

**STATE OF MICHIGAN  
 DEPARTMENT OF MANAGEMENT AND BUDGET  
 PURCHASING OPERATIONS  
 P.O. BOX 30026, LANSING, MI 48909  
 OR  
 530 W. ALLEGAN, LANSING, MI 48933**

June 12, 2008

**CHANGE NOTICE NO. 2  
 TO  
 CONTRACT NO. 071B5200324  
 between  
 THE STATE OF MICHIGAN  
 and**

NAME & ADDRESS OF VENDOR  <b>National Actuarial Network, Inc.          55 Cooper Road          Voorhees, New Jersey 08043</b>  <p align="right">Jtan.nan@gmail.com</p>	TELEPHONE (856) 753-7870 <b>Joseph H. Tan, FSA, MAAA</b>
	VENDOR NUMBER/MAIL CODE <b>(006)</b>
	BUYER (517) 241-0684 <b>Erica Busick</b>
Contract Administrator: Robert Lamberjack <b>Pre qualified Actuarial Services Life/Health - OFIS</b>	
CONTRACT PERIOD: From: <b>June 1, 2005</b> To: <b>September 30, 2009</b>	
TERMS <p align="center"><b>Net 45 Days</b></p>	SHIPMENT <p align="center"><b>30 Days ARO</b></p>
F.O.B. <p align="center"><b>Delivered</b></p>	SHIPPED FROM <p align="center"><b>N/A</b></p>
MINIMUM DELIVERY REQUIREMENTS <p align="center"><b>N/A</b></p>	

**NATURE OF CHANGE(S):**

**Effective immediately, this Contract is hereby EXTENDED through September 30, 2009.  
 NOTE: The DMB Buyer for this Contract is changed to Erica Busick (517) 241-0684. All other terms, conditions, specifications, and pricing remain unchanged.**

**AUTHORITY/REASON:**

**Per request of the DLEG (PRF dated 5/22/08) and DMB/Purchasing Operations' approval.**

**TOTAL ESTIMATED CONTRACT VALUE REMAINS: \$500,000.00**

STATE OF MICHIGAN  
DEPARTMENT OF MANAGEMENT AND BUDGET  
PURCHASING OPERATIONS  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

September 17, 2007

CHANGE NOTICE NO. 1  
TO  
CONTRACT NO. 071B5200324  
between  
THE STATE OF MICHIGAN  
and

NAME & ADDRESS OF VENDOR  <b>National Actuarial Network, Inc. 55 Cooper Road Voorhees, New Jersey 08043</b>	TELEPHONE (856) 753-7870 <b>Joseph H. Tan, FSA, MAAA</b>
	VENDOR NUMBER/MAIL CODE <b>(006)</b>
	BUYER (517) 241-1916
Contract Administrator: Robert Lamberjack <b>Pre qualified Actuarial Services Life/Health - OFIS</b>	
CONTRACT PERIOD: From: <b>June 1, 2005</b> To: <b>September 30, 2008</b>	
TERMS <b>Net 45 Days</b>	SHIPMENT <b>30 Days ARO</b>
F.O.B. <b>Delivered</b>	SHIPPED FROM <b>N/A</b>
MINIMUM DELIVERY REQUIREMENTS <b>N/A</b>	

**NATURE OF CHANGE(S):**

Effective immediately, this Contract is hereby EXTENDED through September 30, 2008.  
All other terms, conditions, specifications, and pricing remain unchanged.

**AUTHORITY/REASON:**

Per request of the DLEG (PRF dated 7/24/07) and DMB/Purchasing Operations.

TOTAL ESTIMATED CONTRACT VALUE REMAINS: \$500,000.00

**STATE OF MICHIGAN**  
**DEPARTMENT OF MANAGEMENT AND BUDGET**  
**ACQUISITION SERVICES**  
**P.O. BOX 30026, LANSING, MI 48909**  
**OR**  
**530 W. ALLEGAN, LANSING, MI 48933**

June 28, 2005

**NOTICE**  
**TO**  
**CONTRACT NO. 071B5200324**  
**between**  
**THE STATE OF MICHIGAN**  
**and**

NAME & ADDRESS OF VENDOR  <b>National Actuarial Network, Inc.</b> <b>55 Cooper Road</b> <b>Voorhees, New Jersey 08043</b>	TELEPHONE (856) 753-7870 <b>Joseph H. Tan, FSA, MAAA</b>
	VENDOR NUMBER/MAIL CODE <b>(006)</b>
	BUYER (517) 241-1218 <b>Douglas Collier, CPPB</b>
Contract Administrator: Robert Lamberjack <b>Pre qualified Actuarial Services Life/Health - OFIS</b>	
CONTRACT PERIOD: From: <b>June 1, 2005</b> To: <b>September 30, 2007</b>	
TERMS <b>Net 45 Days</b>	SHIPMENT <b>30 Days ARO</b>
F.O.B. <b>Delivered</b>	SHIPPED FROM <b>N/A</b>
MINIMUM DELIVERY REQUIREMENTS <b>N/A</b>	

**The terms and conditions of this Contract are enclosed.**

**Estimated Contract Value: \$500,000.00**

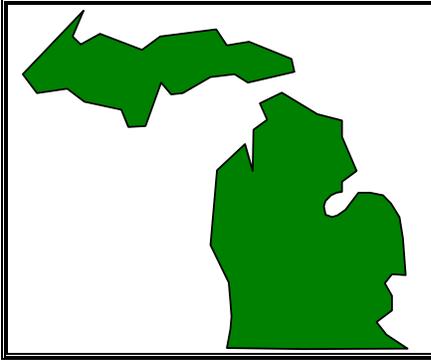
**STATE OF MICHIGAN**  
**DEPARTMENT OF MANAGEMENT AND BUDGET**  
**ACQUISITION SERVICES**  
**P.O. BOX 30026, LANSING, MI 48909**  
 OR  
**530 W. ALLEGAN, LANSING, MI 48933**

**CONTRACT NO. 071B5200324**  
**between**  
**THE STATE OF MICHIGAN**  
**and**

NAME & ADDRESS OF VENDOR  <b>National Actuarial Network, Inc.</b> <b>55 Cooper Road</b> <b>Voorhees, New Jersey 08043</b>	TELEPHONE (856) 753-7870 <b>Joseph H. Tan, FSA, MAAA</b> VENDOR NUMBER/MAIL CODE <b>(006)</b>  BUYER (517) 241-1218 <b>Douglas Collier, CPPB</b>
Contract Administrator: Robert Lamberjack <p style="text-align: center;"><b>Pre qualified Actuarial Services Life/Health - OFIS</b></p>	
CONTRACT PERIOD: From: <b>June 1, 2005</b> To: <b>September 30, 2007</b>	
TERMS <p style="text-align: center;"><b>Net 45 Days</b></p>	SHIPMENT <p style="text-align: center;"><b>30 Days ARO</b></p>
F.O.B. <p style="text-align: center;"><b>Delivered</b></p>	SHIPPED FROM <p style="text-align: center;"><b>N/A</b></p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;"><b>N/A</b></p>	
MISCELLANEOUS INFORMATION:  <p><b>The terms and conditions of this Contract are enclosed.</b></p>  <p><b>Estimated Contract Value: \$500,000.00</b></p>	

