



REPORT OF THE ANNUAL MEETING

April 20, 2005

Insurance Placement Facility of Delaware

530 Walnut Street, Suite 1650
Philadelphia, PA 19106-3698

Board of Directors

2004 - 2005

Mr. Karl M. Brondell, Chairman	State Farm Insurance Companies
Ms. Joanne K. Martyn, Vice Chairperson	Chubb Group of Insurance Companies
Mr. Christopher Crucitt	CNA
Ms. Susan A. Erney	The Harleysville Insurance Companies
Mr. John D. Fillippo	ACE USA
Ms. Loretta G. Johnson	Nationwide Insurance Companies
Mr. Richard G. Kelley	Donegal Insurance Companies
Ms. Wendy Lyles	Allstate Insurance Companies
Mr. William W. Martin	The Hartford
Mr. David A. McMillen	Westfield Insurance Companies
Mr. Douglas W. Waltz	Liberty Mutual Group
Mr. Samuel P. Gerace, Esq.	Jones, Gregg, Creehan & Gerace, LLP
Mr. John M. Ogle, General Manager	Insurance Placement Facility of Delaware

AGENDA FOR THE ANNUAL MEETING
INSURANCE PLACEMENT FACILITY OF DELAWARE

April 20, 2005 - 8:00 A. M.

1. Call to Order - 8:00 a.m. - Mr. Karl M. Brondell, Chairman, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 21, 2004
3. Ratification of Board Action
4. Report of the Chairman
5. Report of the General Manager
6. Treasurer's Report
7. Other Business
8. Election of Board of Directors 2005-2006

Nominations are:

- 1) ACE USA
 - 2) Allstate Insurance Companies
 - 3) Chubb Group of Insurance Companies
 - 4) CNA
 - 5) Donegal Insurance Companies
 - 6) Liberty Mutual Group
 - 7) Nationwide Insurance Companies
 - 8) State Farm Insurance Companies
 - 9) The Harleysville Insurance Companies
 - 10) The Hartford
 - 11) Westfield Insurance Companies
9. Adjournment of Meeting

Insurance Placement Facility of Delaware
Minutes of the Annual Meeting
April 20, 2005
Hotel du Pont
Wilmington, Delaware
8:00 a.m.

The Annual Meeting of the Insurance Placement Facility of Delaware was called to order with Chairman Karl M. Brondell presiding. General Manager John M. Ogle served as secretary and reported that a quorum was present or by proxy. Mr. Ogle reported that the attendees represented 217 companies or 68.48% of the membership.

Upon motion duly made, seconded and carried, the Minutes of the April 21, 2004 Annual Meeting were approved as distributed.

A motion to ratify the actions of the Board of Directors for the 2004-2005 term was duly made, seconded and carried.

Motions were made, seconded and carried, to waive the reading of the Chairman's report, the General Manager's report and the Treasurer's report, as all three reports will be incorporated into the Annual Report submitted to Member Companies. The reports were accepted as presented.

The General Manger noted the 2004 financial audit report provided by the accounting firm of KPMG Peat Marwick was presented to the Facility's Audit Committee at a recent meeting. The final report will be presented to the Board of Directors and made part of the Annual Report submitted to Member Companies.

With no other new business, Nominating Committee Chairman Mr. William W. Martin, placed into nomination, the following Member Companies to serve on the Board of Directors for the 2005-2006 term.

ACE USA
Allstate Insurance Companies
Chubb Group of Insurance Companies
CNA
Donegal Insurance Companies
Liberty Mutual Group
Nationwide Insurance Companies
State Farm Insurance Companies
The Harleysville Insurance Companies
The Hartford
Westfield Insurance Companies

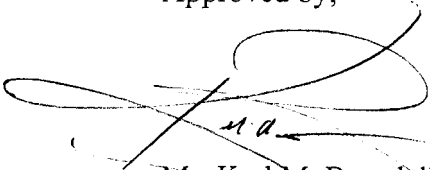
There being no other nominations, it was moved, seconded and carried to close nominations.

Chairman Brondell requested and received confirmation from the secretary that a sufficient amount of ballots had been cast for the nominees. Mr. Ogle reported that 66.35% of the membership indicated their intention to cast ballots in person or by proxy in favor of the nominees. Therefore, upon motion duly made, seconded and carried, the slate was declared elected.

