



INS Regulatory Insurance Services, Inc.  
Regulatory Consultants

New Market  
Suite 206  
419 S. 2<sup>nd</sup> Street  
Philadelphia, PA 19147  
Phone: (215) 625-2927  
Fax: (215) 625-8323

Rodney Building  
2<sup>nd</sup> Floor  
841 Silver Lake Blvd.  
Dover, DE 19904  
Phone: (302) 678-2444  
Fax: (302) 678-4822

The Honorable Howard Mills  
Superintendent  
New York Insurance Department  
25 Beaver Street  
New York, New York 10004

February 3, 2006

Dear Superintendent,

The following summarizes the scope, procedures and results of our work undertaken in connection with the joint investigation by the New York State Insurance Department and the New York State Attorney General into certain activities of American International Group, Inc.

The report thereon is respectfully submitted.

Respectfully submitted,

A handwritten signature in black ink, reading 'Anthony C. Cardone'. The signature is written in a cursive style with a long horizontal flourish at the end.

Anthony C. Cardone, CPA, CFE  
INS Regulatory Insurance Services, Inc.

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## **SCOPE OF RETENTION**

INS Regulatory Insurance Services, Inc. (“INS-RIS” or the “consultants”) was retained by the New York State Insurance Department (“NYSID”) to consult on its examination and joint investigation with the Attorney General of the State of New York (“Attorney General”) of practices at American International Group, Inc. (“AIG”) related to AIG’s workers’ compensation line of business and the allegations in the Civil Complaint filed by the Attorney General and NYSID on May 26, 2005.

The review by INS-RIS focused on two areas:

1. Improper booking by AIG of Audit Premium and Refund Premium for retrospectively rated workers’ compensation policies; and
2. Improper booking by AIG of direct premiums from its workers’ compensation line of business as assumed reinsurance premiums.

In the course of its review, INS-RIS verified assumptions used by AIG in the recalculation of improperly booked workers’ compensation premiums for all fifty states and the District of Columbia (collectively “States”). INS-RIS also examined premium bookings by specific divisions of AIG from 1985 through 2005 for policies issued from 1985 through 1997. AIG provided premium tax rates and residual market load rates. INS-RIS did not verify the accuracy of the rates. Guaranty fund assessments and unfiled rating plans were not under the scope of retention.

### **I. IMPROPER BOOKING OF AUDIT PREMIUMS ON RETROSPECTIVELY RATED POLICIES:**

In the case of certain policies, AIG improperly booked workers’ compensation premiums as general liability premiums from at least 1985 through 1996. A number of current and former employees were interviewed regarding the improper bookings. Generally, two main reasons were

cited by the employees for the improper bookings.

First, during the relevant period, AIG issued contracts that included coverage for three lines of business - commercial auto, general liability and workers' compensation. Due to the estimation process used by AIG for the workers' compensation portion of the contract, premium was improperly allocated among the three lines of business or not booked to the proper line. Subsequent premium adjustments were not booked to the proper lines due to the initial improper bookings.

Second, during the relevant period, AIG's premium adjustments were severely backlogged and often not done at all. When finally done, care was not taken to ensure proper booking to the correct line of business.

#### **A. Estimation of the Correct Allocation of Premiums among Lines of Business and States**

AIG did not have data of sufficient detail to determine exactly how much premium was booked to the wrong line of business or to allocate the premiums booked among the States. Thus, it was determined that the most accurate method of estimating the correct allocation of premiums among the three lines of business and the States was to base the allocations on loss data from the relevant period. The loss data appeared to be stated accurately.

At the consultants' request, based on corresponding loss data, AIG prepared a summary report estimating the amount of premium that should have been allocated as workers' compensation during the relevant period. A summary of this estimation is appended to this Report as Exhibit 1. The consultants tested the data and AIG's assumptions and methods used to reallocate the premiums and determined them to be reasonable.

## **B. Estimation of Workers' Compensation Premium Tax and RML Assessment Impact by State**

Once premiums were reallocated among the three lines of business, the impact on premium taxes and RML assessments for the States could be estimated. Rates used by AIG and the consultants were based on 1996 data and current rates will vary. Negative impact balances were caused by differences in rates for the different lines of business and reallocation of premiums among States.

Credit was given for overpayments of premium taxes or RML assessments by AIG to the States, with consideration given to the timing of such overpayments. Interest was applied at the average of the 30-year Treasury Note, 10-Year Treasury Note and Prime rates. The interest calculation method applied to liabilities based on the effective date of the contract plus eighteen months, compounded annually. A more detailed explanation of the rates used is appended to this Report as Exhibit 2.

A summary of estimated premium tax and RML assessment impact by State with interest is appended to this Report as Exhibit 3.

The estimated workers' compensation premium tax impact was \$15,290,766 or \$42,368,541 with interest. The estimated workers' compensation RML assessment impact was \$101,576,180 or \$301,216,237 with interest.

## **II. IMPROPER BOOKING BY AIG OF DIRECT PREMIUMS FROM ITS WORKERS' COMPENSATION LINE OF BUSINESS AS ASSUMED REINSURANCE PREMIUMS**

INS-RIS reviewed the issue of whether AIG booked direct workers' compensation premiums as assumed reinsurance premiums for the purpose of avoiding workers' compensation premium taxes and RML assessments. AIG was asked to provide:

1. Supporting documentation for the assumed premiums reported by the Domestic Brokerage Group (“DBG”) pooled companies in their filed annual statements as of December 31, 1990; and
2. Journal entries for the period 1989 and 1990.

The consultants reviewed journal entries from 1989 and 1990 related to assumed reinsurance and sampled entries utilizing professional judgment or that were material. AIG was asked to provide support for these entries. AIG indicated that such records were beyond their record retention policy.