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<b>FOR THE VENDOR:</b>  <b>National Actuarial Network, Inc.</b> _____ Firm Name  _____ Authorized Agent Signature  _____ Authorized Agent (Print or Type)  _____ Date	<b>FOR THE STATE:</b>  _____ Signature <b>Douglas Collier, CPPB, Buyer Specialist</b> _____ Name <b>Services Division, Acquisition Services</b> _____ Title  _____ Date
--	---



**STATE OF MICHIGAN**  
**Department of Management and Budget**  
**Acquisition Services**

Actuarial Services  
CONTRACT #071B5200324

Buyer Name: Doug Collier  
Telephone Number: 517 241-1646  
E-Mail Address: [collierd1@michigan.gov](mailto:collierd1@michigan.gov)



Actuarial Services

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## **Article 1 – Statement of Work (SOW)**

### **1.0 Project Identification**

#### **1.001 PROJECT REQUEST**

The purpose of this Contract is to provide life/health and property/casualty actuarial services and to pre-qualify actuarial service vendors for either one or both services.

Pre-qualified vendor qualifications and availability will be accessed by the Office of Financial and Insurance Services (OFIS) under a second tier, competitive selection process. OFIS may then enter into a work contract with the vendor offering the best overall value for the specific OFIS examination.

#### **1.002 BACKGROUND**

The Office of Financial and Insurance Services (OFIS) regulates a wide range of entities including but not limited to the following:

- Full and single line HMO's
- Blue Cross Blue Shield of Michigan
- Multiple Employer Welfare Arrangements
- Property, Casualty, Life and Health Insurance Companies
- US Branches of Canadian Insurers
- Limited Liability Pools
- Reciprocal Exchanges
- Municipal Pools

Specifically the OFIS is responsible for regulating the financial solvency and compliance with National Association of Insurance Commissioners (NAIC) requirements and the Michigan Insurance Code by the above regulated entities. The OFIS attempts to insure compliance with the regulations and Code through periodic examinations of the regulated entities. The examinations can occur throughout the United States and Canada. The staff of the OFIS conducts the examinations, but the Division has no fully certified actuaries (actuaries who have taken and passed all ten exams) with training or experience in the fields of life, health, property or casualty insurance actuarial science. An analysis and evaluation by a Fellow of the Society of Actuaries/Fellow of the Casualty Society of Actuaries of the adequacy of reserves of regulated entities are critical to the Commissioner's ability to adequately examine the entities and ensure compliance with standards, regulations and Code.

Also, it is imperative that the actuarial firms or individuals assisting the OFIS with specific examinations not be associated, either financially or contractually, with the entity being examined and that there shall be no financial or contractual relationship, either written or oral, for two years prior to, during the life of and for two years after any contract awarded or any subsequent contract work order without the written consent of the OFIS. Failure by the firm to comply with this provision may result in the cancellation of services.

It is because of the concern about conflict of interest that the OFIS feels it is imperative to have a pool of contract actuaries available to assist with examinations. The pool of pre-qualified firms is also required because it is anticipated that there may be 60 or more examinations annually, with many examinations going on simultaneously.

A pool of a minimum of six (maximum of 10) life/health and a minimum of six (maximum of 10) property/casualty actuarial firms will be developed. It is possible for firms to be qualified to provide actuarial services in both the life/health and property/casualty categories as long as the firm can certify to all reserves in both categories.

### **1.1 Scope of Work and Deliverables**

#### **1.101 IN SCOPE**

When specific company examinations require actuarial services, the OFIS Contract Administrator will prepare a written work statement detailing the line items where the State needs an actuary to analyze and opine to the adequacy of the reserves.



The OFIS may also, on occasion, require experience in particular lines of business such as medical malpractice and liquor liability. Also, from time to time, OFIS may have a need for actuarial services to conduct reviews under Section 830(3) of the Michigan Insurance Code regarding requests by domestic insurers for changes in actuarial methodologies. Other actuarial services that may be requested are reviews of mortality tables and reviews of concerns regarding adequacy of reserving. If such experience is required, it will be described in the work statement. Also, there are some examinations where several members within an insurance holding company are being examined at the same time. One property and casualty contractor will be awarded all property and casualty companies within the insurance holding company and one life and health contractor will be awarded all life and health companies within the insurance holding company. When awarding individual contracts, additional consideration may be given firms that can render opinions on all members of an insurance group (both life/health and property/casualty). However, the firm must be one of the pre-qualified firms in both pools. Each statement of work will be initiated by the contract administrator and submitted via e-mail to all pre-qualified firms. Each statement of work will contain the following information:

- Name of company to be analyzed
- The last examination period
- Period to be covered by this examination
- Items needing analysis
- Excerpts from Company's Annual Statement and Actuarial Opinion.

A sample work statement is provided in Appendix A and B. Each category of examination, Life/Health and Property/Casualty, will receive a work Statement.

The pre-qualified vendors will have two weeks to submit via e-mail a work plan in response to the work statement. Pre-qualified vendors will respond to the statement of work with a task proposal by the date specified in the statement of work. In detailing costs, the contractor must not exceed the hourly rate included in their response. Each Task proposal will include the following:

1. Introduction – statement of the assignment
2. End product of the assignment
3. Services to be provided (activities, tasks and individuals assigned to each task or activity)
4. Background information and relevant specific experience of firm and names, experience and resumes of individuals assigned to the project
5. Detail of Costs:
  - Indicating who will be assigned
  - The hours they will be assigned
  - The hourly rate
  - Travel costs\*
  - Total cost

\*Travel costs will be billed at state rates in effect at the time the expense is incurred. Travel costs should include any costs that may be incurred by the contractor during the normal course of the examination. Should the contractor be required to defend their findings at a hearing, the OFIS will reimburse the contractor for any specific travel costs incurred while defending the findings. This reimbursement is in addition to the total cost bid and accepted by the OFIS. Travel costs incurred for defending the contractor's findings will only be reimbursed if prior approval for the travel is received from the Contractor Administrator.

The pre-qualified firm that presents the highest quality proposal, price considered, will be selected to perform the analysis. Whenever possible, the OFIS will ensure that no contractor will be awarded a contract to examine a company that they examined during the last state audit. Persons/firms selected may be expected to begin work one week following the receipt of a contract release. Should none of the contractors offer an acceptable proposal, the State may pursue acquisition of services from other vendors. The OFIS may interview the proposed staff before making a final decision on the award of a contract release.

The average bid price for P&C proposals is approximately \$7,500 and the average bid price for Life proposals is approximately \$25,000. The total cost for very complex examinations often exceeds these averages and the total cost for relatively straight-forward examinations often is less than these averages.

**1.102 OUT OF SCOPE**

*RESERVED*

**1.103 TECHNICAL ENVIRONMENT**

*RESERVED*

**1.104 WORK AND DELIVERABLE**

Contractor shall provide Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

A. Review and opine on actuarial items in connection with financial examinations of domestic insurance companies, including Canadian and alien insurance companies using Michigan as the state of entry into the United States or other liabilities or assets specifically determined by the OFIS which need to be reviewed by an actuary.

