

About the Proposal to Restructure Pinnacol Assurance

Background

- Earlier this year, Governor Hickenlooper asked that Pinnacol review potential organizational structures to guide its future.
- The Board of Directors and company management have completed the initial steps of that comprehensive due diligence process and have been authorized to pursue a restructuring proposal.
- The state's team of advisors will now conduct due diligence regarding the proposal.
- The governor has created a stakeholder task force to review the proposal and provide guidance on potential legislation.

Reasons for restructuring

Restructuring Pinnacol is an opportunity to grow Colorado's economy, create jobs and drive economic development for the benefit of all of Colorado.

Pinnacol's current structure limits its ability to respond to changing economic and competitive environments, which, over time, will harm its policyholders, injured workers, businesses and the state. The current structure prevents policyholders and the people of Colorado from benefiting from their respective interests in the company.

Objectives

The restructuring has three important objectives:

- Support Colorado's economy by remaining the state's insurer of last resort, creating jobs and encouraging future economic development.
- Unlock the underlying value of policyholder and public interests in Pinnacol and create ownership certainty.
- Better position Pinnacol to adapt to changing business conditions.

What stays the same

Pinnacol will remain:

- Colorado's insurer of last resort, offering workers' compensation for small businesses and other high-risk industries.
- Focused on providing competitively priced and reliable workers' compensation coverage for policyholders.
- Headquartered in Colorado, employing nearly 600 people.
- Committed to providing exceptional customer service to policyholders and injured workers.

What changes

If the restructuring proposal becomes law and is subsequently approved by policyholders, Pinnacol will:

- Become a mutual insurance company, clarifying policyholders' ownership rights.
- Strengthen protections for injured workers through membership in the Colorado Insurance Guaranty Association.
- Become an A.M. Best rated company with a rating of A- or better.
- Disaffiliate from PERA. The company's unfunded liability will be paid to PERA through a long-term surplus note.
- Become a tax-paying entity, providing the people of Colorado with economic benefits.
- Issue convertible preferred stock valued at \$340 million to the Futures Fund; the convertible preferred stock will pay 4% dividends (approximately \$13.6 million annually). There will be no up-front cash payment to the state and the state will not control the Futures Fund.

Stakeholder benefits resulting from restructuring

Policyholders

- Clarification of policyholders' interest in the mutual insurance company
- A voice in the governance of the company
- Assurance that Pinnacol will continue to serve as the state's insurer of last resort
- Evidence of the company's financial stability with an A.M. Best rating of A- or better
- Continued eligibility to receive policyholder dividends as declared by the board

Injured workers

- Additional injured worker protection through membership in the Colorado Insurance Guaranty Association
- Subject to the support of policyholders, Pinnacol is considering supporting certain limited changes to Colorado's workers' compensation system that would be applicable to all insurers

State of Colorado

- Expected job growth
- Assurance that Pinnacol will continue to serve as the state's insurer of last resort
- Pinnacol will keep its headquarters and principal place of business in Colorado
- New source of ongoing premium tax revenue
- Pinnacol will become a member of the Colorado Insurance Guaranty Association

Futures Fund

- Source of recurring annual dividend income
- Opportunity to participate in growth of the company through an equity interest

Agents

- Access to new products and services
- Ability to sell products and services in other states
- Increased marketability of Pinnacol due to A.M. Best rating

Pinnacol

- Access to capital
- Clarification of interests of policyholders and the state
- Facilitates strategic options, organic growth, potential acquisitions, geographic expansion and the potential to offer new product lines in the future
- Resolves underfunded Public Employees' Retirement Association (PERA) liability

Competitors

- Level playing field in which all companies pay the same taxes and participate in the Colorado Insurance Guaranty Association

Questions and additional information

If you have any questions, please call **303.361.4545** or **1.877.638.4545**. For the latest information on the proposal to restructure Pinnacol, visit www.restructurepinnacol.com.

All information included in this document is subject to change.

Restructuring Proposal Hotline:

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