The next annual meeting was set for April 2006.

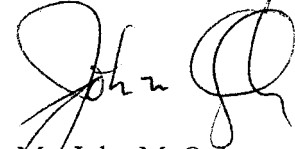
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. Karl M. Brondell
Chairman of the Board

Respectfully submitted by,


Mr. John M. Ogle
General Manager

Report of the Chairman
Mr. Karl M. Brondell
37th Annual Meeting of Members
of
The Insurance Placement Facility of Delaware
April 20, 2005
8:00 a.m.

Good morning and welcome to the 37th Annual Meeting of the Members of the Insurance Placement Facility of Delaware. As Chairman, it is my pleasure to report on the operations of the Association for the past year. While many of these areas will be covered in detail in the General Manager's Report, I am very pleased to report to you that the Association continues to fully meet its obligations as required by the relevant Delaware laws and regulations.

It has been more than 36 years since the first FAIR Plan policy was written and the first claim paid. Over that time, much has changed in the world in which we do business. Our first policies were typed by a clerical staff, matched to the appropriate policy documents by a policy preparation staff and folded into envelopes by a mail room staff. In addition, the organization had separate job descriptions for rating, endorsements, cancellations, quality check, etc. Now, information is routinely imaged and faxed electronically. Much of the work is processed in just a few keystrokes and an interactive website and e-mail system have nearly replaced the routine handwritten letter.

Today's employee performs his or her duties with an unparalleled knowledge of the inner workings of the underwriting, claims or accounting process. Employees now routinely complete all functions handled by their respective departments and in addition, often lend themselves to other departments to assist in times of increased volume or limited staffing. During the many ups and downs of the marketplace, from typewriters to E-mail, these employees have continued to provide high quality service to the property owners, the agents, and the Delaware insurance industry in general.

I believe it is important to note these efforts because it is through these employees that the Plan is able to meet its goals and objectives. This past year has been no exception and my hat is off to all those individuals.

In 2004, the Delaware Plan saw growth in New Applications as well as in number of Policies Issued. New Applications Received increased just over 24% to 1,837 while Total Policies Issued rose over 29.5% to 3,611. Losses Reported, held nearly steady at 71 as compared to 79 reported in 2003.

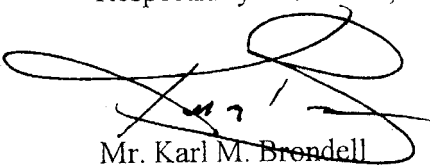
Total Loss Incurred; however, jumped 58% and the Pure Loss Ratio rose just over 5 points to 76.92%. The result translated to a year end Underwriting deficit of \$294,658 and a Net Result of Operations deficit of \$325,834.

During the year, the Delaware FAIR Plan continued to receive management and functional support from the Insurance Placement Facility of Pennsylvania. It is through this long term relationship that the Delaware FAIR Plan can provide the same high quality and professional service to all its Delaware policyholders, agents and member companies

Throughout the year, the organization experienced numerous changes to its Board and Governing Committees. To those individuals who have left us but gave so freely of their time and expertise, I would like to express my gratitude for their efforts. It is clear the insurance industry is made up of many talented and professional individuals and this organization is fortunate to have had many of those same people serving on our Board and Governing Committees.

As I complete my second term and step down as your chairman, I am greatly appreciative of the effort of so many people. I would like to thank General Manager John Ogle and his staff for their diligent efforts in operating the organization in an efficient and effective manner. Without their dedication, little of what we accomplish in the Board Room would ever become reality. I would also like to take this opportunity to thank General Counsel Samuel Gerace for his timely and thorough advice. I also wish to recognize and thank the Delaware Insurance Department for their active participation and involvement. Lastly, I would like to thank each of my fellow Board and Committee Members for their individual contributions to this organization. Your support is gratifying and I am confident that the Delaware FAIR Plan remains in capable hands.

Respectfully submitted,



Mr. Karl M. Brendell
Chairman of the Board

Report of the General Manager
Mr. John M. Ogle
Insurance Placement Facility of Delaware
Annual Meeting
April 20, 2005
Hotel du Pont - Wilmington, Delaware
8:00 a..m.

Good Morning. It is a pleasure to be with you on this, the 37th Annual Meeting of the Insurance Placement Facility of Delaware.

