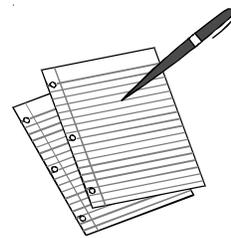
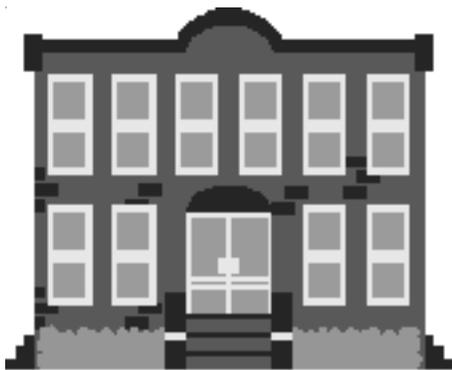


## Segregated Funds





### Injured Patients and Families Compensation Fund (Fund)

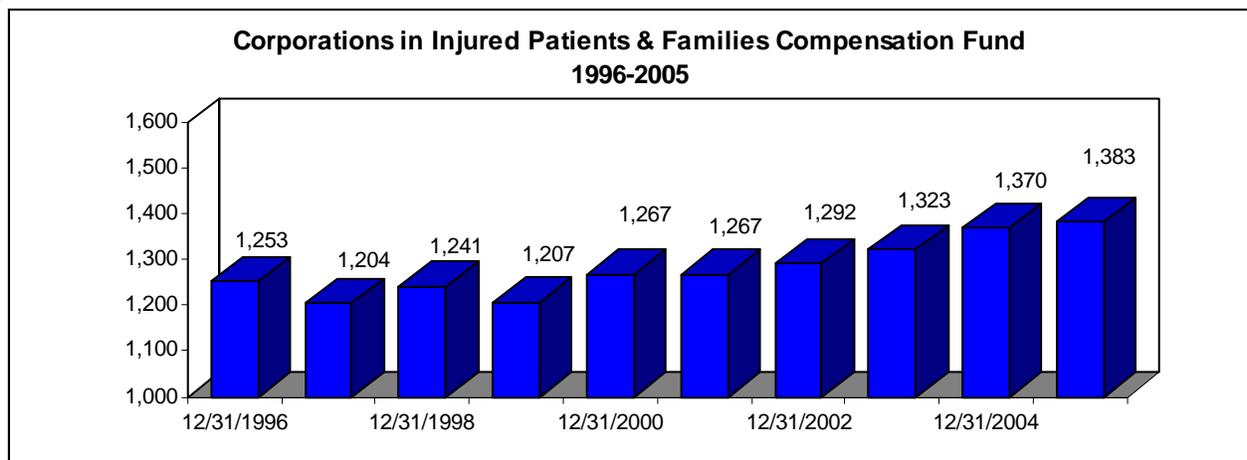
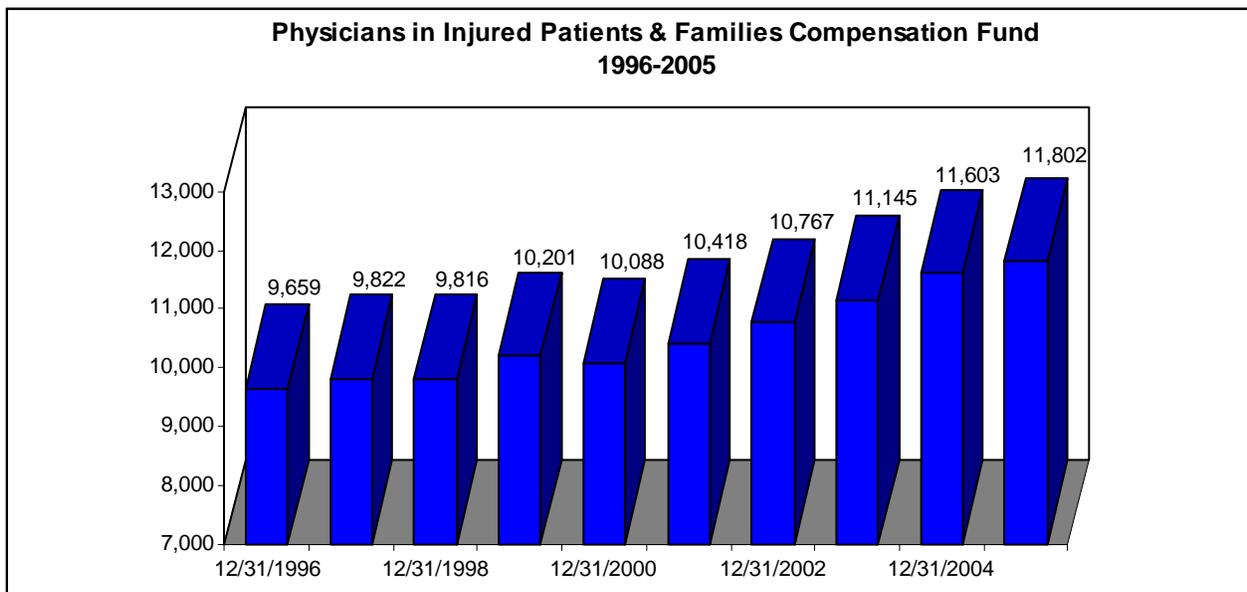
The Fund was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) that consists of 3 insurance industry representatives, a member named by the Wisconsin Academy of Trial Lawyers, a member named by the State Bar Association, 2 members named by the State Medical Society of Wisconsin, a member named by the Wisconsin Hospital Association, 4 public members appointed by the Governor, and the Commissioner of Insurance who serves as the chair. The Fund's administrative staff is provided by OCI.