B. The actuarial items to be reviewed may include but are not limited to, policy reserves, policy holder dividend scales and philosophy, tax liability, product features, risk based capital and surplus requirements, cash flow tests, asset adequacy testing and loss and loss adjustment expense reserves.

C. The actuary is responsible for reconciling all the data provided by the company back to the annual statement. Specifically, the property and casualty actuary must tie its loss data back to Schedule P, Part I.

D. The liabilities and assets to be reviewed and certified by the contractor will be determined at the beginning of each examination. The contractor must use, if available, the Company's actuarial opinion, report and work papers to the greatest extent possible without compromising the contractor's responsibility to perform the necessary tests to render his/her opinion on the agreed upon areas as defined in the work statement.

E. The contractor must work closely with the examiner-in-charge (EIC) and other staff assigned to the examination to ensure the appropriate underlying master file and other data used by the contractor in rendering his opinion is tested for completeness and accuracy by the OFIS staff. The contractor must give the EIC progress reports throughout the examination. These reports can be verbal. The contractor must immediately notify the EIC of any exceptions and important issues.

F. It is also imperative that the contractor(s) not be associated with (either financially or contractually) the entity regulated by the OFIS to which the contractor is providing services and that such a relationship not be entered into for two years prior to, during the life of and for two years after the contract award without the written consent of the OFIS. Failure by the Contractor(s) to comply with this provision may result in the cancellation of any contract.

G. The reports and opinions for life and health entities must be signed by a Fellow of the Society of Actuaries (FSA); and reports and opinions for property and casualty entities must be signed by a Fellow of the Casualty Actuarial Society (FCAS). The fellow must play a significant role in the analysis and oversight of the project.

H. The contractor must be available for meetings with the regulated entity and the OFIS. Also, from time to time, the contractor may be called upon to appear at a place designated by the OFIS, to discuss the issues of an emergency nature on short notice. Further, the contractor is required to be flexible in changing their work efforts to accommodate the concerns of the OFIS. The contractor must be prepared and available to defend the contractor's findings in a hearing. The contractor must be willing to testify as an expert witness and perform other tasks related to the area of expertise as needed.

I. The contractor may be called upon to help the OFIS analyze complex reinsurance agreements and transactions or any other special assignment, where actuarial assistance may be deemed necessary by the OFIS.



J. From time to time, there may be special projects that may be performed on non-domestic insurers or in areas which may be considered beyond the scope of a routine examination, which the contractor may be asked to provide to the OFIS. The scope of the project or area will be defined by the OFIS and agreed upon with the contractor before the work begins.

K. The actuary should be able to perform most of the analysis from their work location. Due to the nature of the life insurance products, actuaries should plan to make one visit on-site to the company. All visits by the actuary to the company being examined must be coordinated with the approval by the Examiner-in-Charge.

L. The contractor must agree to comply with Section 222(4) of the Michigan Insurance Code regarding the confidentiality of all information and knowledge obtained by the contractor during an examination of an entry under this contract. Section 222(4) states, in part, all work papers, correspondence, memoranda, reports, records and other written or oral information related to an examination report or an investigation shall be withheld from public inspection, shall be confidential, shall not be subject to subpoena, and shall not be divulged to any person, except as provided for in Section 222(4). If the contractor receives a subpoena for any information related to an examination under contract, the contractor must contact the OFIS immediately. The contractor should also be aware of Section 226 of the Michigan Insurance Code that states, in part, a person appointed or acting under this act who discloses any fact or information that is confidential under this act is guilty of a misdemeanor, punishable by a fine of not more than \$1,000, or imprisonment of not more than one (1) year, or both.

M. All of the contractor's work papers are the property of the OFIS and should be sent to the OFIS at the conclusion of the examination.

N. Contractors will not be allowed to bid on a company if the contractor performed the analysis and review for the OFIS during the last examination.

## 1.2 Roles and Responsibilities

### 1.201 CONTRACTOR STAFF, ROLES, AND RESPONSIBILITIES

See Work and Deliverables Section 1.104.

### 1.202 STATE STAFF, ROLES, AND RESPONSIBILITIES

*The OFIS will oversee the amount of work to be performed under the contract by making assignments and sending financial statements to the contractor at the beginning of each examination. In all cases, the number and type of tasks will be specified by the OFIS.*

### 1.203 OTHER ROLES AND RESPONSIBILITIES

*RESERVED*

## 1.3 Project Plan

### 1.301 PROJECT PLAN MANAGEMENT

*The contractor will carry out this project under the direction and control of:*

Bob Lamberjack, Chief Examiner  
Office of Financial and Insurance Services  
Michigan Department of Labor & Economic Growth  
611 W. Ottawa Street  
P.O. Box 30220  
Lansing, Michigan 48909  
(517) 335-1746  
[bclambe@michigan.gov](mailto:bclambe@michigan.gov)

**1.302 REPORTS**

The contractor must give the EIC progress reports throughout the examination. These reports can be verbal. The contractor must immediately notify the EIC of any exceptions and important issues.

Although there will be continuous liaison with the Contractor team, the OFIS Contract Administrator will meet as needed with the Contractor's project manager for the purpose of receiving progress reports and providing necessary guidance to the Contractor in solving problems which arise.

**1.4 Project Management****1.401 ISSUE MANAGEMENT**

*RESERVED*

**1.402 RISK MANAGEMENT**

*RESERVED*

**1.403 CHANGE MANAGEMENT**

*RESERVED*

**1.5 Acceptance****1.501 CRITERIA**

The following criteria will be used by the State to determine Acceptance of the Services and/or Deliverables provided under this SOW.

The OFIS will require a deliverable work product in the form of an appropriately detailed written report and actuarial opinion for each assignment. The detailed report should adequately support the actuarial opinion. The report should include a discussion of the scope of the work performed and assumptions used, a summary of findings, any recommendations to the company for improving its system, loss developments, the accuracy of the aggregate reserves and other provisions for policy obligations and any other pertinent information used to render the opinion. the actuarial opinion should be in the format of and contain the information required by the NAIC Annual Statement Instructions. The final detailed report and opinion must be delivered to the OFIS prior to the end of the on-site examination by the OFIS staff examiners unless prior consent is given by the OFIS. The contractor will provide four copies of the report. The certification will not be attached or bound with the actuarial report but will be a separate document. The actuarial opinion must be submitted with the actuarial report. The detailed report and supporting work papers will become part of the OFIS work papers which are confidential and are only available to other parties as defined by specific statutes. The regulated entity will also have a copy of the actuarial report supporting the certification. The regulated entity may provide a copy of the actuarial report and opinion to its appointed actuary.

**1.502 FINAL ACCEPTANCE**

Final Acceptance is when the project is completed and functions according to the requirements. Any intermediate acceptance of sub-Deliverables does not complete the requirement of Final Acceptance.



**1.6 Compensation and Payment**

All rates quoted in bidder's response to this CONTRACT will be firm for the duration of the Contract. No price changes will be permitted.

Fees for our services are based on staff hours actually worked. Work performed under this proposal will be billed at \$165 per hour. This hourly rate includes all costs incurred, including administrative, clerical, overhead and profit.

