

# Frequently Asked Questions

## Concerning the Proposal to Restructure Pinnacol

As of December 13, 2011

All information in this document is subject to change.

**PINNACOL**  
ASSURANCE

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Restructuring Pinnacol is an opportunity to grow Colorado’s economy, create jobs and drive economic development for the benefit of everyone in the state. Restructuring provides Pinnacol with the flexibility to adapt to changing business conditions. Its current structure constrains Pinnacol’s ability to respond to changing economic and competitive environments, which over time will harm its policyholders, injured workers, businesses and the state. In addition, Pinnacol’s current structure constrains the value of the company, preventing policyholders and all of Colorado from benefiting from its value.

By restructuring, Pinnacol will be better positioned to (1) continue providing competitively priced and reliable workers’ compensation coverage for its policyholders, (2) strengthen protections for injured workers, (3) maintain its role as Colorado’s insurer of last resort and (4) provide short- and long-term economic benefits for all of Colorado.

## General Questions

### **Why is there a proposal to restructure Pinnacol?**

- Governor John Hickenlooper asked Pinnacol's board of directors to develop a long-term plan for Pinnacol. Company management and the board of directors conducted the initial steps of a comprehensive due diligence process and have unanimously authorized pursuing a restructuring proposal, which was sent to Governor Hickenlooper.

### **What is Pinnacol's current structure?**

- The statute that governs Pinnacol states that it is "a political subdivision of the state and shall operate as a domestic mutual insurance company."
- This conflicting directive has created confusion concerning Pinnacol's legal structure and ownership.

### **How would the proposal to restructure Pinnacol benefit policyholders, injured workers and the people of Colorado?**

- Restructuring Pinnacol is an opportunity to grow Colorado's economy, create jobs and drive economic development for the benefit of everyone in the state.
- Restructuring provides Pinnacol with the flexibility to adapt to changing business conditions. Pinnacol's current structure constrains the company's ability to respond to changing economic and competitive environments, which over time will harm its policyholders, injured workers, businesses and the state. In addition, Pinnacol's current structure constrains the value of the company, preventing policyholders and all of Colorado from benefiting from its value. Successful companies adapt to changing business and economic environments and Pinnacol's success is important to Colorado.
- By restructuring, Pinnacol will be better positioned to (1) continue providing competitively priced and reliable workers' compensation coverage for its policyholders, (2) strengthen protections for injured workers, (3) maintain its role as Colorado's insurer of last resort and (4) provide short- and long-term economic benefits for all of Colorado.

### **What would Pinnacol look like if the restructuring is successful?**

- Pinnacol would become a mutual insurance company and by definition, a mutual insurance company is owned by its policyholders.

### **Would Pinnacol remain Colorado's workers' compensation insurer of last resort?**

- Yes, Pinnacol is proposing a long-term commitment to the state to remain the insurer of last resort, protecting small businesses and other high-risk industries that cannot obtain insurance from other private carriers.

### **Would Pinnacol continue to issue dividends?**

- Pinnacol is proud of its seven-year history of issuing general dividend payments to policyholders and aims to continue paying general dividends as its financial condition allows. Dividends are **not** guaranteed and must be approved annually by the board of directors.

### **Would Pinnacol remain headquartered in Colorado?**

- Yes. Pinnacol has been providing workers' compensation insurance in Colorado for 96 years and is dedicated to Colorado businesses. The company has no plans to relocate and the proposal envisions a long-term agreement that would require Pinnacol to remain headquartered in Colorado, with the potential to add new jobs as a result of the opportunities provided by restructuring.

### **How is this proposal different from the separation proposal presented in 2010?**

- This restructuring proposal is a completely new initiative and was developed at the request of Governor Hickenlooper. The proposal represents a thoughtful long-term plan intended to be mutually beneficial for all stakeholders and is not designed as a quick fix for Colorado's General Fund.
- The 2010 proposal offered a large sum of up-front cash that would have significantly reduced policyholder surplus and was targeted to address the state's short-term budgetary problems.
- This new proposal **requires no up-front cash and keeps policyholder surplus intact**. It also allows Pinnacol to continue offering stable workers' compensation insurance to small businesses and other high-risk industries, while investing in a long-term solution for its policyholders and the public.