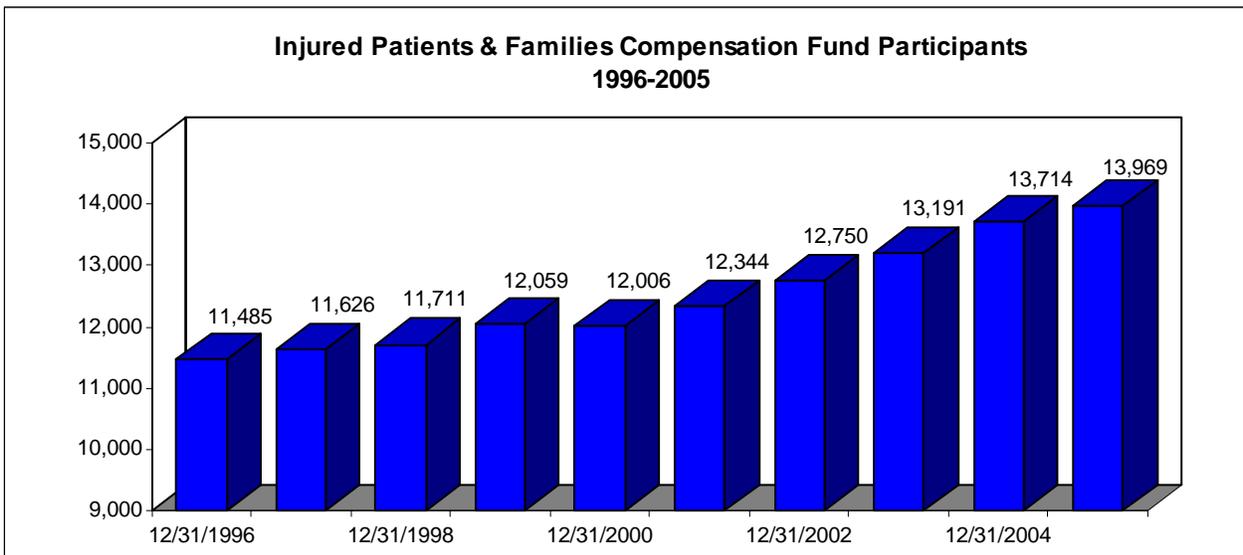
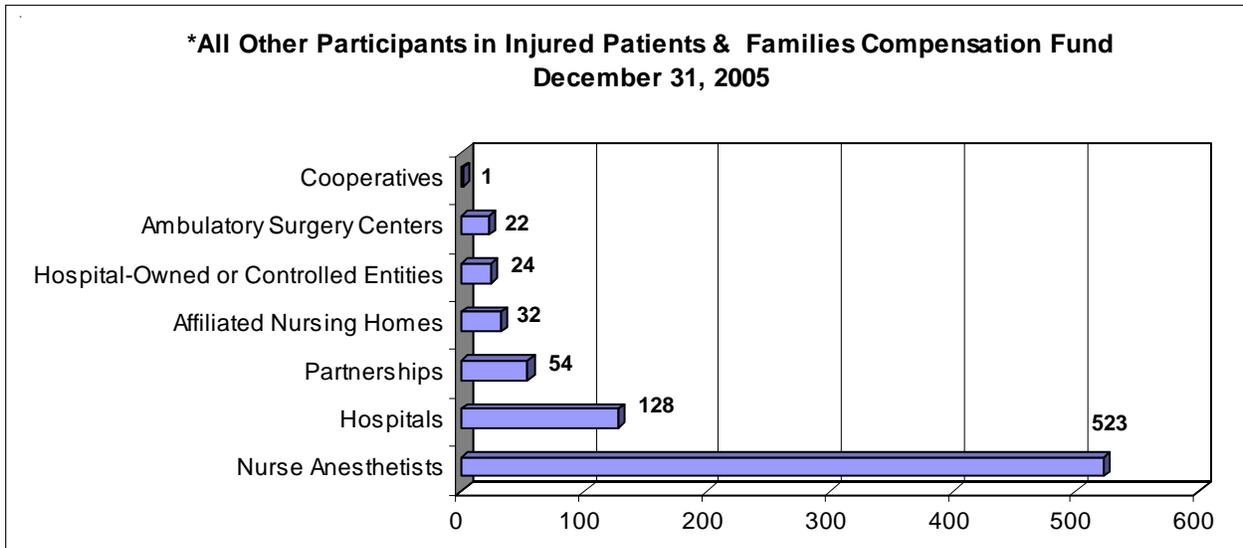
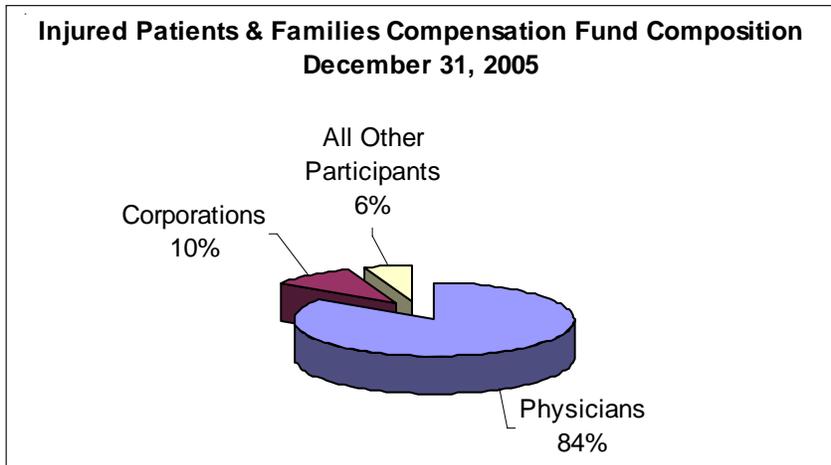
The Board is assisted by an Underwriting and Actuarial Committee, a Legal Committee, a Claims Committee, an Investment/Finance and Audit Committee, a Risk Management Steering Committee,