This past year saw the Delaware Plan continue to grow by double digit increases. The growth trend began in 2001 and has been continuing for every month since. New Applications Received finished 2004, up 24% while Total Policies Issued increased 29.6% to 3,611 policies. Premiums Written finished 2004 at \$813,220 or an increase of almost 34.3%.

The growth in business has also been accompanied by a string of unusually large losses. In 2004, the Delaware Plan suffered four losses in excess of \$50,000 which accounted for the vast majority of the Plan's \$562,173 Loss Incurred. As such, the Average Paid Loss rose just over 14.5% and the Total Loss Paid increased almost 40%.

Although 2004 will be remembered by the insurance industry as the year of the big storms, their impact on Delaware was minimal. For the year, the Plan noted only two catastrophe events, which generated a total of 10 reported losses and only three paid claims amounting to just \$4,411.

Overall, the Delaware FAIR Plan recorded Earned Premiums of \$730,889. Loss Incurred totaled \$562,173 while Loss Adjustment Expense Incurred rose 26.7% to \$73, 141. General Expenses increased 25.1% to \$390,233 resulting in an Underwriting deficit of \$294,658. Taking into account Investment Income and Other Income and Expenses, the 2004 Net Result of Operations was a deficit of \$325,833.

We will remember this past year not for the storms, or the large fire losses, but instead for the uncertainties. Not only did the Plan have to contend with the uncertainties of the ever increasing


business, but also we contended with the retirement of two key individuals, Mrs. Alice Tracey, our long time Underwriting Department Supervisor and Mr. Wayne Rieck, our Accounting Department Manager for more than 20 years. Both individuals contributed greatly to the success of the organization and both will be missed for many years to come.

As we approach our 38th year of operation, the Plan appears headed for another change in the marketplace. As the insurance industry again adjusts itself to the changing conditions of the marketplace, the impact on the FAIR Plan is unknown. Although the future is cloudy, the Plan is prepared to meet the challenges that lie ahead. The Delaware FAIR Plan remains committed to operating a professional and efficient organization to service the property insurance industry as well as the insurance buying public.

In closing, I would like to thank General Counsel Gerace for his tireless efforts and attention to detail in assisting the Plan throughout the year. I would also like to thank the Delaware Insurance Department for their input and guidance throughout 2004.

The Delaware FAIR Plan is fortunate to have the contribution of many talented Board and Committee Members. I would like to extend my gratitude to each individual for contributing their expertise, advice and most of all, their support. Specially, I would like to thank Chairman Karl Brondell for his years of service to the Plan. Karl proved to be of great assistance throughout these past years and his leadership will be missed. Lastly, I would like to thank the individual employees, management and staff alike, for their dedication and commitment to the organization. It is because of their fine efforts that we can look back on a successful year and look forward to the challenges of the future.

Respectively,


John M. Ogle, CPCU
General Manager

INSURANCE PLACEMENT FACILITY OF DELAWARE

DELAWARE FAIR PLAN

Treasurer's Report

December 31, 2004

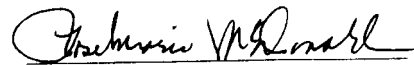
ASSETS

Cash in Bank	342,043.19
Investments, Short term at cost plus accumulated discount	152,381.47
Accrued Investment Income	0.00
Due from Participating Members	0.00
Premiums Receivable	7,384.90
Other Receivables	0.00
Prepaid Premium Tax	0.00
Equipment	0.00
Total Assets	<u>501,809.56</u>

LIABILITIES AND MEMBERS' EQUITY

Unearned Premiums	418,451.00
Unearned Advance Premiums	16,228.00
Outstanding Losses	275,800.00
Outstanding Loss Adjustment Expenses	7,338.00
Accrued Expenses	9,453.00
Unpaid Post Retirement Benefits	143,031.00
Accounts Payable	5,874.17
Claims Checks Payable	30,076.77
Unpaid Premium Tax	4,152.40
Total Liabilities	<u>910,404.34</u>
Members' Equity (Deficit)	<u>(408,594.78)</u>
Total Liabilities and Members' Equity	<u>501,809.56</u>

Respectfully Submitted,


RoseMarie McDonald
Accounting Manager



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Insurance Placement Facility of Delaware:

We have audited the accompanying statutory statements of admitted assets, liabilities, and members' deficit of Insurance Placement Facility of Delaware (the Facility) as of December 31, 2004 and 2003, and the related statutory statements of operations and members' deficit and cash flows for the years then ended. These statutory financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these statutory financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note 1 to the statutory financial statements, the Facility prepared these statutory financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of Delaware, which differ from accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

The Facility's liabilities exceeded its assets by \$361,814 at December 31, 2004 and \$78,578 at December 31, 2003. Such amounts, however, are recoverable from member companies (note 2).

