

2011 General Dividend: Frequently Asked Questions

What is a dividend?

- A dividend is a portion of a mutual insurance company's surplus paid to stockholders. Because Pinnacol Assurance doesn't have stockholders, we return a portion of our surplus to our policyholders that earn it through their commitment to workplace safety and effective claims management.

What is the total amount of this year's general dividend?

- This year's general dividend, our seventh in seven years, is \$41.25 million.

What is the total amount of dividends Pinnacol has distributed over the past seven years?

- Since 2005, Pinnacol has returned more than \$435 million in general dividends to Colorado's business community. In addition, another \$72 million has been returned through the company's other dividend programs.

Why don't you lower your rates instead of paying a dividend?

- Rates and dividends are two very different calculations that occur under different circumstances.
- Rates are based on **future** projections; dividends are based on **past** experience. Our ultimate goal is rate stability year after year, so we set prices based on our best information about the future, but then we wait to pay dividends until results from the previous period are available.

Will you pay a dividend again next year?

- Dividends are never guaranteed since they can be impacted by policyholder claims costs, catastrophic events, the performance of our investment portfolio and other factors. None of these can be predicted with absolute accuracy.

If Pinnacol doesn't pay a dividend next year, is that a result of not managing the business as efficiently as this year?

- Not necessarily. If we are unable to pay a dividend in future years, it could be due to a number of factors, including changes to Pinnacol's enabling statute, higher than anticipated claims costs, changes to Colorado workers' compensation laws or a catastrophic event similar to September 11, which could negatively impact our investment portfolio.

What are the criteria for receiving the general dividend?

- The policy has an expiration date between June 2, 2009, and June 1, 2010.
- The policyholder must have a qualifying loss ratio. Loss ratio is a policyholder's total claims costs compared with the amount of premium paid.

How is the general dividend calculated?

- The general dividend is calculated on premium size and loss ratio, factors that contribute to Pinnacol's surplus. The dividend amount an individual policyholder receives is based on that policyholder's individual contribution to our surplus.
- Members of associations or group large deductible programs are affected by the performance of their groups. If a group's performance didn't contribute to our surplus, individual members will not receive a dividend, regardless of their individual claims history.

How much general dividend money should I expect to receive?

- Dividend amounts vary based on each policyholder's premium amount and loss ratio.
- The average general dividend being paid this year is \$802. Again, dividends are based on a policyholder's contribution to Pinnacol's surplus.

When will I receive my dividend check?

- General dividend checks will be distributed to qualified policyholders in mid-May. The majority of checks will be mailed, but some will be hand-delivered by agents and/or Pinnacol representatives.

Is the dividend taxable?

- Generally, dividends are considered taxable, but be sure to check with your tax advisor.
- In January 2012, Pinnacol will issue a 1099-MISC to policyholders that received dividends of \$600 or more, in accordance with IRS guidelines.

Why not credit my premium instead of sending me a check?

- A check gives a policyholder more control over how to use this money.

I've filed very few claims with Pinnacol. Why didn't I receive a general dividend?

- Dividend amounts are based on each policyholder's contribution to surplus through both premiums paid and loss ratio.
- If you do not have a qualifying loss ratio or have a relatively small premium, you may not qualify for a dividend.
- If an association or group large deductible program does not have a qualifying loss ratio, then individual members will not receive a general dividend, regardless of their claims history.
- If a policyholder owes Pinnacol money, the dividend amount will be applied to the outstanding balance, in most circumstances.
- A policyholder will not receive a dividend if they did not submit an audit report.

Are policyholders that participate in one of Pinnacol's alternative-pricing programs eligible to receive a general dividend?

- Yes. Policyholders that participate in Pinnacol's alternative programs such as Large Deductible Programs, Group Large Deductible Programs, Retrospective Rating Plans, Controlled Insurance Programs, Captive Arrangements, and Large Risk Alternative Rating Plans are eligible to receive general dividends.
- Participants in the Association Dividend Program or Individual Loss Control Dividend Program are eligible to receive both dividends.

What if an association doesn't earn a general dividend but some of its individual members have qualifying loss ratios?

- Association members will receive a general dividend **only** if their association, as a whole, has maintained a qualifying loss ratio and contributed to Pinnacol's surplus.
- It is important to remember that for the general dividend, the association's members' policies have an expiration date between June 2, 2009, and June 1, 2010.
- The general dividend is calculated using the specific policy period for each members' policy, regardless of the association's dividend period.

What if a policyholder changed agents or associations since the dividend period (June 2, 2009, to June 1, 2010) ended? Does that affect the general dividend check?

- Changing agents or associations after the dividend period does not impact a policyholder's eligibility for a general dividend.
- The check-stub notation will show the name of the agent/association for the dividend period for which the general dividend was calculated.