<u>Name of Unit</u>	<u>Dollars/Hr.</u>
Actuarial Services	\$165

This rate will be firm for the period as stated in the RFP. The hourly rate does not include travel, lodging and meals. We understand that these expenses will be reimbursed at State rates in effect at the time of the expense.

This cost and price analysis is submitted in full compliance with the provisions of the paragraph titled 'Independent Price Determination' in Part III of the RFP to which this proposal is a response.

**1.7 Additional Terms and Conditions Specific to this SOW**

*RESERVED*



## Article 2 – General Terms and Conditions

### 2.0 Introduction

#### 2.001 GENERAL PURPOSE

The Contract is for actuarial services for the State of Michigan. Orders will be issued directly to the Contractor by various State Agencies on the Purchase Order Contract Release Form. Bids are due and will be publicly identified at the time noted on the Invitation To Bid (ITB) Form.

#### 2.002 ISSUING OFFICE AND CONTRACT ADMINISTRATOR

The Contract is issued by Acquisition Services, State of Michigan, Department of Management and Budget, hereinafter known as Acquisition Services, for the Office of Financial and Insurance Services, hereinafter known as OFIS. Where actions are a combination of those of Acquisition Services and the State agencies, the authority will be known as the State.

Acquisition Services is the sole point of contact in the State with regard to all contractual matters relating to the commodities and/or services described herein. Acquisition Services is the only office authorized to negotiate, change, modify, amend, alter, clarify, etc., the specifications, terms, and conditions of the Contract.

**Contractor proceeds at its own risk if it takes negotiation, changes, modification, alterations, amendments, clarification, etc., of the specifications, terms, or conditions of the contract from any individual or office other than Acquisition Services and the listed contract administrator**

All communications covering this procurement must be addressed to contract administrator indicated below:

Department of Management and Budget  
Acquisition Services  
Attn: Doug Collier  
2nd Floor, Mason Building  
P.O. Box 30026  
Lansing, Michigan 48909  
(517) 335-4804  
[collierd1@michigan.gov](mailto:collierd1@michigan.gov)

#### 2.003 NOTICE

Any notice given to a party under this Contract must be written and shall be deemed effective, if addressed to such party as addressed below upon (i) delivery, if hand delivered; (ii) receipt of a confirmed transmission by facsimile if a copy of the notice is sent by another means specified in this section; (iii) the third (3rd) Business Day after being sent by U.S. mail, postage pre-paid, return receipt requested; or (iv) the next Business Day after being sent by a nationally recognized overnight express courier with a reliable tracking system.

#### 2.004 CONTRACT TERM

The term of this Contract will be for two years 3 months and will commence with the issuance of a Contract. This will be approximately 06/01/05 through 09/30/07.

**Option.** The State reserves the right to exercise two (2) one-year options, at the sole option of the State. Contractor performance, quality of products, price, cost savings, and the contractor's ability to deliver on time are some of the criteria that will be used as a basis for any decision by Acquisition Services to exercise an option year.

**Extension.** At the sole option of the State, the contract may also be extended. Contractor performance, quality of products, price, cost savings, and the contractor's ability to deliver on time are some of the criteria that will be used as a basis for any decision by Acquisition Services to exercise an option year.



Written notice will be provided to the Contractor within 30 days, provided that the State gives the Contractor a preliminary written notice of its intent to extend at least 60 days before the contract expires. The preliminary notice does not commit the Government to an extension. If the Government exercises this option, the extended contract shall be considered to include this option clause.

## 2.005 GOVERNING LAW

The Contract shall in all respects be governed by, and construed in accordance with, the laws of the State of Michigan. By signing this agreement, vendor consents to personal jurisdiction in the state of Michigan. Any dispute arising herein shall be resolved in the State of Michigan.

## 2.006 APPLICABLE STATUTES

The following statutes, rules, and laws are applicable to the performance of this contract; some statutes are reflected in the clauses of this contract. This list is NOT exhaustive.

MI Uniform Commercial Code (MIUCC) MCL 440. (All sections unless otherwise altered by agreement)

MI OSHA MCL §§ 408.1001 – 408.1094

Freedom of Information Act (FIOA) MCL §§ 15.231, et seq.

Natural Resources and Environmental Protection Act MCL §§ 324.101, et seq.

MI Consumer Protection Act MCL §§ 445.901 – 445.922

Laws relating to wages, payments of wages, and fringe benefits on state projects MCL §§ 408.551 – 408.558, 408.471 – 408.490, 1965 PA 390.

Department of Civil Service Rules and regulations

Elliot Larsen Civil Rights Act MCL §§ 37.2201, et seq.

Persons with disabilities Civil Rights Act MCL §§ 37.1101, et seq.

MCL §§ 423.321, et seq.

MCL § 18.1264 (law regarding debarment)

Davis-Bacon Act (DBA) 40 USCU §§ 276(a), et seq.

Contract Work Hours and Safety Standards Act (CWHSSA) 40 USCS § 327, et seq.

Business Opportunity Act for Persons with Disabilities MCL §§ 450.791 – 450.795

Rules and regulations of the Environmental Protection Agency

Internal Revenue Code

Rules and regulations of the Equal Employment Opportunity Commission (EEOC)

The Civil Rights Act of 1964, USCS Chapter 42

Title VII, 42 USCS §§ 2000e et seq.

The Americans with Disabilities Act (ADA), 42 USCS §§ 12101 et seq.

The Age Discrimination in Employment Act of 1967 (ADEA), 29 USCS §§ 621, 623 et seq.

The Old Workers Benefit and Protection Act of 1990 (OWBPA), 29 USCS §§ 626, et seq.

The Family Medical Leave Act of 1993 (FMLA), 29 USC §§ 651 et seq.

The Fair Labor Standards Act (FLSA), 29 USC §§ 201 et seq.

Pollution Prevention Act of 1990 (PPA) 42 U.S.C. §13106

Sherman Act, 15 U.S.C.S. § 1 et seq.

Robinson-Patman Act, 15 U.S.C.S. § 13 et. seq.

Clayton Act, 15 U.S.C.S. § 14 et seq.

## 2.007 RELATIONSHIP OF THE PARTIES

The relationship between the State and the Contractor is that of client and independent Contractor. No agent, employee, or servant of the Contractor or any of its subcontractors shall be or shall be deemed to be an employee, agent, or servant of the State for any reason. The Contractor will be solely and entirely responsible for its acts and the acts of its agents, employees, servants and subcontractors during the performance of this Contract.

**2.008 HEADINGS**

Captions and headings used in the Contract are for information and organization purposes. Captions and headings, including inaccurate references, do not, in any way, define or limit the requirements or terms and conditions of this Contract.

**2.009 MERGER**

This document constitutes the complete, final, and exclusive agreement between the parties. All other prior writings and negotiations are ineffective.

**2.010 SEVERABILITY**

Each provision of the Contract shall be deemed to be severable from all other provisions of the Contract and, if one or more of the provisions of the Contract shall be declared invalid, the remaining provisions of the Contract shall remain in full force and effect.

**2.011 SURVIVORSHIP**

Any provisions of the Contract that impose continuing obligations on the parties including, but not limited to the Contractor's indemnity and other obligations shall survive the expiration or cancellation of the Contract for any reason.