and a Peer Review Council. The Board and its committees meet quarterly.

The Fund operates on a fiscal year basis—July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.

As of December 31, 2005, the vast majority of Fund participants were physicians at 84% with corporations comprising another 10% and the remaining 6% comprised of various other participant types, as illustrated in the charts below. At year-end 2005, Fund participants totaled 13,969 comprised of 11,802 physicians, 1,383 corporations, 523 nurse anesthetists, 128 hospitals with 32 affiliated nursing homes, 54 partnerships, 24 hospital-owned or controlled entities, 22 ambulatory surgery centers, and 1 cooperative.



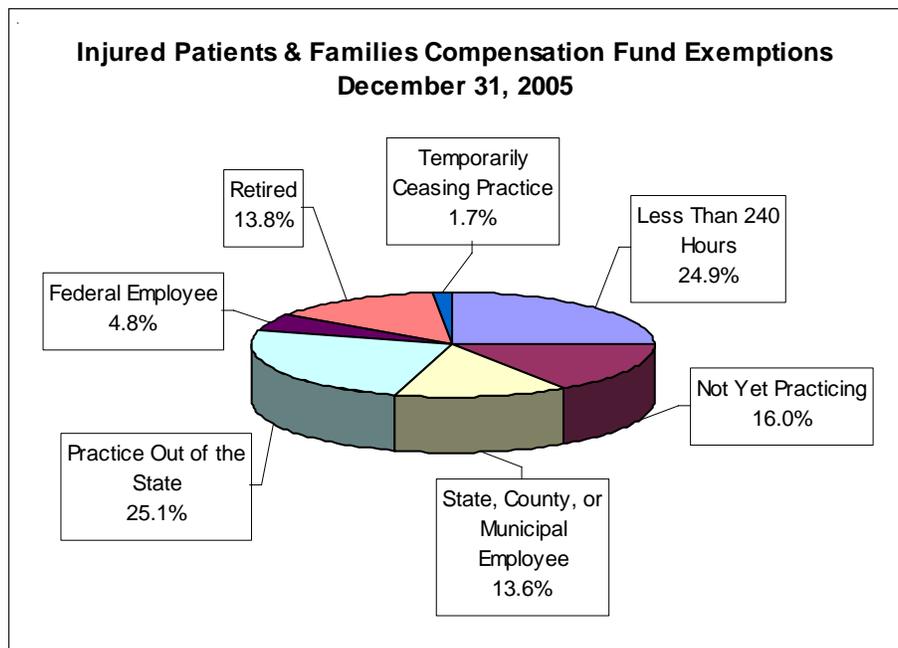


From July 1, 1975, through December 31, 2005, 5,227 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims increased to 627, totaling \$596,253,376. Of the total number of claims in which the Fund has been named, 4,373 claims have been closed with no indemnity payment. Of the remaining open claims reported as of December 31, 2005, 34 cases carried aggregate case reserves of \$59,087,852, while 193 cases had no reserves established.

### 2005 Major Activities

- In July 2005, the Wisconsin Supreme Court issued its ruling in the *Ferdon* case in which the court declared the cap on non-economic damages to be unconstitutional. This decision results in a potentially significant impact financially on the Fund. Due to the long tailed nature of medical malpractice, the actual effects of this decision will not be quantifiable for some time. It is expected that claim payments will increase. This ruling contributed to the Board's decision to increase fees by 25% for the 2006-2007 fiscal year. The effects of this decision will be closely monitored.

- Fund administration, in conjunction with counsel, is also closely monitoring current challenges to the constitutionality of the wrongful death cap. The Supreme Court has accepted a case and oral arguments will take place in April 2006. These caps are currently at \$350,000 for an adult and \$500,000 for a child. In addition, the issue of awarding damages for pain and suffering in addition to damages for wrongful death is on appeal.
- Fund administration closely monitors the use of outside counsel. Pursuant to a court decision in 2000, the Fund hires separate defense counsel on each claim. Fund staff monitors the claims and the use of this outside counsel to ensure that while the Fund receives the necessary representation, that legal fees are controlled.
- Extensive work continued during 2005 to verify and process up-to-date exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for enforcement action by that board. As of December 31, 2005, 9,596 providers claimed an exemption from the Fund. The various basis for the exemptions are illustrated in the chart below:



*Wisconsin Insurance Report Business of 2005  
Segregated Funds, Injured Patients and Families Compensation Fund*

Following are financial statements—statement of net assets and statement of revenues, expenses and changes in Fund equity—for the Fund for the fiscal year ending June 30, 2005. The figures reported are on an unaudited basis.