AIG indicated that it was unable to substantiate the assumed premiums for 1990 for a specific division due to a “top side” entry of approximately \$50 million.

As of the date of this Report, due to lack of supporting documentation from AIG, the consultants were not able to conclude whether or not direct workers’ compensation premiums were booked as assumed reinsurance premiums to avoid premium taxes and RML assessments. Therefore, no estimated underpayment of premium taxes or RML assessments is included in this Report for direct premiums incorrectly reported as assumed.

## **Summary**

The results of the misallocation of workers' compensation premiums, with the resulting tax impacts by state can be found on Exhibit 3.

Premium tax impacts were determined as follows:

Tax	*	\$ 15,236,724
Interest		27,131,817
Total		\$42,368,541

RML assessments were determined as follows:

RML	*	\$101,565,539
Interest		199,650,695
Total		\$301,216,234

\*States with a total negative balance due were not included in total, as outlined in Exhibit 3.

**Exhibit 1 AIG Adjustable Accounts Report for Division 50 and 55 by category**

AIG Adjustable Accounts - Div 50 and Div 55 By Category - A/O 2005 - Update 09/17/2005

Column Reference	1	2	3	4	5	6	7	
Year	Status	No Additional WC	No Original Comp	No Other Cat	Subseq booking or AP	RP for all LOB	WC Mix Change	Grand Total
1985	# of Contracts	75	110	171	147	62	115	880
	Total Original Premium	236,833,317	93,810,987	361,092,842	367,753,076	99,296,533	170,803,210	1,308,589,764
	Subsequent Prem (Pre 1998)	64,222,858	(3,377,673)	11,090,742	31,767	(26,166,167)	51,865,623	97,755,251
	Premium as of 1998	300,056,278	90,433,314	362,153,384	367,784,843	73,128,366	222,788,833	1,406,345,015
	Change of Prem from 1998	2,285,457	(478,783)	1,788,533	1,757,559	(1,708)	3,863,804	9,213,862
	Total Premium (ITD)	302,341,735	89,954,531	363,941,917	369,542,402	73,126,668	226,652,637	1,415,558,877
1986	# of Contracts	75	112	171	207	74	111	750
	Total Original Premium	300,299,864	130,865,584	403,341,583	500,121,778	130,387,984	291,469,549	1,756,486,321
	Subsequent Prem (Pre 1998)	111,126,766	(9,148,263)	8,123,700	23,407	(29,434,430)	95,027,255	175,717,437
	Premium as of 1998	411,426,630	121,715,321	411,465,282	500,145,185	100,953,554	386,496,804	1,932,203,758
	Change of Prem from 1998	1,548,750	2,623,108	(10,115,318)	(3,860,048)	1,433,045	1,903,671	(6,586,786)
	Total Premium (ITD)	412,975,380	129,637,319	401,349,964	496,185,137	102,386,599	388,400,475	1,931,114,862
1987	# of Contracts	83	79	185	209	50	112	712
	Total Original Premium	404,830,795	303,557,557	501,643,409	450,766,454	55,328,046	197,964,207	1,914,092,469
	Subsequent Prem (Pre 1998)	182,980,807	3,122,866	118,908,952	14,127	(16,870,823)	72,417,053	340,580,181
	Premium as of 1998	587,821,702	306,680,423	620,549,360	460,780,581	38,457,223	270,383,260	2,254,672,649
	Change of Prem from 1998	12,487,842	364,171	(11,551,697)	(3,242,173)	211,798	2,046,802	325,544
	Total Premium (ITD)	580,319,544	307,044,694	608,997,663	447,540,408	38,669,021	272,427,063	2,254,998,193
1988	# of Contracts	84	48	150	208	28	118	834
	Total Original Premium	366,037,048	234,347,568	488,967,211	546,140,091	61,445,893	274,160,292	1,929,096,191
	Subsequent Prem (Pre 1998)	141,280,510	44,071,239	87,673,502	18,990	(18,800,834)	119,519,484	383,763,091
	Premium as of 1998	497,317,558	278,418,806	584,640,713	546,159,081	32,645,059	393,679,776	2,312,861,282
	Change of Prem from 1998	18,193,031	(7,762,392)	4,404,107	(3,232,065)	(541,558)	6,084,904	17,146,006
	Total Premium (ITD)	515,510,589	270,656,414	589,044,820	542,926,996	32,103,791	399,764,679	2,330,007,287
1989	# of Contracts	49	68	175	206	29	102	1030
	Total Original Premium	269,789,804	281,479,903	678,731,480	655,441,362	82,067,199	301,791,522	2,267,301,259
	Subsequent Prem (Pre 1998)	118,661,375	46,344,311	132,671,550	28,362	(21,821,053)	110,059,943	386,062,468
	Premium as of 1998	388,471,179	327,824,214	809,803,030	655,467,714	60,146,146	411,851,464	2,653,363,748
	Change of Prem from 1998	14,867,193	(14,137,681)	9,965,106	3,291,904	(484,800)	(1,513)	13,320,919
	Total Premium (ITD)	403,138,372	313,686,533	819,688,136	658,759,618	59,662,066	411,849,952	2,666,684,667
1990	# of Contracts	44	48	137	252	29	67	575
	Total Original Premium	203,908,306	294,806,294	577,760,520	888,618,983	130,817,533	269,950,591	2,345,690,227