In our opinion, because of the effects of the matter discussed in the third paragraph, the statutory financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Insurance Placement Facility of Delaware as of December 31, 2004 and 2003, or the results of its operations or its cash flows for the years then ended.

Also, in our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and members' deficit of Insurance Placement Facility of Delaware as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in note 1.

As discussed in note 4, the Facility changed the manner in which it accounts for its additional minimum pension liabilities in 2004 to conform to the requirements of SSAP No. 89, *Accounting for Pensions, A Replacement of SSAP No. 8*.

Our audits were made for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The supplementary information included on the supplemental investment risk interrogatories in schedule 1 and the summary of investments in schedule 2 is presented for purposes of additional analysis and is not a required part of the basic statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

KPMG LLP

March 25, 2005

INSURANCE PLACEMENT FACILITY OF DELAWARE
Statutory Statements of Admitted Assets, Liabilities, and Members' Deficit
December 31, 2004 and 2003

Admitted Assets	2004	2003
Cash and cash equivalents, at cost which approximates market value	\$ 494,425	472,676
Assessments receivable	—	53,348
Premiums receivable	7,385	2,784
Total admitted assets	\$ 501,810	528,808
Liabilities and Members' Deficit		
Liabilities:		
Unearned premiums	\$ 418,451	336,120
Due to related parties	30,077	14,773
Unpaid losses and loss adjustment expenses	283,138	137,450
Unearned advanced premiums	16,228	5,437
Postretirement benefits payable	58,282	43,296
Pension liability	37,968	38,007
Other liabilities	19,480	32,303
Total liabilities	863,624	607,386
Members' deficit	(361,814)	(78,578)
Total liabilities and members' deficit	\$ 501,810	528,808

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Statutory Statements of Operations and Members' Deficit

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Underwriting:		
Premiums earned	\$ 730,889	496,291
Less:		
Losses incurred	562,173	355,763
Loss adjustment expenses incurred	73,141	57,714
Underwriting and other expenses incurred	352,852	279,541
	<u>988,166</u>	<u>693,018</u>
Net underwriting loss	<u>(257,277)</u>	<u>(196,727)</u>
Investment income	<u>1,458</u>	<u>551</u>
Other income (expense):		
Premiums/assessments receivable charged off	(2,265)	(1,572)
Other income	803	4,470
Other (expense) income, net	<u>(1,462)</u>	<u>2,898</u>
Net loss	<u>(257,281)</u>	<u>(193,278)</u>
Members' equity (deficit), beginning of year	(78,578)	130,861
Change in nonadmitted assets	160	(2,445)
Change in minimum pension liability adjustment (note 4)	5,057	—
Refund to members	(31,172)	(513,716)
Member contributions	<u>—</u>	<u>500,000</u>
Members' deficit, end of year	\$ <u><u>(361,814)</u></u>	<u><u>(78,578)</u></u>

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Statutory Statements of Cash Flows

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operations:		
Premiums collected, net	\$ 819,570	598,997
Loss and adjustment expenses paid (net of salvage and subrogation)	(474,322)	(359,672)
Underwriting expenses paid	(340,238)	(254,784)
Investment income	1,458	551
Premiums/assessments receivable charged off	(2,265)	(1,572)
Other income	803	4,470
Net cash from operations	<u>5,006</u>	<u>(12,010)</u>
Cash flows used by financing and other miscellaneous sources:		
Refunds from (to) members, net of contribution	22,176	(67,064)
Other, net	(5,433)	2,874
Net cash from financing and other miscellaneous services	<u>16,743</u>	<u>(64,190)</u>
Net increase (decrease) in cash and cash equivalents	21,749	(76,200)
Cash and cash equivalents:		
Beginning of year	<u>472,676</u>	<u>548,876</u>
End of year	\$ <u><u>494,425</u></u>	\$ <u><u>472,676</u></u>

See accompanying notes to statutory financial statements.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

(1) Summary of Significant Accounting Policies

The statutory financial statements of Insurance Placement Facility of Delaware (the Facility) have been prepared on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and the Insurance Department of the State of Delaware.