<b>Injured Patients and Families Compensation Fund Statement of Net Equity June 30, 2005, Unaudited</b>	<b>Injured Patients and Families Compensation Fund Statement of Revenues, Expenses and Changes in Fund Net Equity June 30, 2005, Unaudited</b>	
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 722,043	
State Investment Fund Shares (market value)	21,344,000	
Short-term Investments	49,489,535	
Bond Investment Income Receivable	8,597,928	
State Shares Interest Receivable	36,776	
Assessments Receivable	87,633	
Less: Allowance for Uncollectible Accounts	(194)	
Prepaid Items	7,385	
Office Supplies	2,214	
Other Receivables	<u>3,640,690</u>	
<b>Total Current Assets</b>	<u>83,928,010</u>	
<b>Noncurrent Assets</b>		
Long-term Investments (market value)	674,750,023	
Capital Assets, Net of Accumulated Depreciation	<u>3,021</u>	
<b>Total Noncurrent Assets</b>	<u>674,753,044</u>	
<b>Total Assets</b>	<u>\$758,681,054</u>	
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Future Benefits and Loss Liabilities - Short-term	\$ 55,250,000	
Assessments Received in Advance	5,399,716	
Provider Refunds Payable	312,217	
Medical Mediation Panels Payable	185,053	
General & Administrative Expense Payable	103,013	
Vouchers Payable	11,999	
Compensated Absences	<u>15,069</u>	
<b>Total Current Liabilities</b>	<u>61,277,067</u>	
<b>Noncurrent Liabilities</b>		
Liability for IBNR	815,316,991	
Liability for Reported Losses	21,614,068	
Liability for LAE	<u>42,765,134</u>	
Estimated Loss Liabilities	879,696,193	
Less: Amount Representing Interest	<u>160,984,403</u>	
Discounted Loss Liabilities	718,711,790	
Liabilities for Future Medical Expenses	1,811,396	
Contributions Being Held	<u>400,000</u>	
Total Loss Liabilities	720,923,186	
Less: Short-term Future Benefits & Loss Liabilities	<u>55,250,000</u>	
Noncurrent Loss Liabilities	665,673,186	
Compensated Absences - Long-term	<u>24,621</u>	
<b>Total Noncurrent Liabilities</b>	<u>665,697,807</u>	
<b>Total Liabilities</b>	<u>726,974,874</u>	