	Subsequent Prem (Pre 1998)	63,114,468	33,665,533	133,524,288	40,478	(30,326,964)	56,296,803	256,314,806
	Premium as of 1998	267,020,774	328,471,827	711,284,808	888,659,461	100,290,569	326,247,394	2,602,005,033
	Change of Prem from 1998	6,030,744	(6,823,949)	58,823,949	17,228,533	4,984,775	17,442,075	97,618,863
	Total Premium (ITD)	272,081,518	324,697,915	789,108,458	888,687,994	105,155,344	343,689,469	2,699,623,896
1991	# of Contracts	24	29	128	338	34	38	589
	Total Original Premium	90,182,746	96,182,292	494,572,346	1,228,263,044	108,506,771	224,556,850	2,240,245,846
	Subsequent Prem (Pre 1998)	24,821,642	30,938,237	18,744,771	3,667	(36,949,696)	36,770,365	76,327,165
	Premium as of 1998	115,004,387	127,098,529	513,317,117	1,228,266,711	71,559,074	263,327,213	2,316,573,033
	Change of Prem from 1998	3,439,943	16,841,534	1,822,040	(40,628,210)	6,187,052	18,586,544	7,642,903
	Total Premium (ITD)	118,436,330	143,740,063	514,939,157	1,185,638,501	77,746,126	281,913,757	2,324,415,936
1992	# of Contracts	14	17	108	439	41	30	648
	Total Original Premium	47,431,967	53,163,991	304,319,829	1,371,095,538	136,882,849	56,757,077	1,968,661,050
	Subsequent Prem (Pre 1998)	10,717,819	36,196,307	43,059,845	5,180	(35,442,815)	52,048,973	256,314,806
	Premium as of 1998	58,149,786	89,360,298	347,379,474	1,371,100,718	100,440,033	51,279,714	2,020,710,023
	Change of Prem from 1998	(1,472,947)	8,648,289	(14,252,367)	(14,023,908)	10,821,314	(1,834,940)	(12,216,559)
	Total Premium (ITD)	56,676,839	101,008,587	333,127,107	1,367,076,810	110,961,348	48,444,774	2,008,493,464
1993	# of Contracts	24	25	119	485	23	30	667
	Total Original Premium	9,654,427	25,877,245	341,580,726	1,369,094,193	42,592,440	140,715,591	1,920,714,612
	Subsequent Prem (Pre 1998)	2,372,319	(5,047,882)	(2,383,748)	10,919	(14,599,033)	67,507,883	47,859,358
	Premium as of 1998	12,026,746	20,829,363	339,196,978	1,380,004,202	27,993,407	208,223,274	1,968,573,970
	Change of Prem from 1998	(600,000)	6,991,615	5,741,611	(75,330,989)	5,783,401	32,250,838	(25,163,520)
	Total Premium (ITD)	11,726,746	27,817,641	344,938,589	1,284,673,213	33,778,808	240,474,112	1,943,407,111
1994	# of Contracts	4	26	121	473	25	15	686
	Total Original Premium	7,610,347	24,565,431	289,091,491	1,278,797,412	188,204,564	31,205,224	1,799,474,489
	Subsequent Prem (Pre 1998)	1,183,960	70,411,775	(28,421,405)	8,615	(95,047,191)	8,293,625	(48,560,821)
	Premium as of 1998	8,804,307	94,977,206	260,670,086	1,278,806,027	73,157,393	37,498,849	1,750,913,668
	Change of Prem from 1998	(2,148,160)	(11,406,582)	(5,791,011)	(57,220,582)	17,879,141	1,740,837	(58,946,567)
	Total Premium (ITD)	6,656,147	83,568,624	254,879,075	1,221,585,445	91,036,534	39,239,686	1,695,965,301
1995	# of Contracts	8	27	89	591	8	9	729
	Total Original Premium	9,180,127	20,583,170	180,823,847	1,231,164,402	10,200,748	8,320,495	1,460,052,769
	Subsequent Prem (Pre 1998)	520,080	21,949,897	(6,484,054)	19,247	(3,258,015)	(501,331)	12,247,823
	Premium as of 1998	9,680,207	42,533,067	174,139,793	1,231,183,649	6,944,733	7,819,164	1,472,300,612
	Change of Prem from 1998	2,849,236	(3,556,868)	(6,977,273)	16,818,472	2,246,368	432,058	11,610,858
	Total Premium (ITD)	12,329,443	38,976,209	167,162,520	1,248,002,120	9,190,066	8,251,222	1,483,911,471
1996	# of Contracts	5	8	63	690	8	2	760
	Total Original Premium	10,787,008	11,274,910	46,505,015	1,273,594,280	9,823,487	781,806	1,352,766,578
	Subsequent Prem (Pre 1998)	11,542,093	(6,224,961)	2,987,836	18,333	(1,895,932)	197,090	4,502,448
	Premium as of 1998	22,329,091	5,049,949	49,472,850	1,273,610,583	7,827,555	978,996	1,357,269,024
	Change of Prem from 1998	(1,537,798)	1,086,048	1,391,972	16,820,359	1,806,548	248,478	21,585,585
	Total Premium (ITD)	20,791,293	4,115,995	50,864,822	1,290,430,941	9,634,103	1,227,474	1,378,854,718
Total # of Contracts	488	695	1,905	4,222	407	747	747	8,044
Total Total Original Premium	1,646,893,755	1,670,494,930	4,634,229,878	11,119,792,882	1,024,366,156	1,988,486,313	22,263,173,594	
Total Subsequent Prem (Pre 1998)	712,594,890	263,698,455	925,642,979	218,191	(330,812,752)	812,066,428	1,788,618,220	
Total Premium as of 1998	2,868,438,645	1,834,393,415	5,162,672,857	11,119,970,763	693,543,404	2,580,572,740	24,049,791,814	
Total Change of Prem from 1998	54,547,187	(2,786,567)	33,089,352	(139,941,175)	49,205,064	82,962,369	77,756,220	
Total Total Premium (ITD)	2,712,985,831	1,837,101,401	5,195,942,209	10,980,029,578	743,448,468	2,663,535,100	24,133,042,587	