The more significant accounting policies are as follows:

(a) *Premiums*

Premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro-rata basis.

(b) *Commissions*

Commissions and other costs of acquiring business are charged to operations as incurred.

(c) *Nonadmitted Assets*

Certain assets designated as "nonadmitted" are not reflected in the statutory statements of admitted assets, liabilities, and members' deficit. Nonadmitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' equity.

(d) *Unpaid Losses and Loss Adjustment Expenses*

Unpaid losses and loss adjustment expenses are estimated based on losses reported and the Facility's past experience for losses incurred but not yet reported. Management believes that such provisions are adequate to cover the ultimate liability. However, such estimates could differ from the amounts ultimately paid when claims are settled. Subsequent changes in estimates are reflected in earnings currently.

(e) *Use of Estimates*

The preparation of statutory financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) *Variances from Generally Accepted Accounting Principles*

Certain of the prescribed or permitted insurance accounting practices followed by the Facility differ from accounting principles generally accepted in the United States of America. The principal differences are as follows. Under accounting principles generally accepted in the United States of America:

- Commissions and other acquisition costs, if recoverable from future operations, would be deferred and charged against operations on the same basis that related premiums are recognized as revenues.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

- Certain assets designated as nonadmitted would be reflected in the statutory statements of admitted assets, liabilities, and members' deficit.

The effects on the statutory financial statements of these differences have not been determined.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and other highly liquid temporary investments. The carrying value of cash equivalents approximates fair value. Interest and dividend income from cash and cash equivalents are included in investment income on the statutory statements of operations.

(h) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

(2) General

The Facility was created by an act of Legislature of the State of Delaware (The Delaware Fair Plan Act) to make available basic property insurance against fire and other perils for residential and business properties located in the state. Each authorized insurance company in the state participates in the profits and losses of the Facility in the proportion that certain premiums written in the state by each company during the second preceding calendar year bear to the aggregate of such premiums written by all authorized companies and is subject to future cash assessments or refunds, if required. The members' deficit of \$361,814 and \$78,578 at December 31, 2004 and 2003, respectively, will ultimately be assessed to the participating companies.

The Facility shares office space and the service of certain employees with the Insurance Placement Facility of Pennsylvania and the West Virginia Essential Property Insurance Association, and pays a portion of such joint expenses based on estimates of actual usage.

(3) Federal Income Taxes

The Facility files as a partnership for federal income tax purposes. Consequently, the Facility provides each member company with an annual statement of its relative share of the Facility's annual results of operations for inclusion in each participating member's tax return.

(4) Employee Benefits

The Facility, in conjunction with the Insurance Placement Facility of Pennsylvania and the West Virginia Essential Property Insurance Association and other unaffiliated organizations, is a participant in the Benefits Connection Group Pension Plan, which covers all of its employees. The pension plan qualifies under the provisions of Section 501(a) of the *Internal Revenue Code* and is exempt from federal income taxes. The pension plan is funded through the trustee by contributions to group annuity contracts with two insurance companies.

The Facility uses a December 31 measurement date for its pension plan.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

The following table sets forth the year-end status of the plan as it relates to the Facility:

	2004	2003
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 241,629	188,816
Service cost	8,342	6,391
Interest cost	18,187	14,378
Actuarial loss	73,418	37,966
Benefits paid	(9,071)	(5,922)
	332,505	241,629
Change in plan assets:		
Fair value of plan assets at January 1	166,352	125,570
Actual return on plan assets	39,119	45,192
Employer contributions	50,246	1,512
Benefits paid	(9,071)	(5,922)
	246,646	166,352
Funded status	(85,859)	(75,277)
Unrecognized net actuarial loss	61,199	55,635
	\$ (24,660)	(19,642)

Weighted average assumptions used to determine benefit obligations at December 31:

	2004	2003
Discount rate	5.75%	6.25%
Rate of compensation increase	3.25	3.50

The net periodic pension cost for the plan includes the following components:

	2004	2003
Components of net periodic pension cost:		
Service cost	\$ 8,342	6,391
Interest cost	18,187	14,378
Expected return on plan assets	(17,595)	(11,455)
Amount of loss recognized	3,818	10,328
	\$ 12,752	19,642

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

Weighted average assumptions used to determine the net periodic pension cost:

	2004	2003
Discount rate	6.25%	6.75%
Expected long-term rate of return	8.50	8.50
Weighted average rate of compensation increase	3.50	4.00

The accumulated benefit obligation for the plan was \$284,614 and \$204,360 at December 31, 2004 and 2003, respectively.