<b>Net Equity</b>		
Invested in Capital Assets, Net of Related Debt	3,021	
Premium Deficiency Reserve	28,572,000	
Restricted for Injured Patients and Families	<u>3,131,160</u>	
<b>Total Net Equity</b>	<u>31,706,181</u>	
<b>Total Liabilities and Net Equity</b>	<u>\$758,681,055</u>	
	<b>Operating Revenues:</b>	
	Assessments Levied (net of unearned)	\$26,544,646
	Administrative Fee Income	41,991
	Investment Income	33,544,835
	Unrealized gain (adjustment to market value)	15,330,387
	Change in Bond Premium (Discount)	9,223,527
	Other Income	<u>(2,249)</u>
	<b>Total Operating Revenues</b>	<u>84,683,137</u>
	<b>Operating Expenses:</b>	
	Underwriting Expenses:	
	Net Losses Paid	19,879,534
	Interest on Loss Payments	136,918
	LAE Paid	4,025,262
	Risk Management Expense	32,308
	Medical Expense Paid	114,206
	Change in Liability for IBNR	13,343,856
	Change in Liability for Reported Losses	(11,456,660)
	Change in Liability for LAE	(2,635,513)
	Change in Amount Representing Interest	52,963,613
	Change in Liability for Future Med Expenses	<u>222,524</u>
	<b>Total Underwriting Expenses</b>	<u>76,626,047</u>
	General and Administrative Expenses	1,013,487
	Depreciation Expense	<u>0</u>
	<b>Total Operating Expenses</b>	<u>77,639,534</u>
	Net Operating Income (Loss)	7,043,604
	<b>Nonoperating Revenues (Expenses):</b>	
	Assessment Interest Income	46,253
	Loss on Disposal of Fixed Assets	<u>0</u>
	<b>Total Nonoperating Revenues     (Expenses)</b>	<u>46,253</u>
	Change in Net Equity	7,089,857
	<b>Net Equity</b>	
	Net Equity - Beginning of Period	<u>24,616,324</u>
	Net Equity - End of Period	<u>\$31,706,181</u>

### Local Government Property Insurance Fund (Fund)

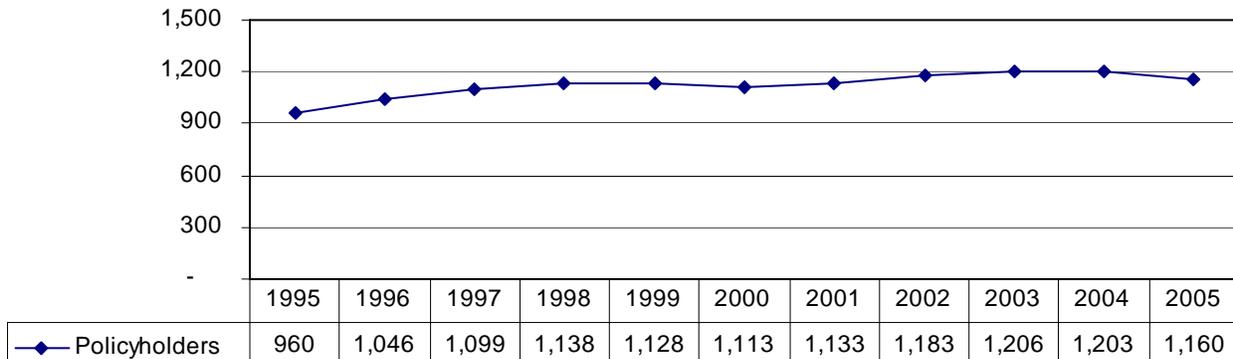
The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders. As of January 1, 2002, the Fund changed the contract administrator to The ASU Group. As a result of this change, the policy and claims administration services office was relocated to Madison, Wisconsin.

