.34%

Notes:
(3) = 100.00% / (2)
(4) = (3) for Current Year - (3) for Prior Year
(5) = [100.00% / (100.00% + Discount Rate)] ^ (1)
(6) = (4) x (5)
(7) = 100.00% - Sum of (6)
(8) = (7) x Item (7) from Table 5
(9) = Additive inverse of (8)

COPY

APPENDIX, EXHIBIT 6

PACO ASSURANCE COMPANY, INC.
OUM CHIROPRACTOR PROGRAM

ILLINOIS

CREDIBILITY FACTOR FOR INDICATED RATE CHANGE

(1) Number of Claims Reported <u>2003-2005</u>	(2) Full Credibility Standard <u>500</u>	(3) Credibility Factor for Indicated Rate Change <u>20.00%</u>
10	500	20.00%

Notes
(3) = [(1) / (2)] ^ 0.5 with a minimum of 20%

**ILLINOIS DEPARTMENT OF INSURANCE
MEDICAL MALPRACTICE REPORTING
COMPANY DEFINED ITEMS**

1. FOR ALL REPORTS REQUIRING "BY COUNTY" INFORMATION, THE COMPANY MAY GROUP THE DATA BY POLICY ISSUING COUNTY OR OTHER METHOD THAT IS CONSISTENT WITH ITS RATEMAKING PRACTICES. THE COMPANY MUST IDENTIFY WHICH METHOD IS USED. THE COMPANY MUST USE A CONSISTENT METHOD TO GROUP THE DATA IN ALL "BY COUNTY" REPORTS. DATA GROUPED BY TERRITORY IS UNACCEPTABLE. DESCRIBE ANY CHANGES MADE TO THE WAY IN WHICH THE DATA HAS BEEN GROUPED DURING THE PAST TEN YEARS AND THE IMPACT OF THE CHANGE(S) ON THE REPORTS.

County location is based on policyholder location. There has been no change in this regard during the past ten years.

2. DESCRIBE ANY CHANGE(S) MADE TO RESERVING OR CLAIM PAYMENT PRACTICES IN THE PAST TEN YEARS AND THE IMPACT OF THE CHANGE(S) ON THE REPORTS.

No changes have been made to reserving or claim payment practices in the past ten years.

3. DEFINE CLOSED CLAIM, I.E., IS A CLAIM CLOSED WHEN IT IS ASSIGNED A CLOSED DATE, OR WHEN BOTH INDEMNITY PLUS EXPENSE RESERVES ARE \$0, OR IN SOME OTHER INSTANCE? DESCRIBE ANY CHANGE(S) MADE TO THIS DEFINITION IN THE PAST TEN YEARS AND THE IMPACT OF THE CHANGE(S) ON THE REPORTS.

A claim is defined to be a closed claim when it has been assigned a closed date.

4. EXPLAIN/DEFINE THE CORPORATE POLICIES WRITTEN BY THE COMPANY.

All owners in the entity must be insured with PACO and maintain the same Limits of Liability. There is no additional premium for a "shared" Limit of Liability. A separate Limit of Liability is optional for an additional 5% of the total premium charged to each insured in the corporation or partnership. The maximum charge will be 100% of the mature premium for the corresponding limit of liability and the minimum would be 5% of the professional liability premium being charged.

5. EACH COMPANY SHALL USE THE BASE CLASS AND TERRITORY THAT IS CONSISTENT WITH ITS MOST RECENT RATE FILING. PLEASE DEFINE YOUR COMPANY'S BASE CLASS AND TERRITORY. DESCRIBE ANY CHANGE(S) MADE TO THE BASE CLASS AND/OR TERRITORY IN THE PAST TEN YEARS AND THE IMPACT OF THE CHANGE(S) ON THE REPORTS.

The company writes medical malpractice coverage for chiropractors only. The company has two territories for this class in Illinois. Territory 01 – Cook County ; Territory 02 – All counties except Cook ; There have been no changes to the base class and territory in the past ten years.

6. DESCRIBE ANY ADJUSTMENT(S) MADE TO EXPOSURES FOR EXTENDED REPORTING ENDORSEMENTS AND THE IMPACT OF THE ADJUSTMENT(S) ON THE REPORTS.

No adjustments have been made to exposures for extended reporting period endorsements. Therefore, there is no impact on the reports.

7. FOR THE MATURITY YEAR AND TAIL FACTORS DISCLOSURE, LIST EACH TAIL FACTOR WITH THE CORRESPONDING MATURITY YEAR IF A DIFFERENT TAIL FACTOR IS USED FOR EACH MATURITY YEAR. IF ANOTHER METHOD IS USED, LIST AND DESCRIBE FACTORS AND METHOD USED.

The percentages in the following Table shall be applied to the mature claims-made premium (4th year premium) in the year coverage is being purchased.

<u>Years of Prior PACO Claims-Made Coverage</u>	<u>Percentage of 4th Year Claims-Made Premium</u>
One	100%
Two	155%
Three	175%
Four or More	180%

8. DEFINE WHAT EXPENSES ARE INCLUDED IN THE EXPENSE FACTOR.

Expenses included in the expense factor are General administrative Expenses and Premium Taxes.

9. LIST AND DEFINE INDIVIDUALLY ANY "OTHER" FACTORS USED IN THE RATE FILING TO ESTABLISH RATES. THIS COULD INCLUDE BUT IS NOT LIMITED TO THE FOLLOWING: PROFIT LOAD, REINSURANCE LOAD, INVESTMENT INCOME, SCHEDULE DEBITS/CREDITS, ETC.

Other factors used in the rate filing to establish rates include a profit/contingency load and an estimate of investment income earned on the premiums before losses are paid.

10. DESCRIBE ANY METHODS AND/OR ASSUMPTIONS USED IN CREATING RESERVE STUDY EXHIBIT A AND WHY THESE ASSUMPTIONS ARE NECESSARY.

There are no assumptions used in creating Reserve Study Exhibit A.



RECONCILIATION

In order to reconcile the 1204 data with data contained in the most recent annual statutory financial statement, PACO has drawn entries directly from the annual statement wherever possible. Where data could not be drawn directly from the annual statement, PACO has generated reports from the database accessed for annual statement data using consistent data definitions.

To the best of our knowledge, the data contained in this report are accurate and reconcile reasonably with the most recently filed annual statutory financial statement.

A handwritten signature in cursive script, appearing to read "T. Douglas Webb".

T. Douglas Webb, CPA
Chief Financial Officer

A handwritten signature in cursive script, appearing to read "John E. Daniel, FCAS, MAAA".

John E. Daniel, FCAS, MAAA
Chief Actuary