### **What is the Futures Fund and why would it be created as part of the proposal to restructure Pinnacol?**

- The Futures Fund, would be created by the state but operate outside of state control.
- The Fund will receive \$340 million worth of convertible preferred stock with a fixed annual dividend of 4%, or about \$13.6 million, paid quarterly. The Fund will also have the opportunity to benefit from the growth of the company through that interest.
- The state created something similar in 1998 when Blue Cross Blue Shield was sold and the Caring for Colorado Foundation was established.

### **What's the timing of the proposed reorganization?**

- The state's team of advisors is conducting due diligence regarding the proposal. A stakeholder task force representing all stakeholder groups was created by the governor; it will review the proposal and provide guidance on potential legislation.
- For a restructuring to be completed, legislation would have to be approved by the Colorado General Assembly and by regulators, signed by the governor and eventually approved by Pinnacol policyholders.

## **Pinnacol's Business Structure/Viability**

### **How would this plan make Pinnacol more successful?**

- In order to better serve policyholders and injured workers, Pinnacol needs to adapt to changing business conditions.
- Through geographic and product diversification, a restructured Pinnacol will be better positioned to navigate changing industry and economic environments, keep pace with trends impacting the workers' compensation industry and mitigate some factors that would otherwise result in increased premiums and decreased dividends.

### **Will the costs related to this restructuring proposal allow Pinnacol to remain financially stable?**

- Restructuring positions Pinnacol for long-term financial stability and growth, which is necessary for the company to continue providing quality workers' compensation insurance to its policyholders and protecting injured workers.
- Pinnacol needs a minimum of an A- rating from A.M. Best to demonstrate its financial stability and compete in the marketplace. The restructuring plan is designed to help Pinnacol achieve that A- rating, which is evidence that Pinnacol is financially stable and can serve its policyholders and protect injured workers.

### **What is an A.M. Best rating and why is it so important to Pinnacol?**

- A.M. Best is a trusted and widely used insurance rating agency. An A.M. Best rating measures a company's ability to meet all of its ongoing obligations.
- If Pinnacol receives an A.M. Best rating of less than A-, insurance agents, policyholders and potential policyholders will see this as a sign that Pinnacol is not financially stable and will not purchase workers' compensation insurance from it. It's essential that Pinnacol retain sufficient assets in order to receive this rating and for this proposal to benefit all stakeholders.

### **Would Pinnacol's business expand into other states if the company restructures?**

- The restructuring proposal includes plans for Pinnacol to expand its scope of operations and provide workers' compensation insurance on a regional basis.
- Expansion will reduce the risks associated with Pinnacol's current one-state structure.

### **Would this plan cause Pinnacol to lose its tax exemptions?**

- Yes. Under its current structure, Pinnacol is exempt from paying state premium tax or federal taxes. After restructuring and on the effective date with any legislation, Pinnacol would begin paying those taxes like any other private workers' compensation insurer.

### **Would Pinnacol offer other lines of insurance if it restructures?**

- Pinnacol's expertise is in workers' compensation insurance, and the company is committed to continuing its focus on that product with the option to offer other property and casualty products in the future. For the foreseeable future, the company will focus on workers' compensation.

## Stakeholder Considerations Policyholders

### **What are the benefits to policyholders if Pinnacol restructures?**

- The proposal is designed to unlock policyholders' interest in Pinnacol. Policyholders' ownership rights would be clarified with future potential for monetary benefits.
- Policyholders would have an increased voice in the company's governance.
- Pinnacol would continue to be the insurer of last resort, offering workers' compensation insurance for small businesses and other high-risk industries.
- Policyholders would have evidence of the company's financial stability with an A.M. Best rating of A- or better.
- Policyholders would continue receiving the high-quality service that they've come to expect from Pinnacol.

### **Will Pinnacol policyholders have a voice in the decision to restructure?**

- Throughout the entire process, Pinnacol will communicate with policyholders about key aspects of the proposal. The proposal will likely evolve during the stakeholder meetings and legislative process.
- If this effort is successful, Pinnacol will ask the legislators to include in the restructuring legislation a provision for policyholders to vote on the final restructuring proposal once a bill has been approved by the legislature and signed into law.

### **Will workers' compensation insurance rates go up if Pinnacol restructures?**

- After five years of declining rates, the workers' compensation industry and Colorado are experiencing rate increases due to rising medical costs and an increase in the number of claims.
- In 2011, for the second year in a row, the Colorado Commissioner of Insurance ordered a rate increase, applicable to all carriers, in order to ensure that premiums remain adequate. This increase will occur regardless of whether the proposed restructuring is successful.
- All industry trends and projections indicate increases will continue over the next several years.