During fiscal year 2005 the Fund continued to enhance program and administrative operations relating to its computer system, the role of its advisory committee and claims and underwriting services. Specifically, a major computer system conversion to Windows-based software was completed in 2005. System changes, to date, have improved the collection, analysis and reporting of

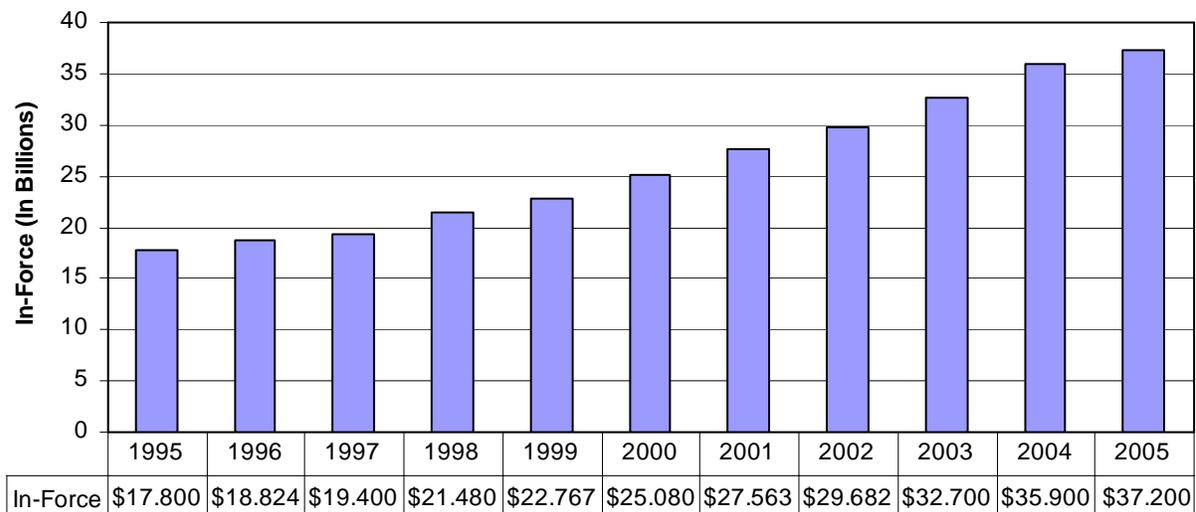
premium and loss financial data which is now being posted on the Fund's enhanced Web page. The Fund's advisory committee, comprised of Fund policyholders, provided input on policyholder matters including ongoing projects relating to a policy rewrite project, an electronic statement of values form, an electronic survey form, a probable maximum loss study and developing a policyholder loss control program.

As of June 30, 2005, the Fund insured 1,160 policyholders: 63 counties, 326 schools, 162 cities, 220 towns, 269 villages, and 120 miscellaneous (libraries, etc.). With new business and terminations, the overall number of policyholders decreased by 43 (-3.6%) since the previous fiscal year-end. Two graphs are included that reflect changes in the Fund's policyholder base and growth in its insurance coverage in force.

**Number of Policyholders  
Fiscal Years 1995 - 2005**



**Growth of Coverage In-Force**



The Fund's insurance in force represents property that is insured against loss. The more property insured, the greater the potential for a loss. The total amount of insurance in force as of June 30, 2005, was \$37.2 billion, up from \$35.9 billion as of the previous fiscal year-end. The Fund's total insurance in force increased \$1.3 billion over the prior year while its surplus (total assets minus total liabilities) increased approximately \$10.3 million over the same time period.