Original premium is defined as all bookings prior to 24 months from effective date. Total premium current (inception to date (ITD)) is as of 2006.  
 No Additional WC (workers' compensation premium) - the original workers' comp premium is more than 5% of the original premium for overall contract and no additional workers' comp premium is booked.  
 WC Mix Change - the original workers' comp premium is more than 5% of the original premium for the overall contract, the initial mix of workers' comp to other lines is calculated (e.g. 60% comp/40% other) and subsequent bookings are more than 10 percentage points in change.  
 No Original Comp - the contract does not contain any original workers' compensation bookings.  
 No Subsequent booking or AP < \$,000 - the total subsequent additional premium is less than or equal to \$5,000 or no subsequent additional premium (AP) booking.  
 RP All Lines - If both the comp and other lines have subsequent bookings which are return premiums (RP).  
 No Other Category - did not fit into any of the other categories. Is consistent with thresholds and business mix for subsequent premiums.  
 Lines of Business - WC Workers' Compensation, GL - General Liability, CA - Commercial Automobile.

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AIG Adjustable Accounts - Div 50 and Div 55 By LOB - A/O 2005

Note: Uses 24 Month cut-off for subsequent premium

NumEffYear	Original Premium	Original WC	Original GL CA	Subsequent Prem (Pre 98)	Subsequent WC Prem	Subsequent GL CA	Pre 1998 Prem	Total Premium (ITD)	Total Premium WC (ITD)	Total Premium CA, GL (ITD)	Total Premium Booked
1985	1,308,588,764	538,806,949	769,782,815	97,755,251	13,948,014	83,807,236	1,406,346,016	106,969,113	31,827,874	76,141,438	1,415,558,877
1986	1,758,486,321	726,410,733	1,030,075,569	175,717,437	34,648,480	141,068,957	1,932,203,758	174,828,541	51,460,414	123,188,127	1,931,114,862
1987	1,914,092,469	819,909,873	1,094,182,596	340,590,181	117,390,718	223,219,463	2,254,672,649	340,905,724	138,658,766	202,246,959	2,254,998,193
1988	1,929,096,191	942,702,190	986,398,001	383,763,091	110,058,593	273,704,498	2,312,861,281	400,909,097	153,118,291	247,792,806	2,300,007,287
1989	2,267,301,259	1,230,610,477	1,038,680,782	386,082,488	184,344,546	201,717,943	2,653,383,748	399,383,408	238,922,208	160,461,200	2,666,684,667
1990	2,346,690,227	1,281,011,953	1,064,678,274	256,314,606	184,352,629	91,961,977	2,602,004,833	353,930,471	247,281,181	106,669,290	2,699,620,698
1991	2,240,245,648	1,439,887,399	800,358,449	76,327,185	37,354,199	38,972,986	2,316,573,033	84,170,098	39,031,488	45,138,600	2,324,415,938
1992	1,988,681,050	1,239,696,379	728,982,871	52,048,973	22,949,078	29,099,897	2,020,710,023	38,832,414	22,862,501	16,838,441	2,006,483,484
1993	1,920,714,812	1,165,464,068	755,250,544	47,859,368	6,101,137	41,758,231	1,966,573,970	22,892,501	(13,731,262)	36,423,763	1,943,407,113
1994	1,788,474,488	1,107,989,085	691,485,424	(46,560,621)	(30,471,788)	(16,088,832)	1,752,913,868	(103,509,186)	(94,545,322)	(8,963,865)	1,695,965,301
1995	1,460,052,789	826,535,046	633,517,743	12,247,623	4,811,032	7,436,792	1,472,300,612	23,859,892	(987,396)	24,748,061	1,483,911,471
1996	1,352,786,578	696,590,990	686,185,586	4,502,448	1,329,316	3,173,132	1,357,289,024	26,098,143	13,350,209	12,747,904	1,378,864,718
Grand Total	22,263,173,594	12,005,607,120	10,257,568,474	1,786,618,220	666,785,962	1,119,832,288	24,049,781,814	1,969,988,953	827,459,220	1,042,410,773	24,193,042,587

Original premium is defined as all bookings prior to 24 months from effective date. Total premium current (inception to date (ITD)) is as of 2006.

Subsequent booking is additional bookings to the contract as of the end of 1997.

Total Premium (ITD) total subsequent bookings as of 2006.

Lines of Business - WC Workers' Compensation, GL - General Liability, CA - Commercial Automobile.

