

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTERS OF THE UNSATISFIED CLAIM)
AND JUDGMENT FUND'S 2003 ASSESSMENT FOR)
FISCAL YEAR 2004, AND THE TRUE-UP ACCOUNTING ON)
THE UNSATISFIED CLAIM AND JUDGMENT FUND'S 2001)
ASSESSMENT FOR FISCAL YEAR 2002)

ORDER

The Unsatisfied Claim and Judgment Fund Law (Law), N.J.S.A. 39:6-61, et seq., requires an annual calculation by the Commissioner of Banking and Insurance (Commissioner) of the probable amount needed to carry out the provisions of the Law for the ensuing registration license year. The Commissioner is directed by the Law to obtain this amount on behalf of the Unsatisfied Claim and Judgment Fund (UCJF) by initially assessing insurers on an estimated basis in the proportion that the net direct written premium of each insurer bears to the net direct written premiums of all insurers. The assessment is to be subsequently adjusted (trued-up) to reflect the actual net direct written premium of each insurer in the year in which the assessment was paid. See N.J.S.A. 39:6-63(d).

The Commissioner, in accordance with N.J.S.A. 39:6-63(d), has calculated the monetary need of the UCJF for fiscal year (FY) 2004 to be \$201,649,791.

The Commissioner considered the following factors in her calculation:

- (1) anticipated UCJF cash balance on June 30, 2003;
- (2) anticipated UCJF payments from November 1, 2002 to June 30, 2004;
- (3) anticipated interest earnings from November 1, 2002 to June 30, 2004;
- (4) a cash reserve as a provision for uncertainty.

- (1) Anticipated UCJF cash balance on June 30, 2003.

The UCJF anticipates its cash balance on June 30, 2003 to be \$189,149,791. This figure was derived by subtracting the UCJF's anticipated excess medical benefit (EMB) loss payments, uninsured motorist (UM) loss payments, and administrative expenses for November 1, 2002 through June 30, 2003, from the UCJF's October 31, 2002 cash balance and by adding the anticipated interest earnings on the UCJF's cash balance from November 1, 2002 to June 30, 2003.

- (2) Anticipated UCJF payments from November 1, 2002 to June 30, 2004.

An actuarial analysis of the UCJF's reported losses, paid losses, and claim counts were studied in order to detect patterns of claim emergence which were then used to project future emergence. In the study, ultimate losses were projected for each accident year from 1978 to 2005, a paid loss pattern was developed based on the UCJF's history of paid losses, and a schedule was developed which presents accident year losses projected to occur during each calendar year since 1978 and projected to occur in fiscal years 2003, 2004, and

2005. Projections were based on the application of standard actuarial techniques.

(3) Anticipated interest earnings from November 1, 2002 to June 30, 2004.

Interest earnings on the UCJF's current assets and on all monies assessed for FY 2004 were calculated from a cash flow projection that assumed an annual interest rate of 2.11%.

(4) A cash reserve as a provision for uncertainty.

The UCJF may maintain a surplus over and above anticipated payments, not to exceed the amount actually paid from the UCJF during the 12 full calendar months immediately preceding the assessment calculation, and may maintain a reserve for pending claims. The UCJF's desired cash reserve of \$12,500,000 as a provision for uncertainty is permitted by statute.

The assessable 2002 net direct written premiums are estimated to be \$4,032,997,640. This premium estimate is the aggregate of each insurer's actual 2001 net direct written automobile liability and personal injury protection premium as reflected in lines of business 19.1, 19.2, 19.3 and 19.4 of page 15 (statutory page 14 data) of each insurer's annual statement and includes adjustments for newly admitted, withdrawing or replacement insurers. The premium was adjusted for individual company rate level changes. To meet the UCJF's fiscal year 2004 monetary need of \$201,649,791 the assessment rate must be 5.0%.

The 2003 true-up of the UCJF's 2001 assessment for FY 2002 has been calculated using actual 2001 net direct written premiums. The true-up adjustment reapportions among automobile insurers the \$148,695,006 initially assessed in March of 2001. The initial premium base used in 2001 was estimated at \$3,497,270,375, resulting in an assessment rate of 4.25%. Recalculating the assessment rate using the actual 2001 premiums of \$3,651,240,183 results in an adjusted assessment rate of 4.0724521%.

THEREFORE, it is on this __20th_ day of March 2003,

ORDERED that all companies writing private passenger and/or commercial automobile liability insurance pay the UCJF's 2003 assessment for FY 2004 in the amount of 5.00% of their estimated 2002 net direct written premium; and

IT IS FURTHER ORDERED that an adjustment accounting resulting from the true-up calculation for the UCJF's 2001 assessment for FY 2002 be included in the UCJF's 2003 assessment invoice sent to each insurer; and

IT IS FURTHER ORDERED that such assessments and adjustments, as determined by these calculations, are to be paid on or before April 15, 2003*.

This Order constitutes a final agency decision and is effective immediately. Any appeals from this Order must be filed with the Appellate Division within 45 days of the date of the Order.

___/s/ Holly C. Bakke_____
Holly C. Bakke
Commissioner of Banking
and Insurance

SUMMARY

UCJF FISCAL YEAR 2004 FUNDING ANALYSIS

Eight month period from November 1, 2002 to June 30, 2003

Cash balance at 10/31/02	\$ 129,957,972
a. Less anticipated EMB payments from 11/1/02 to 6/30/03	\$ 112,891,089
b. Less anticipated UCJF and other payments from 11/1/02 to 6/30/03	\$ 3,523,366
c. Plus interest earnings from 11/1/02 to 6/30/03	\$ 2,165,021
Estimated cash balance at 6/30/03	\$ 15,708,537

Twelve month period from July 1, 2003 to June 30, 2004

Estimated cash balance at 7/01/03	\$ 15,708,537
a. Less anticipated EMB payments 7/1/02 to 6/30/03	\$ 230,744,849
b. Less anticipated UCJF and other payments from 7/1/03 to 6/30/04	\$ 5,000,000
c. Plus interest earnings from 7/1/03 to 6/30/04	\$ 3,886,521
Estimated cash balance at 6/30/04	(\$ 189,149,791)

Estimated unfunded payments for FY 2004	\$ 189,149,791
Desired cash reserve as a provision for uncertainty	\$ 12,500,000
UCJF's monetary need for FY 2004	\$ 201,649,791

Estimated 2002 Net Direct Written Premium	\$4,032,997,640
UCJF's 2003 Initial Assessment Rate for FY 2004	5.00%

NOTES TO SUMMARY

a. Anticipated EMB payments are based upon actuarial projections.

b. Anticipated other UCJF payments are estimated at \$416,667 per month. UCJF payments are claim payments to eligible individuals who sustain a loss as a result of a motor vehicle accident with either a known uninsured motorist or a hit and run vehicle. Other payments are administrative costs of the UCJF. Estimates are based upon payments from previous years.

c. Interest earnings are calculated from a cash flow projection. An annual average interest rate of 2.11% was selected. The average annual rate of the New Jersey Cash Management Fund (CMF) as of September 30, 2002 was 2.11%. Due to variations during the past year, the 2.11% rate was selected as a conservative approach to the UCJF's interest earnings calculation.

d. The provision for uncertainty (\$12.5M) has been increased slightly from last year's report (\$10.0M) to reflect the potential unexpected upward development of losses.

Estimated cash balance as of June 30, 2004 reflects the cash balance that would occur if the assessment were not made.

* The original due date of March 31, 2003 has been extended by the Commissioner due to pending legislation that would move the function of the Unsatisfied Claim and Judgment Fund to the New Jersey Guaranty Association.