

*Office of the Ohio Insurance Liquidator*

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To: All Members and Agents of Builders & Contractors Employee Benefit Association Trust

As I am sure all of you know by now, Builders & Contractors Employee Benefit Association Trust (“Builders & Contractors” or the “Trust”) was placed in rehabilitation on March 4, 2002 by the Court of Common Pleas in Franklin County, Ohio. As required by statute, the Superintendent of the Ohio Department of Insurance was appointed as the Rehabilitator for Builders & Contractors. This action was the result of a financial examination by the Department of Insurance, wherein it was determined that Builders & Contractors had a negative surplus of over \$900,000 as of November 30, 2001. Following the Rehabilitation Order, an evaluation of Builders & Contractors’ financial condition revealed that the estimated deficit as of June 30, 2002, was approximately \$1.6 million.

With this substantial deficit, the Rehabilitator felt that it would be very difficult to restore Builders & Contractors financial health as a going concern, but in the summer of 2002, a substantial number of members strongly urged the Department to make such an attempt. In addition to the substantial financial deficit that the company was facing, it also had monumental management problems to overcome. Builders & Contractors had no employees or office equipment. Instead, prior management had run the entire operation of the company through another company, for which services Builders & Contractors may have been overcharged. Additionally, prior management appears to have mismanaged and/or misdirected assets of Builders & Contractors. Thus, to rehabilitate Builders & Contractors as a going concern, new management had to be retained, office facilities had to be established, and employees hired to continue its operations.

Because of the strong support received from the members, the Rehabilitator agreed to try to restore Builders & Contractors to financial viability. Prior management had been promptly removed following the Rehabilitation Order and a consultant with expertise in managing health care companies was retained to set up the company’s infrastructure and to oversee its day-to-day operations. The Rehabilitator obtained office space for the ongoing operation of the Trust and acquired the necessary office furniture and equipment. Many of the former employees of the company that had previously administered Builders & Contractors’ business were hired by the Rehabilitator since they were familiar with the operation of the Trust. Under the prior management, there were numerous forms and amendments for coverage, which created substantial difficulty in administering and managing the claims. These form coverages were reviewed and reduced to one benefit handbook with limited coverage options. Additionally, actuarial work was done to determine appropriate premium rates for these policies in an attempt to be sure that premiums in the aggregate were sufficient to cover anticipated losses under the policies.

To provide operating capital, an assessment was made in the fall of 2002 for a total amount of approximately \$1.4 million. The payments due on that assessment were to be paid in three monthly

installments during the fall of 2002. Unfortunately, not all of the companies timely paid the assessment and there remains approximately \$467,000 still owing from companies on that assessment. When the December 31, 2002 financial statements were prepared, this unpaid amount of the assessment was a sufficiently current receivable on the books of Builders & Contractors that it was valued at virtually the full amount. This, along with the projected claims at that time, made it appear as though Builders & Contractors had moved from a negative net worth to a positive surplus of \$800,000.

With that in mind, the Rehabilitator filed a plan with the court to reconstitute the Board of Trustees and return the operation of Builders & Contractors to management of the Board and such officers as the Board would retain. Although an interim Board of Trustees was appointed by the Rehabilitator, before the court could approve the rehabilitation plan and close the rehabilitation, substantial unexpected claims were discovered and the member companies who had not yet paid their assessment continued to refuse payment. The combined effect of these events resulted in Builders & Contractors' true financial condition remaining substantially insolvent. Compounding this was the fact that since the time Builders & Contractors was first placed in rehabilitation, approximately half of the members found insurance elsewhere and cancelled their health benefits with Builders and Contractors. This caused critical economies of scale to be lost.

In light of this situation, there were several meetings between the Board of Trustees and the Rehabilitator. Ultimately, the board expressed its belief that Builders & Contractors would not be able to continue operating as a going concern and requested that the policies issued by the Trust be transferred to a new insurer, that the existing claims and other obligations of the Trust be paid, and that the Trust's operations be wound up.

The Rehabilitator likewise felt that a transfer of the health benefits to a new solvent carrier and the wrap-up of the Trust's operations was the best alternative for all of the members and their employees. With that in mind, the Rehabilitator appointed me as the Chief Deputy Rehabilitator and asked me to oversee the runoff and winding up of the Trust. For the past four years, I have overseen all of Ohio's insurance company liquidations and our office is well staffed and experienced in wrapping up insurance company operations. For that reason, the Rehabilitator felt that our office would be the most efficient and least expensive means to complete this wind-up of Builders & Contractors.

We have already begun taking steps to complete this wind-up. The first step was to file a motion for approval of the rehabilitation plan. A copy of that motion is enclosed. Additionally, we will soon be filing a complaint against all of the member companies who have not yet paid the assessments that were made in 2001 and 2002. We will be aggressively pursuing those assessments and any other potential assets of the Trust that we believe are economically feasible. We are also currently talking to other insurance carriers, who can provide insurance quotes to all members so that the health benefits can be moved from the Trust. This will cut off ongoing claims liability for the Trust and allow us to wrap up the operations of the Trust much more quickly. Once we have obtained a commitment from a new carrier to provide coverage, you will receive additional information regarding this.

Although we will be aggressively pursuing all assets and potential recoveries for the Trust, it is very likely that we will need to make additional assessments to be able to ultimately pay all of the obligations of the Trust. At this time, it is difficult to predict when and how much those assessments will be. Additionally, because of the time it often takes to recover assets in litigation, should that be necessary, it is likely that we will need to collect assessments to fund the ongoing expenses and claim payments until we are able to collect other assets through litigation. Assuming we are ultimately successful in that litigation and other asset collection matters, any assessments collected by the Trust, which are not ultimately needed to pay ongoing expenses, claims and creditors of the Trust, will be returned to those members who were assessed.

Because this is an assessable company, we are very much aware that all expenses that we incur, all claims that we allow, and all assets that we recover, directly affect the ultimate liability that the members will have to bear. Therefore, our primary objective is to minimize the ultimate additional assessment that will need to be made to pay all of the obligations of the Trust. Since you as the members will be obligated for any ultimate assessment that must be made, I believe it is appropriate to try to keep you advised of the progress of the rehabilitation and to give you an opportunity to provide us with your comments or concerns as this rehabilitation proceeds to completion. There are several ways in which you can do this. Our office phone number is 614-487-9200. We also have a website, [www.ohinsliq.com](http://www.ohinsliq.com), which at this time does not yet contain a lot of information specific to the Builders & Contractors, but we will be adding specific information as this progresses. Additionally, you can contact our office by email through that website. Finally, depending on interest, I intend to have an open meeting on a monthly basis for members who want to attend and discuss the status of the rehabilitation. I have not yet scheduled those monthly meetings, but will do so after the court enters an order approving this rehabilitation plan. Once dates are set for those meetings, I will have them posted on our website. Eventually, we will be closing down the office in Akron. Until that happens, Jim Young is the Deputy Rehabilitator who will be primarily overseeing the onsite operations. He can be reached either at our office at the contact information given above or at Builders & Contractors. The phone number there is (330) 865-9800.

If you have any questions or concerns regarding any of this, please feel free to contact us through any of the means identified above.

Very truly yours,



Douglas L. Hertlein  
Chief Deputy Rehabilitator