**Exhibit 2 Compound Annual Interest Rate Factors and Methodology**

Year	[A], [D]	[B]	[C]	([A]/[D]+[B]+[C])/3	COMPOUND ANNUAL INTEREST RATE FACTORS																				
	30-year T-Note	10-Year T-Note	Prime Rate	Average	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1985	10.79%	10.62%	9.93%	10.45%	0.1045	0.1920	0.2921	0.4090	0.5396	0.6790	0.8159	0.9426	1.0621	1.2107	1.3748	1.5444	1.7251	1.9003	2.0890	2.3073	2.4993	2.6709	2.8311	3.0054	3.2073
1986	7.78%	7.67%	8.33%	7.93%		0.0793	0.1699	0.2757	0.3939	0.5202	0.6441	0.7588	0.8671	1.0016	1.1502	1.3037	1.4681	1.6259	1.7968	1.9944	2.1683	2.3237	2.4687	2.6265	2.8093
1987	8.59%	8.39%	8.21%	8.40%			0.0840	0.1820	0.2916	0.4085	0.5234	0.6297	0.7299	0.8546	0.9923	1.1345	1.2868	1.4331	1.5914	1.7745	1.9356	2.0799	2.2132	2.3606	2.5293
1988	8.96%	8.85%	9.32%	9.04%			0.0904	0.1915	0.2994	0.4054	0.5034	0.5959	0.7109	0.8380	0.9692	1.1097	1.2446	1.3907	1.5592	1.7086	1.8410	1.9654	2.0999	2.2562	2.4256
1989	8.45%	8.49%	10.87%	9.27%				0.0927	0.1917	0.2888	0.3787	0.4636	0.5690	0.6855	0.8059	0.9347	1.0584	1.1922	1.3473	1.4836	1.6054	1.7191	1.8428	1.9861	2.1316
1990	8.61%	8.55%	10.01%	9.06%					0.0906	0.1795	0.2618	0.3394	0.4359	0.5425	0.6527	0.7706	0.8838	1.0062	1.1482	1.2729	1.3844	1.4884	1.6016	1.7328	1.8732
1991	8.14%	7.86%	8.46%	8.15%						0.0815	0.1570	0.2282	0.3167	0.4144	0.5154	0.6237	0.7278	0.8399	0.9692	1.0844	1.1862	1.2814	1.3858	1.5058	1.6312
1992	7.67%	7.01%	6.25%	6.98%							0.0698	0.1356	0.2174	0.3078	0.4012	0.5011	0.5972	0.7013	0.8213	0.9270	1.0215	1.1097	1.2051	1.3169	1.4316
1993	6.59%	5.87%	6.00%	6.15%								0.0615	0.1380	0.2225	0.3098	0.4032	0.4930	0.5901	0.7025	0.8014	0.8897	0.9721	1.0619	1.1658	1.2732
1994	7.37%	7.09%	7.15%	7.20%									0.0720	0.1516	0.2339	0.3219	0.4065	0.4988	0.6039	0.6962	0.7808	0.8578	0.9424	1.0403	1.1408
1995	6.88%	6.57%	8.83%	7.43%										0.0743	0.1510	0.2339	0.3113	0.3973	0.4961	0.5825	0.6608	0.7330	0.8118	0.9032	0.9937
1996	6.71%	6.44%	8.27%	7.14%											0.0714	0.1478	0.2217	0.3006	0.3927	0.4735	0.5457	0.6132	0.6866	0.7716	0.8536
1997	6.61%	6.35%	8.44%	7.13%												0.0713	0.1398	0.2140	0.2998	0.3753	0.4427	0.5052	0.5746	0.6533	0.7336
1998	5.58%	5.26%	8.35%	6.40%													0.0640	0.1332	0.2133	0.2837	0.3467	0.4054	0.4695	0.5435	0.6198
1999	5.87%	5.65%	8.00%	6.51%														0.0651	0.1403	0.2067	0.2657	0.3209	0.3810	0.4507	0.5210
2000	5.94%	6.03%	9.23%	7.07%															0.0703	0.1328	0.1888	0.2402	0.2967	0.3620	0.4323
2001	5.49%	5.02%	6.91%	5.81%																0.0581	0.1099	0.1584	0.2111	0.2720	0.3323
2002	5.43%	4.61%	4.67%	4.90%																	0.0490	0.0944	0.1441	0.2020	0.2623
2003	[E]	4.96%	4.01%	4.12%	4.36%																	0.0436	0.0911	0.1461	0.2030
2004	[E]	5.04%	4.27%	4.34%	4.55%																		0.0455	0.0982	0.1502
2005	[E],[F]	4.65%	4.30%	6.17%	5.04%																			0.0504	0.1004

The interest calculation rate methodology is as follows:

<b><u>Exhibit reference</u></b>	<b><u>1985 thru 2004</u></b>	<b><u>2005 / other notes</u></b>
A	30-year Treasury Note source: <a href="http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/discontinued_TCMNOM_Y30.txt">http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/discontinued_TCMNOM_Y30.txt</a>	<u>The 30-year Treasury Note constant maturity series was discontinued as of 2/18/02.</u>
B	10-year Treasury Note source: <a href="http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/H15_TCMNOM_Y10.txt">http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/H15_TCMNOM_Y10.txt</a>	Source: <a href="http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt">http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt</a> (monthly for first 11 months of 2005), used Nov. 2005 rate of 4.54% for Dec. 2005
C	The Prime Rate source: <a href="http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/H15_PRIME_NA.txt">http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/H15_PRIME_NA.txt</a>	source: <a href="http://www.federalreserve.gov/releases/h15/data/Monthly/H15_PRIME_NA.txt">http://www.federalreserve.gov/releases/h15/data/Monthly/H15_PRIME_NA.txt</a> (monthly for first 11 months of 2005), used Nov. 2005 rate of 7.0% for Dec. 2005
D	20-year Treasury Note source: <a href="http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/H15_TCMNOM_Y20.txt">http://www.federalreserve.gov/releases/h15/data/Annual_Dec_/H15_TCMNOM_Y20.txt</a> for 2003-2004	source: <a href="http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y20.txt">http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y20.txt</a> (monthly for the first 11 months of 2005), used Nov. 2005 rate of 4.83% for Dec. 2005
E	Issuance of 30-year Treasury Notes discontinued as of 2/18/02, therefore, used the 20-year Treasury Note for 2003-2005 as the yield curves do not differ much from 20-year to 30-year maturities	
F		Year not complete so Federal Reserve has not issued the annual data yet. Therefore, used the actual data for the first 11 months and used the Nov. 2005 rates for Dec. 2005

#### Assumptions

- (1) Premium Tax/RML Impact is spread evenly throughout the year and interest begins being computed eighteen months after the first average effective date. For example, for 1985, eighteen months after the first average effective date of 6/30/85 equates to beginning interest compound date of 1/1/87. So, for 1985 data, we would use 100% of the 1987 interest rate.
- (2) Assumes a settlement date of 1/1/06.