**2.012 NO WAIVER OF DEFAULT**

The failure of a party to insist upon strict adherence to any term of the Contract shall not be considered a waiver or deprive the party of the right thereafter to insist upon strict adherence to that term or any other term of the Contract.

**2.013 PURCHASE ORDERS**

Orders for delivery of commodities and/or services may be issued directly by the State Departments through the issuance of a Purchase Order Form referencing this Contract (Blanket Purchase Order) agreement and the terms and conditions contained herein. Contractor is asked to reference the Purchase Order Number on all invoices for payment.

**2.1 Vendor/Contractor Obligations****2.101 ACCOUNTING RECORDS**

The Contractor and all subcontractors shall maintain all pertinent financial and accounting records and evidence pertaining to the Contract in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan. Financial and accounting records shall be made available, upon request, to the State of Michigan, its designees, or the Michigan Auditor General at any time during the Contract period and any extension thereof, and for three years from expiration date and final payment on the Contract or extension thereof.

**2.102 NOTIFICATION OF OWNERSHIP**

The Contractor shall make the following notifications in writing:

1. When the Contractor becomes aware that a change in its ownership or officers has occurred, or is certain to occur, that could result in changes in the valuation of its capitalized assets in the accounting records, the Contractor shall notify Acquisition Services within 30 days.
2. The Contractor shall also notify the Acquisition Services within 30 days whenever changes to asset valuations or any other cost changes have occurred or are certain to occur as a result of a change in ownership or officers.



The Contractor shall:

1. Maintain current, accurate, and complete inventory records of assets and their costs;
2. Provide Acquisition Services or designated representative ready access to the records upon request;
3. Ensure that all individual and grouped assets, their capitalized values, accumulated depreciation or amortization, and remaining useful lives are identified accurately before and after each of the Contractor's ownership or officer changes; and
4. Retain and continue to maintain depreciation and amortization schedules based on the asset records maintained before each Contractor ownership or officer change.

### **2.103 SOFTWARE COMPLIANCE**

*RESERVED*

### **2.104 IT STANDARDS**

*RESERVED*

### **2.105 PERFORMANCE AND RELIABILITY EVALUATION (PARE)**

*RESERVED*

### **2.106 PREVAILING WAGE**

The rates of wages and fringe benefits to be paid each class of individuals employed by the Contractor, its subcontractors, their subcontractors, and all persons involved with the performance of this contract in privity of contract with the Contractor shall not be less than the wage rates and fringe benefits established by the Michigan Department of Consumer and Industry Service, Bureau of Safety and Regulation, Wage/Hour Division schedule of occupational classification and wage rates and fringe benefits for the local where the work is to be performed. The term Contractor shall include all general contractors, prime contractors, project managers, trade contractors, and all of their contractors or subcontractors and persons in privity of contract with them.

The Contractor, its subcontractors, their subcontractors, and all persons involved with the performance of this contract in privity of contract with the Contractor shall keep posted on the work site, in a conspicuous place, a copy of all wage rates and fringe benefits as prescribed in the contract. You must also post, in a conspicuous place, the address and telephone number of the Michigan Department of Consumer and Industry Services, the office responsible for enforcement of the wage rates and fringe benefits. You shall keep an accurate record showing the name and occupation of the actual wage and benefits paid to each individual employed in connection with this contract. This record shall be available to the State upon request for reasonable inspection.

If any trade is omitted from the list of wage rates and fringe benefits to be paid to each class of individuals by the Contractor, it is understood that the trades omitted shall also be paid not less than the wage rate and fringe benefits prevailing in the local where the work is to be performed.

### **2.107 PAYROLL AND BASIC RECORDS**

Payrolls and basic records relating to the performance of this contract shall be maintained by the Contractor during the course of the work and preserved for a period of 3 years thereafter for all laborers and mechanics working at the site of the work. Such records shall contain the name, address, and social security number of each such worker, his or her correct classification, hourly rates of wages paid (including rates of contributions or costs anticipated for bona fide fringe benefits or cash equivalents thereof of the types described in section 1(b)(2)(B) of the Davis-Bacon Act), daily and weekly number of hours worked, deductions made, and actual wages paid.



Contractors employing apprentices or trainees under approved programs shall maintain written evidence of the registration of apprenticeship programs and certification of trainee programs, the registration of the apprentices and trainees, and the ratios and wage rates prescribed in the applicable programs.

The Contractor shall submit a copy of all payrolls to the Contract Administrator upon request. The payrolls submitted shall set out accurately and completely all of the information required to be maintained as indicated above.

The Prime Contractor is responsible for the submission of copies of payrolls by all subcontractors upon request from the Contract Administrator

The Contractor or subcontractor shall permit the Contract Administrator or representatives of the Contract Administrator or the State of Michigan to interview employees during working hours on the job.

If the Contractor or subcontractor fails to submit required records or to make them available, the Contract Administrator may, after written notice to the Contractor, take such action as may be necessary to cause the suspension of any further payment. Furthermore, failure to submit the required records upon request or to make such records available may be grounds for debarment.

#### **2.108 COMPETITION IN SUB-CONTRACTING**

The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.

#### **2.109 CALL CENTER DISCLOSURE**

Vendor and/or all subcontractors involved in the performance of this contract providing call or contact center services to the State of Michigan must disclose the location of its call or contact center services to inbound callers. Failure to disclose this information shall be a material breach of this agreement.

### **2.2 Contract Performance**

#### **2.201 TIME IS OF THE ESSENCE**

Contractor/Vendor is on notice that time is of the essence in the performance of this contract. Late performance will be considered a material breach of this contract, giving the State a right to invoke all remedies available to it under this contract.

#### **2.202 CONTRACT PAYMENT SCHEDULE**

All invoices should reflect actual work done. The total amount billed shall not exceed the maximum bid amount. One invoice shall be submitted at the completion of the assignment.

#### **2.203 POSSIBLE PROGRESS PAYMENTS**

*RESERVED*

#### **2.204 POSSIBLE PERFORMANCE-BASED PAYMENTS (Actual performance rendered)**

*RESERVED*

#### **2.205 ELECTRONIC PAYMENT AVAILABILITY**

Electronic transfer of funds is available to State contractors. Vendors are encouraged to register with the State of Michigan Office of Financial Management so the State can make payments related to this Contract electronically at [www.cpexpress.state.mi.us](http://www.cpexpress.state.mi.us).



## 2.206 PERFORMANCE OF WORK BY CONTRACTOR

*RESERVED*

## 2.3 Contract Rights and Obligations

### 2.301 INCURRING COSTS

The State of Michigan is not liable for any cost incurred by the Contractor prior to signing of the Contract. The State fiscal year is October 1st through September 30th. The Contractor(s) should realize that payments in any given fiscal year are contingent upon enactment of legislative appropriations. Total liability of the State is limited to terms and conditions of the Contract.

### 2.302 CONTRACTOR RESPONSIBILITIES

The Contractor will be required to assume responsibility for all contractual activities, whether or not that Contractor performs them. Further, the State will consider the Contractor to be the sole point of contact with regard to contractual matters, including payment of any and all charges resulting from the anticipated Contract. If any part of the work is to be subcontracted, the Contract must include a list of subcontractors, including firm name and address, contact person and a complete description of work to be subcontracted. The State reserves the right to approve subcontractors and to require the Contractor to replace subcontractors found to be unacceptable. The Contractor is totally responsible for adherence by the subcontractor to all provisions of the Contract. Any change in subcontractors must be approved by the State, in writing, prior to such change.