Accrued benefit cost recognized in the accompanying statutory statements of admitted assets, liabilities, and members' deficit was \$37,968 and \$38,007 at December 31, 2004 and 2003, respectively.

An additional minimum pension liability (AML) is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2004 and 2003, the Facility had an AML of \$13,308 and \$18,365, respectively.

The Facility changed the manner in which it accounts for the AML in 2004 to conform to the requirements of SSAP No. 89, *Accounting for Pensions, A Replacement of SSAP No. 8*. Pursuant to the requirements of SSAP No. 89, changes to the AML were recorded directly to members' deficit. Previously, changes to the AML were recorded through the statutory statement of operations. The decrease in the AML during 2004 was \$5,057 and was credited directly to members' deficit. The decrease in the AML during 2003 was \$9,271 and was recorded as a reduction of underwriting and other expenses in the accompanying statutory statement of operations. This accounting change did not have any effect on members' deficit at December 31, 2004 or 2003.

The benefit obligation excludes liabilities for nonvested employees, which were \$28 and \$340 at December 31, 2004 and 2003, respectively.

The expected long-term rate of return on assets assumption is 8.50%. As defined in *Financial Accounting Standards (FAS 87)*, this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The plan's weighted average asset allocations at December 31, 2004 and 2003, by asset category, are as follows:

Asset category	2004	2003
Equity securities	59.0%	61.5%
Debt securities	38.0	38.5
Cash	3.0	—

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

The primary investment objective for the pension plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality and diversification guidelines and restrictions approved by the plan administrator's board of directors. The pension asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies with the goal to enhance the expected return of the pension portfolio while maintaining acceptable levels of risk. The target asset allocation is 60% equity securities and 40% debt securities.

The Facility expects to contribute \$15,008 to the plan in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2005	\$	9,894
2006		11,103
2007		11,692
2008		13,137
2009		14,310
2010-2014		100,465

The Facility provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employees' basic annual salary. For employees who are under age 65 at retirement, the Facility continues to pay the full cost of life insurance until the employee reaches age 65, at which time coverage is reduced to \$5,000. For employees who retire at age 65 or older, the Facility pays the full cost of life insurance with coverage limited to \$5,000.

Retired employees of the Facility are provided Medicare Supplement coverage. The Supplement provides coverage for certain hospital, surgical, and medical costs not covered by Medicare. To be eligible for the Supplement, a retiree must be 65 years of age or older and have at least five years of service with the Facility.

The Facility uses a December 31 measurement date for its postretirement benefit plan.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

The following table sets forth the postretirement health care and life insurance benefit plan's funded status as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested active plan participants	\$ 83,324	47,402
Plan assets at fair value	—	—
Accumulated postretirement benefit obligation in excess of plan assets	83,324	47,402
Unrecognized loss	(32,381)	(11,050)
Unrecognized prior service cost	7,339	6,944
Accrued postretirement benefit cost	\$ <u>58,282</u>	<u>43,296</u>

The following table represents a reconciliation of postretirement benefit cost for the years ended December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Accrued postretirement benefit cost at January 1	\$ 43,296	34,507
Benefit expense for year	18,272	10,709
Benefits paid during year	(3,286)	(1,920)
Accrued postretirement benefit cost at December 31	\$ <u>58,282</u>	<u>43,296</u>

Weighted average assumptions used to determine benefit obligations at December 31:

	<u>2004</u>	<u>2003</u>
Discount rate	5.75%	6.25%
Rate of compensation increase	3.50	3.50

Net periodic postretirement benefit cost includes the following components:

	<u>2004</u>	<u>2003</u>
Service cost/eligibility cost	\$ 3,785	9,041
Interest cost	14,394	2,321
Amortization of loss	1,285	317
Amortization of prior service cost	(1,192)	(970)
Net periodic postretirement benefit cost	\$ <u>18,272</u>	<u>10,709</u>

INSURANCE PLACEMENT FACILITY OF DELAWARE

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Weighted average assumptions used to determine the net periodic postretirement cost:

	2004	2003
Discount rate	6.25%	6.75%
Weighted average rate of compensation increase	3.50	3.50

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 12% and 11% were assumed for 2004 and 2003, respectively. The rate increases were assumed to decrease through 2011 and later when they level off at 5%. The healthcare cost trend rate assumption has an effect on the amounts reported. For example, increasing the assumed healthcare cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2004 by \$10,755 and net periodic postretirement benefit cost for the year ended December 31, 2004 by \$1,234.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2005	\$	3,682
2006		4,020
2007		4,364
2008		4,934
2009		5,385
2010-2014		35,705

The employees of the Facility are eligible to participate in the Benefits Connection Group 401(k) Savings Plan, a defined contribution plan. The plan is administered by the Administration Committee for Benefits Connection Group Savings Plan. Participation in the plan is voluntary. Employees are vested in employer contributions upon participation. Employees may contribute 1% to 16% of their annual compensation on a before-tax basis and/or 1% to 16% of their annual compensation on an after-tax basis for a total of 16%. The Facility matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Facility amounted to \$4,624 and \$3,942 in 2004 and 2003, respectively.

INSURANCE PLACEMENT FACILITY OF DELAWARE

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(5) Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	2004	2003
Balance, January 1	\$ 137,450	68,344
Incurred related to:		
Current year	795,185	441,959
Prior year	(159,871)	(28,482)
Total incurred	635,314	413,477
Paid related to:		
Current year	512,047	304,509
Prior year	(22,421)	39,862
Total paid	489,626	344,371
Balance, December 31	\$ 283,138	137,450

As a result of changes in estimates for anticipated losses and loss adjustment expenses related to insured events of prior years, the liability for losses and loss adjustment expenses decreased by \$159,871 and \$28,482 in 2004 and 2003, respectively.

Paid amounts above are net of salvage and subrogation recoveries. Prior year payments during 2004 includes \$38,500 in recoveries associated with one claim.

(6) Lease Commitments

The Facility conducts its operations in a leased premises under a lease that will expire April 30, 2008. At December 31, 2004, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:		
2005	\$	11,076
2006		11,584
2007		11,584
2008		3,862
Total payments	\$	38,106

Total rental expense was \$13,545 and \$10,532 in 2004 and 2003, respectively.

The Facility is charged a portion of the total rentals paid by Insurance Placement Facility of Pennsylvania for common facilities, based upon underwriting activity of the Facility during the year. Rental commitment allocations are based upon continuation of the current level of activity.

INSURANCE PLACEMENT FACILITY OF DELAWARE

Notes to Statutory Financial Statements

December 31, 2004 and 2003

(7) Related Party Transactions

The Insurance Placement Facility of Pennsylvania (note 2) issues all checks, including those payable by the Facility, and is then reimbursed by the Facility. Throughout 2004 and 2003, \$489,626 and \$344,371, respectively, was paid by the Insurance Placement Facility of Pennsylvania on behalf of the Facility. The related payable to the Insurance Placement Facility of Pennsylvania is \$30,077 and \$14,773 at December 31, 2004 and 2003, respectively.

(8) Annual Statement Reconciliation

The following is a reconciliation between the accompanying statutory financial statements and the annual statement for the years ended December 31, 2004 and 2003:

		2004	
		Net loss	Members' deficit
As reported in the annual statement	\$	(325,833)	(408,595)
2003 underwriting and other expense adjustment		(4,344)	—
2004 underwriting and other expense adjustment		41,724	46,781
2004 premiums/assessments receivable charged off adjustment		31,172	—
As reported herein	\$	(257,281)	(361,814)
		2003	
		Net loss	Members' deficit
As reported in the annual statement	\$	(225,676)	(82,922)
2002 underwriting and other expense adjustment		28,054	—
2003 underwriting and other expense adjustment		4,344	4,344
As reported herein	\$	(193,278)	(78,578)

The underwriting and other expense adjustments relate to the additional minimum pension liability adjustments discussed in note 4.