**Exhibit 3 Summary Premium and RML Impact with Interest Calculation by State**

	Premium Tax Impact					RML Impact					Grand Total
	Positive & Negative	Interest	Subtotal	Remove Negatives	Total	Positive & Negative	Interest	Subtotal	Remove Negatives	Total	
	[A]	[B]	[A]+[B]=[C]	[D]	[C]+[D]=[1]	[F]	[G]	[F]+[G]=[H]	[I]	[H]+[I]=[2]	
Alabama	(\$962,800)	\$731	(\$962,069)	\$962,069	\$0	\$4,001,141	\$7,375,728	\$11,376,869	\$0	\$11,376,869	\$11,376,869
Alaska	(\$17,595)	\$3,247	(\$14,348)	\$14,348	\$0	\$86,828	\$136,648	\$223,476	\$0	\$223,476	\$223,476
Arizona	\$976,663	\$1,603,986	\$2,580,649	\$0	\$2,580,649	\$387,245	\$810,904	\$1,198,149	\$0	\$1,198,149	\$3,778,798
Arkansas	\$262,797	\$457,323	\$720,120	\$0	\$720,120	\$70,642	\$103,275	\$173,917	\$0	\$173,917	\$894,037
California	\$3,084,036	\$4,784,811	\$7,868,847	\$0	\$7,868,847	\$427,511	\$866,356	\$1,293,867	\$0	\$1,293,867	\$9,162,714
Colorado	\$430,211	\$758,146	\$1,188,357	\$0	\$1,188,357	\$4,912	\$21,703	\$26,615	\$0	\$26,615	\$1,214,972
Connecticut	(\$135,790)	\$9,557	(\$126,233)	\$126,233	\$0	\$925,405	\$1,833,038	\$2,758,443	\$0	\$2,758,443	\$2,758,443
Delaware	\$63,223	\$81,734	\$144,957	\$0	\$144,957	\$112,621	\$200,426	\$313,047	\$0	\$313,047	\$458,004
District of Columbia	(\$17,971)	\$1,154	(\$16,817)	\$16,817	\$0	\$39,313	\$79,683	\$118,996	\$0	\$118,996	\$118,996
Florida	\$1,722,927	\$3,234,446	\$4,957,373	\$0	\$4,957,373	\$17,772,164	\$35,067,156	\$52,839,320	\$0	\$52,839,320	\$57,796,693
Georgia	\$632,367	\$1,271,093	\$1,903,460	\$0	\$1,903,460	\$1,641,480	\$3,192,461	\$4,833,941	\$0	\$4,833,941	\$6,737,401
Hawaii	\$99,176	\$272,458	\$371,634	\$0	\$371,634	\$126,836	\$354,919	\$481,755	\$0	\$481,755	\$853,389
Idaho	\$13,911	\$86,693	\$100,604	\$0	\$100,604	\$45,319	\$99,698	\$145,017	\$0	\$145,017	\$245,621
Illinois	(\$394,200)	\$1,186	(\$393,014)	\$393,014	\$0	\$632,228	\$1,255,314	\$1,887,542	\$0	\$1,887,542	\$1,887,542
Indiana	(\$399,366)	\$782	(\$398,584)	\$398,584	\$0	\$268,868	\$508,904	\$777,772	\$0	\$777,772	\$777,772
Iowa	\$18,869	\$31,767	\$50,636	\$0	\$50,636	\$136,591	\$261,937	\$398,528	\$0	\$398,528	\$449,164
Kansas	\$143,304	\$267,294	\$410,598	\$0	\$410,598	\$1,006,145	\$1,883,683	\$2,889,828	\$0	\$2,889,828	\$3,300,426
Kentucky	(\$5,386)	\$19,104	\$13,718	\$0	\$13,718	\$1,651,591	\$3,050,282	\$4,701,873	\$0	\$4,701,873	\$4,715,591
Louisiana	\$357,044	\$732,476	\$1,089,520	\$0	\$1,089,520	\$10,623,535	\$23,210,037	\$33,833,572	\$0	\$33,833,572	\$34,923,093
Maine	\$42,823	\$93,828	\$136,651	\$0	\$136,651	\$2,642,572	\$5,829,104	\$8,471,676	\$0	\$8,471,676	\$8,608,327
Maryland	\$617,300	\$1,162,300	\$1,779,600	\$0	\$1,779,600	\$175,903	\$354,474	\$530,377	\$0	\$530,377	\$2,309,978
Massachusetts	\$283,678	\$572,275	\$855,953	\$0	\$855,953	\$10,841,027	\$22,749,474	\$33,590,501	\$0	\$33,590,501	\$34,446,454
Michigan	\$1,854,325	\$3,425,159	\$5,279,484	\$0	\$5,279,484	\$824,755	\$1,796,118	\$2,620,873	\$0	\$2,620,873	\$7,900,358
Minnesota	\$201,118	\$401,773	\$602,891	\$0	\$602,891	\$228,707	\$410,218	\$638,925	\$0	\$638,925	\$1,241,816
Mississippi	\$33,196	\$61,917	\$95,113	\$0	\$95,113	\$577,545	\$1,164,253	\$1,741,798	\$0	\$1,741,798	\$1,836,911
Missouri	(\$1,500)	\$21,635	\$20,135	\$0	\$20,135	\$754,892	\$1,463,353	\$2,218,245	\$0	\$2,218,245	\$2,238,380
Montana	\$9,318	\$18,741	\$28,059	\$0	\$28,059	\$180	\$614	\$794	\$0	\$794	\$28,853
Nebraska	\$72,748	\$115,655	\$188,403	\$0	\$188,403	\$234,816	\$420,273	\$655,089	\$0	\$655,089	\$843,492
Nevada	(\$50,476)	\$4,729	(\$45,747)	\$45,747	\$0	\$29,332	\$66,812	\$96,144	\$0	\$96,144	\$96,144
New Hampshire	\$65,374	\$120,117	\$185,491	\$0	\$185,491	\$600,781	\$1,138,476	\$1,739,257	\$0	\$1,739,257	\$1,924,748
New Jersey	(\$262,559)	\$31,115	(\$231,444)	\$231,444	\$0	\$4,201,737	\$7,809,105	\$12,010,842	\$0	\$12,010,842	\$12,010,842