### 2.303 ASSIGNMENT AND DELEGATION

The Contractor shall not have the right to assign this Contract, to assign its rights under this contract, or delegate any of its duties or obligations under the Contract to any other party (whether by operation of law or otherwise), without the prior written consent of the State. Any purported assignment in violation of this Section shall be null and void. Further, the Contractor may not assign the right to receive money due under the Contract without the prior written consent of the Director of Acquisition Services.

The Contractor shall not delegate any duties or obligations under the Contract to a subcontractor other than a subcontractor named and approved in the bid unless the Director of Acquisition Services has given written consent to the delegation.

**Bidder must obtain the approval of the Director of Acquisition Services before using a place of performance that is different from the address that bidder provided in the bid.**

### 2.304 TAXES

Sales Tax: For purchases made directly by the State of Michigan, the State is exempt from State and Local Sales Tax. Prices shall not include such taxes. Exemption Certificates for State Sales Tax will be furnished upon request.

Federal Excise Tax: The State of Michigan may be exempt for Federal Excise Tax, or such taxes may be reimbursable, if articles purchased under this Contract are used for the State's exclusive use. Certificates exclusive use for the purposes of substantiating a tax-free, or tax-reimbursable sale will be sent to the Contractor upon request. If a sale is tax exempt or tax reimbursable under the Internal Revenue Code, prices shall not include the Federal Excise Tax.

The State's Tax Exempt Certification is available for vendor viewing upon request to the Contract Administrator.



## 2.305 INDEMNIFICATION

### General Indemnification

To the fullest extent permitted by law, the Contractor shall indemnify, defend and hold harmless the State, its departments, divisions, agencies, sections, commissions, officers, employees and agents, from and against all losses, liabilities, penalties, fines, damages and claims (including taxes), and all related costs and expenses (including reasonable attorneys' fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties), arising from or in connection with any of the following:

1. Any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from (1) the product provided or (2) performance of the work, duties, responsibilities, actions or omissions of the Contractor or any of its subcontractors under this Contract.
2. Any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from a breach by the Contractor of any representation or warranty made by the Contractor in the Contract;
3. Any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or related to occurrences that the Contractor is required to insure against as provided for in this Contract;
4. Any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from the death or bodily injury of any person, or the damage, loss or destruction of any real or tangible personal property, in connection with the performance of services by the Contractor, by any of its subcontractors, by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable; provided, however, that this indemnification obligation shall not apply to the extent, if any, that such death, bodily injury or property damage is caused solely by the negligence or reckless or intentional wrongful conduct of the State;
5. Any claim, demand, action, citation or legal proceeding against the State, its employees and agents which results from an act or omission of the Contractor or any of its subcontractors in its or their capacity as an employer of a person.

### Patent/Copyright Infringement Indemnification

To the fullest extent permitted by law, the Contractor shall indemnify, defend and hold harmless the State, its employees and agents from and against all losses, liabilities, damages (including taxes), and all related costs and expenses (including reasonable attorneys' fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties) incurred in connection with any action or proceeding threatened or brought against the State to the extent that such action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its subcontractors, or the operation of such equipment, software, commodity or service, or the use or reproduction of any documentation provided with such equipment, software, commodity or service infringes any United States or foreign patent, copyright, trade secret or other proprietary right of any person or entity, which right is enforceable under the laws of the United States. In addition, should the equipment, software, commodity, or service, or the operation thereof, become or in the Contractor's opinion be likely to become the subject of a claim of infringement, the Contractor shall at the Contractor's sole expense (i) procure for the State the right to continue using the equipment, software, commodity or service or, if such option is not reasonably available to the Contractor, (ii) replace or modify the same with equipment, software, commodity or service of equivalent function and performance so that it becomes non-infringing, or, if such option is not reasonably available to Contractor, (iii) accept its return by the State with appropriate credits to the State against the Contractor's charges and reimburse the State for any losses or costs incurred as a consequence of the State ceasing its use and returning it.



### Code Indemnification

To the extent permitted by law, the Contractor shall indemnify, defend and hold harmless the State from any claim, loss, or expense arising from Contractor's breach of the No Surreptitious Code Warranty.

### Indemnification Obligation Not Limited

In any and all claims against the State of Michigan, or any of its agents or employees, by any employee of the Contractor or any of its subcontractors, the indemnification obligation under the Contract shall not be limited in any way by the amount or type of damages, compensation or benefits payable by or for the Contractor or any of its subcontractors under worker's disability compensation acts, disability benefits acts, or other employee benefits acts. This indemnification clause is intended to be comprehensive. Any overlap in sub clauses, or the fact that greater specificity is provided as to some categories of risk, is not intended to limit the scope of indemnification under any other sub clause.

### Continuation of Indemnification Obligation

The duty to indemnify will continue in full force and affect notwithstanding the expiration or early termination of the Contract with respect to any claims based on facts or conditions, which occurred prior to termination.

### Indemnification Procedures

The procedures set forth below shall apply to all indemnity obligations under this Contract.

- (a) After receipt by the State of notice of the action or proceeding involving a claim in respect of which it will seek indemnification, the State shall promptly notify Contractor of such claim in writing and take or assist Contractor in taking, as the case may be, any reasonable action to avoid the imposition of a default judgment against Contractor. No failure to so notify Contractor shall relieve Contractor of its indemnification obligations except to the extent that Contractor can demonstrate damages attributable to such failure. Within ten (10) days following receipt of written notice from the State relating to any claim, Contractor shall notify the State in writing whether Contractor agrees to assume control of the defense and settlement of that claim (a "Notice of Election"). After notifying Contractor of a claim and prior to the State receiving Contractor's Notice of Election, the State shall be entitled to defend against the claim, at Contractor's expense, and Contractor will be responsible for any reasonable costs incurred by the State in defending against the claim during such period.
- (b) If Contractor delivers a Notice of Election relating to any claim: (i) the State shall be entitled to participate in the defense of such claim and to employ counsel at its own expense to assist in the handling of such claim and to monitor and advise the State about the status and progress of the Defense; (ii) Contractor shall, at the request of the State, demonstrate to the reasonable satisfaction of the State, Contractor's financial ability to carry out its defense and indemnity obligations under this Contract; (iii) Contractor shall periodically advise the State about the status and progress of the defense and shall obtain the prior written approval of the State before entering into any settlement of such claim or ceasing to defend against such claim and (iv) to the extent that any principles of Michigan governmental or public law may be involved or challenged, the State shall have the right, at its own expense, to control the defense of that portion of such claim involving the principles of Michigan governmental or public law. Notwithstanding the foregoing, the State may retain control of the defense and settlement of a claim by written notice to Contractor given within ten (10) days after the State's receipt of Contractor's information requested by the State pursuant to clause (ii) of this paragraph if the State determines that Contractor has failed to demonstrate to the reasonable satisfaction of the State Contractor's financial ability to carry out its defense and indemnity obligations under this Section. Any litigation activity on behalf of the State of Michigan, or any of its subdivisions pursuant to this Section, must be coordinated with the Department of Attorney General.