### **If the state doesn't own Pinnacol, why is it benefiting from this restructuring?**

- Although the state of Colorado does not provide direct financial support to Pinnacol, the state has provided support to the company over the years. This included creating Pinnacol's predecessor in 1915, allowing the company to operate with an insufficient surplus for a number of years, providing exemption from payment of premium taxes and theoretical capital support that permitted Pinnacol to operate without an A.M. Best rating.
- Pinnacol acknowledges that it is appropriate to provide some level of interest to the state for the value of that support, thus allowing the people of Colorado to recognize some benefit and to unlock Pinnacol's growth potential. That interest will not go directly to the state and will not include an up-front cash payment.

- Instead, in acknowledgement of that value, the restructuring proposal provides for the creation of a Futures Fund, which would be created by the state but operate outside of state control.

**Won't service be diluted if Pinnacol expands beyond Colorado?**

- No. Pinnacol prides itself on its exemplary service to policyholders, and this focus will not change. Pinnacol's expertise is in workers' compensation insurance, and the company is committed to continuing its focus on that product with the option to offer other property and casualty products in the future. For the foreseeable future, the company will focus on workers' compensation.

**Stakeholder Considerations**  
**Injured Workers**

**What are the benefits to injured workers?**

- Pinnacol will participate in the Colorado Insurance Guaranty Association, a fund that pays claims to injured workers and their families if an insurance company is unable to pay.
- Injured workers will continue receiving the high-quality service that they've come to expect from Pinnacol.
- Subject to the support of policyholders, Pinnacol may support certain limited changes to Colorado's workers' compensation system that would be applicable to all insurers.

**Would the restructuring proposal affect injured worker benefits?**

- No. Injured workers will not be negatively impacted by the restructuring proposal. Benefits, which are set by statute and paid accordingly, will remain fully reserved.
- In addition, Pinnacol will participate in the Colorado Insurance Guaranty Association, a fund that pays claims to injured workers and their families if an insurance company is unable to pay.

**Would a restructuring impact the level of service injured workers receive from Pinnacol?**

- No. Restructuring will not change the level of service injured workers' receive from Pinnacol. Injured workers will continue receiving the high-quality service that they've come to expect.

**Stakeholder Considerations**  
**The State of Colorado**

**How would the state benefit from a restructuring of Pinnacol?**

- The state would see immediate financial benefits upon restructuring. Pinnacol would start paying taxes to the state, similar to other insurance companies, which is projected to provide a revenue stream of approximately \$3.5 to \$4 million in 2012 and, based upon the company's premium projections, should increase annually.
- Pinnacol would continue to be Colorado's insurer of last resort, offering workers' compensation insurance for small businesses and other high-risk industries.
- The state would benefit because Pinnacol would become a member of the Colorado Insurance Guaranty Association, a fund that pays claims to injured workers and their families if an insurance company is unable to pay.
- The state would have governance benefits including the ability to appoint two members to the board of directors, one of whom will be the chair.
- Restructuring Pinnacol is an opportunity to grow Colorado's economy, create jobs and drive economic development for the benefit of everyone in the state. While the state does not get an influx of cash, the newly established Futures Fund – established by the state, but outside its control – will receive annual dividends from a convertible preferred security. The governor's office will be working on these details.

**How would the state use the Futures Fund?**

- The governor can speak to future plans for the Futures Fund. The Fund would be a dedicated, long-term revenue stream – not a means to fill the state's budgetary shortfalls. This Futures Fund would be established by the state but operate outside of state control.

**What is the long-term financial benefit to the state if Pinnacol restructures?**

- The establishment of the Futures Fund would guarantee a long-term revenue stream for the people of Colorado.
- The Futures Fund would own a convertible preferred stock and if the company ever completed a transaction that provided liquidity, the Futures Fund could convert the stocks into approximately 40% of the company. This unlocks the value of the Futures Fund and provides the opportunity to make decisions as to the status of the stock depending on the economic climate.

**Would funds from the proposed restructuring of Pinnacol be used to balance the budget?**

- No. The governor is proposing that the funds from restructuring Pinnacol be invested in the Futures Fund. The Fund will be established by the state but not controlled by it, and will be a dedicated, long-term revenue stream for the people of Colorado. The Fund will not be used to fill in budgetary shortfalls.

**Does this new structure mean there will be no transparency or state oversight?**

- No. Pinnacol will be subject to the same regulatory oversight by the Colorado Insurance Commissioner and the Division of Workers' Compensation as other domestic insurers.