	Premium Tax Impact					RML Impact					Grand Total
	Positive & Negative	Interest	Subtotal	Remove Negatives	Total	Positive & Negative	Interest	Subtotal	Remove Negatives	Total	
	[A]	[B]	[A]+[B]=[C]	[D]	[C]+[D]=[1]	[F]	[G]	[F]+[G]=[H]	[I]	[H]+[I]=[2]	
New Mexico	(\$61,215)	\$432	(\$60,783)	\$60,783	\$0	\$295,156	\$705,331	\$1,000,487	\$0	\$1,000,487	\$1,000,487
New York	\$20,219	\$67,582	\$87,801	\$0	\$87,801	(\$225,250)	\$4,926	(\$220,324)	\$220,324	\$0	\$87,801
North Carolina	\$119,537	\$336,764	\$456,301	\$0	\$456,301	\$1,502,567	\$2,687,353	\$4,189,920	\$0	\$4,189,920	\$4,646,221
North Dakota	(\$5,541)	\$0	(\$5,541)	\$5,541	\$0	\$535	\$1,013	\$1,548	\$0	\$1,548	\$1,548
Ohio	(\$730,792)	\$0	(\$730,792)	\$730,792	\$0	(\$66,801)	\$1,760	(\$65,041)	\$65,041	\$0	\$0
Oklahoma	\$379,230	\$535,686	\$914,916	\$0	\$914,916	\$13,699	\$24,008	\$37,707	\$0	\$37,707	\$952,622
Oregon	\$100,050	\$261,851	\$361,901	\$0	\$361,901	\$98,575	\$184,569	\$283,144	\$0	\$283,144	\$645,045
Pennsylvania	\$700,445	\$1,113,168	\$1,813,613	\$0	\$1,813,613	\$532,452	\$1,056,135	\$1,588,587	\$0	\$1,588,587	\$3,402,200
Rhode Island	\$1,013,556	\$1,950,194	\$2,963,750	\$0	\$2,963,750	\$33,718,852	\$63,992,772	\$97,711,624	\$0	\$97,711,624	\$100,675,374
South Carolina	\$47,750	\$96,067	\$143,817	\$0	\$143,817	\$241,465	\$485,009	\$726,474	\$0	\$726,474	\$870,291
South Dakota	(\$63,019)	\$206	(\$62,813)	\$62,813	\$0	\$21,159	\$48,000	\$69,159	\$0	\$69,159	\$69,159
Tennessee	(\$58,574)	\$0	(\$58,574)	\$58,574	\$0	\$2,114,618	\$3,589,079	\$5,703,697	\$0	\$5,703,697	\$5,703,697
Texas	\$1,399,131	\$2,135,832	\$3,534,963	\$0	\$3,534,963	(\$393,790)	\$0	(\$393,790)	\$393,790	\$0	\$3,534,963
US	(\$5,520,088)	\$0	(\$5,520,088)	\$5,520,088	\$0	\$467,709	\$656,462	\$1,124,171	\$0	\$1,124,171	\$1,124,171
Utah	\$327,625	\$628,903	\$956,528	\$0	\$956,528	\$13,917	\$33,769	\$47,686	\$0	\$47,686	\$1,004,214
Vermont	\$188,176	\$332,375	\$520,551	\$0	\$520,551	\$1,453,174	\$2,599,420	\$4,052,594	\$0	\$4,052,594	\$4,573,145
Virginia	(\$877,159)	\$0	(\$877,159)	\$877,159	\$0	(\$1,719,903)	\$3,955	(\$1,715,948)	\$1,715,948	\$0	\$0
Washington	(\$18,573)	\$904	(\$17,669)	\$17,669	\$0	\$18,125	\$45,429	\$63,554	\$0	\$63,554	\$63,554
West Virginia	\$12,191	\$14,335	\$26,526	\$0	\$26,526	\$9,991	\$13,924	\$23,915	\$0	\$23,915	\$50,441
Wisconsin	\$5,334	\$10,287	\$15,621	\$0	\$15,621	(\$4,095)	\$0	(\$4,095)	\$4,095	\$0	\$15,621
Wyoming	(\$15,773)	\$0	(\$15,773)	\$15,773	\$0	\$1,564	\$3,355	\$4,919	\$0	\$4,919	\$4,919
<b>Total</b>	<b>\$5,699,275</b>	<b>\$27,131,817</b>	<b>\$32,831,092</b>	<b>\$9,537,447</b>	<b>\$42,368,541</b>	<b>\$99,166,341</b>	<b>\$199,650,695</b>	<b>\$298,817,036</b>	<b>\$2,399,198</b>	<b>\$301,216,234</b>	<b>\$343,584,775</b>