In the event the insurer's attorney represents the State pursuant to this Section, the insurer's attorney may be required to be designated as a Special Assistant Attorney General by the Attorney General of the State of Michigan.

- (c) If Contractor does not deliver a Notice of Election relating to any claim of which it is notified by the State as provided above, the State shall have the right to defend the claim in such manner as it may deem appropriate, at the cost and expense of Contractor. If it is determined that the claim was one against which Contractor was required to indemnify the State, upon request of the State, Contractor shall promptly reimburse the State for all such reasonable costs and expenses.

### **2.306 LIMITATION OF LIABILITY**

The Contractor's liability for damages to the State shall be limited to two times the value of the Contract or \$200,000 (*for low risk contracts – Select a higher amount for moderate to high risk contracts*) which ever is higher. The foregoing limitation of liability shall not apply to claims for infringement of United States patent, copyright, trademarks or trade secrets; to claims for personal injury or damage to property caused by the gross negligence or willful misconduct of the Contractor; to claims covered by other specific provisions of this Contract calling for liquidated damages; to Contractor's indemnification obligations (2.305); or to court costs or attorney's fees awarded by a court in addition to damages after litigation based on this Contract.

The State's liability for damages to the Contractor shall be limited to the value of the Contract.

### **2.307 CONTRACT DISTRIBUTION**

Acquisition Services shall retain the sole right of Contract distribution to all State agencies and local units of government unless other arrangements are authorized by Acquisition Services.

### **2.308 FORM, FUNCTION, AND UTILITY**

If the Contract is for use of more than one State agency and if the good or service provided under this Contract do not meet the form, function, and utility required by a State agency, that agency may, subject to State purchasing policies, procure the good or service from another source.

### **2.309 ASSIGNMENT OF ANTITRUST CAUSE OF ACTION**

For and in consideration of the opportunity to submit a quotation and other good and valuable consideration, the bidder hereby assigns, sells and transfers to the State of Michigan all rights, title and interest in and to all causes of action it may have under the antitrust laws of the United States or this State for price fixing, which causes of action have accrued prior to the date of payment and which relate solely to the particular goods, commodities, or services purchased or procured by this State pursuant to this transaction.

### **2.310 RESERVED**

### **2.311 TRANSITION ASSISTANCE**

*RESERVED*

### **2.312 WORK PRODUCT**

Work Products shall be considered works made by the Contractor for hire by the State and shall belong exclusively to the State and its designees, unless specifically provided otherwise by mutual agreement of the Contractor and the State. If by operation of law any of the Work Product, including all related intellectual property rights, is not owned in its entirety by the State automatically upon creation thereof, the Contractor agrees to assign, and hereby assigns to the State and its designees the ownership of such Work Product, including all related intellectual property rights. The Contractor agrees to provide, at no additional charge, any assistance and to execute any action reasonably required for the State to perfect its intellectual property rights with respect to the aforementioned Work Product.



Notwithstanding any provision of this Contract to the contrary, any preexisting work or materials including, but not limited to, any routines, libraries, tools, methodologies, processes or technologies (collectively, the "Development Tools") created, adapted or used by the Contractor in its business generally, including any and all associated intellectual property rights, shall be and remain the sole property of the Contractor, and the State shall have no interest in or claim to such preexisting work, materials or Development Tools, except as necessary to exercise its rights in the Work Product. Such rights belonging to the State shall include, but not be limited to, the right to use, execute, reproduce, display, perform and distribute copies of and prepare derivative works based upon the Work Product, and the right to authorize others to do any of the foregoing, irrespective of the existence therein of preexisting work, materials and Development Tools, except as specifically limited herein.

The Contractor and its subcontractors shall be free to use and employ their general skills, knowledge and expertise, and to use, disclose, and employ any generalized ideas, concepts, knowledge, methods, techniques or skills gained or learned during the course of performing the services under this Contract, so long as the Contractor or its subcontractors acquire and apply such information without disclosure of any confidential or proprietary information of the State, and without any unauthorized use or disclosure of any Work Product resulting from this Contract.

### 2.313 PROPRIETARY RIGHTS

*RESERVED*

### 2.314 WEBSITE INCORPORATION

State expressly states that it will not be bound by any content on the Contractor's website, even if the Contractor's documentation specifically referenced that content and attempts to incorporate it into any other communication, unless the State has actual knowledge of such content and has expressly agreed to be bound by it in a writing that has been manually signed by an authorized representation of the State.

## 2.4 Contract Review and Evaluation

### 2.401 CONTRACT COMPLIANCE INSPECTOR

Upon receipt at Acquisition Services of the properly executed Contract Agreement(s), the person named below will be allowed to oversee the Contract performance on a day-to-day basis during the term of the Contract. However, overseeing the Contract implies **no authority to negotiate, change, modify, clarify, amend, or otherwise alter the terms, conditions, and specifications of such Contract(s). That authority is retained by Acquisition Services.** The Contract Compliance Inspector for this project is:

*Bob Lamberjack, Chief Examiner  
Office of Financial and Insurance Services  
Michigan Department of Labor & Economic Growth  
611 W. Ottawa Street  
P.O. Box 30220  
Lansing, Michigan 48909  
(517) 335-1746  
[bclambe@michigan.gov](mailto:bclambe@michigan.gov)*

### 2.402 PERFORMANCE REVIEWS

Acquisition Services in conjunction with the OFIS may review with the Contractor their performance under the Contract. Performance reviews shall be conducted quarterly, semi-annually or annually depending on Contractor's past performance with the State. Performance reviews shall include, but not limited to, quality of products/services being delivered and provided, timeliness of delivery, percentage of completion of orders, the amount of back orders, status of such orders, accuracy of billings, customer service, completion and submission of required paperwork, the number of substitutions and the reasons for substitutions, and other requirements of the Contract.



Upon a finding of poor performance, which has been documented by Acquisition Services, the Contractor shall be given an opportunity to respond and take corrective action. If corrective action is not taken in a reasonable amount of time as determined by Acquisition Services, the Contract may be canceled for default. Delivery by the Contractor of unsafe and/or adulterated or off-condition products to any State agency is considered a material breach of Contract subject to the cancellation provisions contained herein.

#### **2.403 AUDIT OF CONTRACT COMPLIANCE/ RECORDS AND INSPECTIONS**

The Contractor agrees that the State may, upon 24-hour notice, perform an audit at Contractor's location(s) to determine if the Contractor is complying with the requirements of the Contract. The Contractor agrees to cooperate with the State during the audit and produce all records and documentation that verifies compliance with the Contract requirements.

### **2.5 Quality and Warranties**

#### **2.501 PROHIBITED PRODUCTS**

The State will not accept salvage, distressed, outdated or discontinued merchandise. Shipping of such merchandise to any State agency, as a result of an order placed against the Contract, shall be considered default by the Contractor of the terms and conditions of the Contract and may result in cancellation of the Contract by the State. The brand and product number offered for all items shall remain consistent for the term of the Contract, unless Acquisition Services has approved a change.