Attached are three pie charts reflecting the premium earned and the percent of policies by type of policyholder entity, and a breakdown of the type of policy purchased. The majority of the Fund's insureds are using the valuation project service that began in 1988. This method of valuing buildings, contents, property in the open and contractor's equipment was developed to promote equity in premiums and the proper reporting of values. Valuation participants not only have broader coverage than those insureds that purchase a coinsurance policy but also enjoy the benefits of automatic computer-generated statements of value. The coinsurance policy requires the insured to establish the insurance value for the property, which caps the maximum recovery in the event of a total loss and can also impose limitations when paying partial losses if the property is not insured to full value.

The Fund's balance sheet and income statement for the fiscal year ending June 30, 2005, are included with this report. As a result of the rate increases the Fund implemented in 2002 and 2003 and changes in the rating formula, the Fund experienced an underwriting gain of approximately \$9.1 million and a net income of almost \$10.3 million after investment income was taken into consideration.

Effective July 1, 2005, for new or renewal business the Fund adopted rating decreases for the following lines of business:

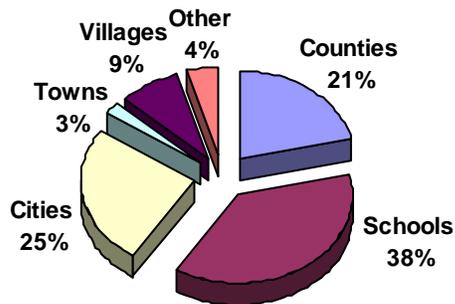
- Monies and Securities Coverage rates were reduced by 13.2%.
- Automobile Physical Damage Coverage rates were reduced by 7.6%.
- Inland Marine rates for "D" (new) or "C" (Coinsurance) policies were reduced by 12.9%. The Fund's Valuation "V" policy already includes inland marine coverage at no extra charge.
- Building and contents rates for first year new business were also reduced 50% for townships and 35% for all other entities.

Effective December 1, 2005, for business renewing over the ensuing 12 months:

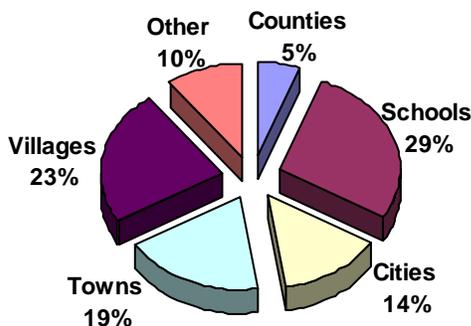
- For building and contents rates the Fund adopted Insurance Service Office's (ISO) experience loss adjustments projected to result in a 16% overall reduction in the rate, on average.

Fund management will continue to monitor insurance in force, claims trends and Fund surplus when evaluating the Fund's rating structure. Claims costs coupled with higher self-insured Fund reinsurance retention levels and reinsurance premium will continue to be factors considered in the rate-setting analysis.

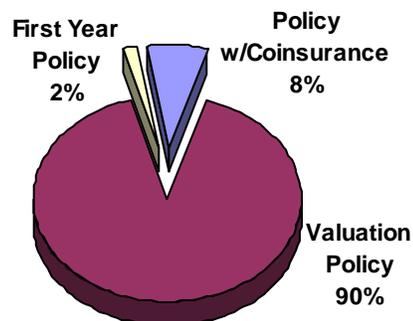
**Direct Premium Earned by Entity Type  
Fiscal Year Ending June 30, 2005**



**Percent of Policies by Entity Type  
Fiscal Year Ending June 30, 2005**



**Percent of Policies by Policy Type  
Fiscal Year Ending June 30, 2005**



*Wisconsin Insurance Report Business of 2005*  
*Segregated Funds, Local Government Property Insurance Fund*

Following are financial statements—balance sheet and income statements—for the Fund for the fiscal year ending June 30, 2005.

<b>Local Government Property Insurance Fund Balance Sheet—Statutory Basis June 30, 2005</b>	
<b>Assets</b>	
Bonds - Amortized Cost	\$ 6,980,980
Investment Fund	36,253,000
Cash at Treasury	21,825
Premiums Receivable	1,463,620
Reinsurance Recoverable	973,566
Interest Receivable	<u>174,348</u>
<b>Total Assets</b>	<b><u>\$45,867,339</u></b>
<b>Liabilities and Surplus</b>	
<b>Liabilities</b>	
Net Loss Reserves	\$ 3,700,764
Loss Adjustment	
Expenses Payable	111,596
Net Unearned Premiums	6,834,382
Other Expenses Payable	<u>700,480</u>
<b>Total Liabilities</b>	<b>\$11,347,222</b>
<b>Surplus</b>	
Surplus - Beginning of Year	24,268,328
Net Income (Loss)	<u>10,251,789</u>
<b>Surplus - End of Year</b>	<b><u>34,520,117</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$45,867,339</u></b>