**WC A: AIG Workers' Compensation Premium Tax Impact by State**

Exhibit Page 1 of 2

<b>State</b>	<b>Under (Over) payment</b>	<b>Interest<sup>1</sup></b>	<b>State Total</b>
Alabama	\$(962,800)	\$ -	\$ -
Alaska	(17,595)	-	-
Arizona	976,663	1,603,986	2,580,649
Arkansas	262,797	457,323	720,120
California	3,084,036	4,784,811	7,868,847
Colorado	430,211	758,146	1,188,357
Connecticut	(135,790)	-	-
Delaware	63,223	81,734	144,957
District of Columbia	(17,971)	-	-
Florida	1,722,927	3,234,446	4,957,373
Georgia	632,367	1,271,093	1,903,460
Hawaii	99,176	272,458	371,634
Idaho	13,911	86,693	100,604
Illinois	(394,200)	-	-
Indiana	(399,366)	-	-
Iowa	18,869	31,767	50,636
Kansas	143,304	267,294	410,598
Kentucky	(5,386)	19,104 <sup>2</sup>	13,718
Louisiana	357,044	732,476	1,089,520
Maine	42,823	93,828	136,651
Maryland	617,300	1,162,300	1,779,600
Massachusetts	283,678	572,275	855,953
Michigan	1,854,325	3,425,159	5,279,484
Minnesota	201,118	401,773	602,891
Mississippi	33,196	61,917	95,113
Missouri	(1,500)	21,635	20,135
Montana	9,318	18,741	28,059
Nebraska	72,748	115,655	188,403
Nevada	(50,476)	-	-
New Hampshire	65,374	120,117	185,491
New Jersey	(262,559)	-	-
New Mexico	(61,215)	-	-

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<u>State</u>	<u>Under (Over) payment</u>	<u>Interest<sup>1</sup></u>	<u>State Total</u>
New York	20,219	67,582	87,801
North Carolina	119,537	336,764	456,301
North Dakota	(5,541)	-	-
Ohio	(730,792)	-	-
Oklahoma	379,230	535,686	914,916
Oregon	100,050	261,851	361,901
Pennsylvania	700,445	1,113,168	1,813,613
Rhode Island	1,013,556	1,950,194	2,963,750
South Carolina	47,750	96,067	143,817
South Dakota	(63,019)	-	-
Tennessee	(58,574)	-	-
Texas	1,399,131	2,135,832	3,534,963
US	(5,520,088)	-	-
Utah	327,625	628,903	956,528
Vermont	188,176	332,375	520,551
Virginia	(877,159)	-	-
Washington	(18,573)	-	-
West Virginia	12,191	14,335	26,526
Wisconsin	5,334	10,287	15,621
Wyoming	(15,773)	-	-
		<b>TOTAL:</b>	<b>\$ 42,368,541</b>

- 1 Interest applied at the average of the historical 30-Year Treasury Note, 10-Year Treasury Note and Prime rates; interest begins 18 months after the first-year mid-point and was compounded.
- 2 Overall, AIG overpaid premium taxes in this State for the relevant period. However, interest on earlier underpayments is greater than the overpayment.

**WC B: AIG Workers' Compensation Residual Market Assessment Impact by State**

Exhibit Page 1 of 2

<b><u>State</u></b>	<b><u>Under (Over) payment</u></b>	<b><u>Interest<sup>1</sup></u></b>	<b><u>State Total</u></b>
Alabama	\$4,001,141	\$ 7,375,728	\$ 11,376,869
Alaska	86,828	136,648	223,476
Arizona	387,245	810,904	1,198,149
Arkansas	70,642	103,275	173,917
California	427,511	866,356	1,293,867
Colorado	4,912	21,703	26,615
Connecticut	925,405	1,833,038	2,758,443
Delaware	112,621	200,426	313,047
District of Columbia	39,313	79,683	118,996
Florida	17,772,164	35,067,156	52,839,320
Georgia	1,641,480	3,192,461	4,833,941
Hawaii	126,836	354,919	481,755
Idaho	45,319	99,698	145,017
Illinois	632,228	1,255,314	1,887,542
Indiana	268,868	508,904	777,772
Iowa	136,591	261,937	398,528
Kansas	1,006,145	1,883,683	2,889,828
Kentucky	1,651,591	3,050,282	4,701,873
Louisiana	10,623,535	23,210,037	33,833,572
Maine	2,642,572	5,829,104	8,471,676
Maryland	175,903	354,474	530,377
Massachusetts	10,841,027	22,749,474	33,590,501
Michigan	824,755	1,796,118	2,620,873
Minnesota	228,707	410,218	638,925
Mississippi	577,545	1,164,253	1,741,798
Missouri	754,892	1,463,353	2,218,245
Montana	180	614	794
Nebraska	234,816	420,273	655,089
Nevada	29,332	66,812	96,144
New Hampshire	600,781	1,138,476	1,739,257
New Jersey	4,201,737	7,809,105	12,010,842
New Mexico	295,156	705,331	1,000,487
New York	(225,250)	-	-
North Carolina	1,502,567	2,687,353	4,189,920
North Dakota	535	1,013	1,548

Exhibit Page 2 of 2

<b>State</b>	<b>Under (Over) payment</b>	<b>Interest<sup>1</sup></b>	<b>State Total</b>
Ohio	(66,801)	-	-
Oklahoma	13,699	24,008	37,707
Oregon	98,575	184,569	283,144
Pennsylvania	532,452	1,056,135	1,588,587
Rhode Island	33,718,852	63,992,772	97,711,624
South Carolina	241,465	485,009	726,474
South Dakota	21,159	48,000	69,159
Tennessee	2,114,618	3,589,079	5,703,697
Texas	(393,790)	-	-
US	467,709	656,462	1,124,171
Utah	13,917	33,769	47,686
Vermont	1,453,174	2,599,420	4,052,594
Virginia	(1,719,903)	-	-
Washington	18,125	45,429	63,554
West Virginia	9,991	13,924	23,915
Wisconsin	(4,095)	-	-
Wyoming	1,564	3,355	4,919
		<b>TOTAL:</b>	<b>\$ 301,216,234</b>

- 1 Interest applied at the average of the historical 30-Year Treasury Note, 10-Year Treasury Note and Prime rates; interest begins 18 months after the first-year mid-point and was compounded.