<b>Local Government Property Insurance Fund Income Statement—Statutory Basis June 30, 2005</b>	
<b>Premiums Earned</b>	
Direct Premium Earned	\$25,465,193
Reinsurance Ceded	<u>(4,506,373)</u>
<b>Net Premium Earned</b>	<b>\$20,958,820</b>
<b>Losses Incurred</b>	
Direct Losses Incurred	9,316,768
Reinsurance Loss	
Recoveries	<u>(234,826)</u>
<b>Net Losses Incurred</b>	<b>9,081,942</b>
<b>Loss Adjustment Expenses</b>	<b>940,605</b>
<b>Other Underwriting Expenses</b>	<b><u>1,740,815</u></b>
<b>Total Net Losses and Expenses</b>	<b><u>11,763,362</u></b>
<b>Underwriting Income</b>	<b>9,195,458</b>
<b>Investment &amp; Other Income</b>	
Interest on Bonds	411,465
Investment Fund Earnings	683,806
Other Income	0
Investment Expenses	<u>(38,940)</u>
<b>Net Investment Income</b>	<b><u>1,056,331</u></b>
<b>Net Income Before Dividends</b>	<b>10,251,789</b>
Dividends to Policyholders	<u>(0)</u>
<b>Net Income</b>	<b><u>\$10,251,789</u></b>

### State Life Insurance Fund (Fund)

The Fund is a segregated fund located within OCI. The Fund offers a maximum of \$10,000 of life insurance to state residents. Operating as a mutual insurance company, the Fund is supervised by the Commissioner.

Section 607.15, Wis. Stat., requires the Fund to distribute annually among the policyholders its net profits and to the extent practicably possible, maintain a ratio of surplus to assets between 7% and 10%. In 2005, a

distribution of \$1.5 million was paid to policyholders in the form of dividends.

Wisconsin is the only state in the nation that offers a life insurance program to residents. All policies issued are participating and there is no marketing of the Fund. The lapse rate on Fund policies is a low .7%. As of December 31, 2005, there were 29,467 policies in force.

<b>State Life Insurance Fund Balance Sheet December 31, 2005</b>	
<b>Assets</b>	
Bonds	\$75,209,728
Policy Loans	3,702,893
Cash and Bank Deposits	2,611,423
Premiums Deferred & Uncollected	131,486
Investment Income Due & Accrued	<u>1,308,676</u>
<b>Total Assets</b>	<u><u>\$82,964,206</u></u>
<b>Liabilities and Surplus</b>	
Reserves for Life Policies & Contracts	\$57,980,006
Interest Maintenance Reserve	1,503,498
Policy Claims	139,464
Dividends Due and Unpaid (2005)	19,130
Dividends - Provision for 2006	2,116,390
Deposit Type Contracts	16,938,468
Unclaimed Property	42,385
Taxes, Licenses, Fees Accrued	629
Suspense and CANC Drafts	100,974
Expenses Due & Accrued	90,747
Back Up Withholding	1,196
Premiums Received in Advance	50,055
Asset Valuation Reserve	<u>153,094</u>
<b>Total Liabilities</b>	\$79,136,036
Surplus	<u>3,828,170</u>
<b>Total Liabilities and Surplus</b>	<u><u>\$82,964,206</u></u>

<b>State Life Insurance Fund Income Statement December 31, 2005</b>	
<b>Income</b>	
Premiums	\$2,184,468
Investment Income	4,747,518
Miscellaneous Income	0
Amortization of Interest Maintenance Reserve	<u>454,997</u>
<b>Total Income</b>	\$ 7,386,983
<b>Expenses</b>	
Death Benefits	865,653
Matured Endowments	196,500
Other Policy Benefits	977,608
Increase in Reserve	1,369,406
General Operating Expense	<u>600,697</u>
<b>Expenses before Dividends</b>	<u>4,009,864</u>
Net Gain before Dividends	<u>3,377,119</u>
Dividends to Policyholders	<u>1,489,821</u>
<b>Net Gain (Loss) from Operations</b>	<u><u>\$ 1,887,298</u></u>