#### **2.502 RESERVED**

#### **2.503 RESERVED**

#### **2.504 GENERAL WARRANTIES (goods)**

*Warranty of Merchantability* – Goods provided by vendor under this agreement shall be merchantable. All goods provided under this contract shall be of good quality within the description given by the State, shall be fit for their ordinary purpose, shall be adequately contained and packaged within the description given by the State, shall conform to the agreed upon specifications, and shall conform to the affirmations of fact made by the vendor or on the container or label.

*Warranty of fitness for a particular purpose* – When vendor has reason to know or knows any particular purpose for which the goods are required, and the State is relying on the vendor's skill or judgment to select or furnish suitable goods, there is a warranty that the goods are fit for such purpose.

*Warranty of title* – Vendor shall, in providing goods to the State, convey good title in those goods, whose transfer is right and lawful. All goods provided by vendor shall be delivered free from any security interest, lien, or encumbrance of which the State, at the time of contracting, has no knowledge. Goods provided by vendor, under this agreement, shall be delivered free of any rightful claim of any third person by of infringement or the like.

#### **2.505 CONTRACTOR WARRANTIES**

The Contract will contain customary representations and warranties by the Contractor, including, without limitation, the following:

1. The Contractor will perform all services in accordance with high professional standards in the industry;
2. The Contractor will use adequate numbers of qualified individuals with suitable training, education, experience and skill to perform the services;
3. The Contractor will use its best efforts to use efficiently any resources or services necessary to provide the services that are separately chargeable to the State;



4. The Contractor will use its best efforts to perform the services in the most cost effective manner consistent with the required level of quality and performance;
5. The Contractor will perform the services in a manner that does not infringe the proprietary rights of any third party;
6. The Contractor will perform the services in a manner that complies with all applicable laws and regulations;
7. The Contractor has duly authorized the execution, delivery and performance of the Contract;
8. The Contractor is capable in all respects of fulfilling and shall fulfill all of its obligations under this contract.
9. The contract appendices, attachments, and exhibits identify all equipment and software services necessary for the deliverable(s) to perform and operate in compliance with the contract's requirements.
10. The Contractor is the lawful owner or licensee of any Deliverable licensed or sold to the state by Contractor or developed by Contractor under this contract, and Contractor has all of the rights necessary to convey to the state the ownership rights or license use, as applicable, of any and all Deliverables.
11. If, under this Contract, Contractor procures any equipment, software or other Deliverable for the State (including equipment, software and other Deliverables manufactured, re-marketed or otherwise sold by Contractor under Contractor's name), then in addition to Contractor's other responsibilities with respect to such items as set forth in this Contract, Contractor shall assign or otherwise transfer to the State or its designees, or afford the State the benefits of, any manufacturer's warranty for the Deliverable.
12. The contract signatory has the power and authority, including any necessary corporate authorizations, necessary to enter this contract, on behalf of Contractor.
13. The Contractor is qualified and registered to transact business in all locations where required.
14. Neither the Contractor nor any Affiliates, nor any employee of either, has, shall have, or shall acquire, any contractual, financial, business, or other interest, direct or indirect, that would conflict in any manner or degree with Contractor's performance of its duties and responsibilities to the State under this Contract or otherwise create an appearance of impropriety with respect to the award or performance of this Agreement. Contractor shall notify the State within two (2) days of any such interest that may be incompatible with the interests of the State.
15. All financial statements, reports, and other information furnished by Contractor to the State as part of its response to the ITB or otherwise in connection with the award of this Contract fairly and accurately represent the business, properties, financial condition, and results of operations of Contractor as of the respective dates, or for the respective periods, covered by such financial statements, reports, other information. Since the respective dates or periods covered by such financial statements, reports, or other information, there have been no material adverse changes in the business, properties, financial condition, or results of operations of Contractor. All written information furnished to the State by or behalf of Contractor in connection with this Contract, including its bid, is true, accurate, and complete, and contains no untrue statement of material fact or omits any material fact necessary to make such information not misleading.

#### **2.506 STAFF**

The State reserves the right to approve the Contractor's assignment of key actuarial personnel to this project and to recommend reassignment of personnel deemed unsatisfactory by the State.



The Contractor shall not remove or reassign, without the State's prior written approval any of the key actuarial personnel until such time as the key actuarial personnel have completed all of their planned and assigned responsibilities in connection with performance of the Contractor's obligations under this Contract. The Contractor agrees that the continuity of key actuarial personnel is critical and agrees to the continuity of key actuarial personnel. Removal of key actuarial personnel without the written consent of the State may be considered by the State to be a material breach of this Contract. The prohibition against removal or reassignment shall not apply where key actuarial personnel must be replaced for reasons beyond the reasonable control of the Contractor including but not limited to illness, disability, resignation or termination of the key actuarial personnel's employment.

#### **2.507 SOFTWARE WARRANTIES**

*RESERVED*

#### **2.508 EQUIPMENT WARRANTY**

*RESERVED*

#### **2.509 PHYSICAL MEDIA WARRANTY**

*RESERVED*

### **2.6 Breach of Contract**

#### **2.601 BREACH DEFINED**

Failure to comply with articles, sections, or subsections of this agreement, or making any false statement in this agreement will be considered a material breach of this agreement giving the state authority to invoke any and all remedies available to it under this agreement.

In addition to any remedies available in law and by the terms of this contract, if the Contractor breaches Sections 2.508, 2.509, or 2.510, such a breach may be considered as a default in the performance of a material obligation of this contract.

#### **2.602 NOTICE AND THE RIGHT TO CURE**

In the event of a curable breach by the Contractor, the State shall provide the Contractor written notice of the breach and a time period to cure said breach described in the notice. This section requiring notice and an opportunity to cure shall not be applicable in the event of successive or repeated breaches of the same nature or if the State determines in its sole discretion that the breach poses a serious and imminent threat to the health or safety of any person or the imminent loss, damage or destruction of any real or tangible personal property.

#### **2.603 EXCUSABLE FAILURE**

1. Neither party shall be liable for any default or delay in the performance of its obligations under the Contract if and to the extent such default or delay is caused, directly or indirectly, by: fire, flood, earthquake, elements of nature or acts of God; riots, civil disorders, rebellions or revolutions in any country; the failure of the other party to perform its material responsibilities under the Contract (either itself or through another contractor); injunctions (provided the injunction was not issued as a result of any fault or negligence of the party seeking to have its default or delay excused); or any other cause beyond the reasonable control of such party; provided the non-performing party and its subcontractors are without fault in causing such default or delay, and such default or delay could not have been prevented by reasonable precautions and cannot reasonably be circumvented by the non-performing party through the use of alternate sources, workaround plans or other means, including disaster recovery plans. In such event, the non-performing party will be excused from any further performance or observance of the obligation(s) so affected for as long as such circumstances prevail and such party continues to use its best efforts to recommence performance or observance whenever and to whatever extent possible without delay provided such party promptly notifies the other party in writing of the inception of the excusable failure occurrence, and also of its abatement or cessation.



2. If any of the above enumerated circumstances substantially prevent, hinder, or delay performance of the services necessary for the performance of the State's functions for more than 14 consecutive days, and the State determines that performance is not likely to be resumed within a period of time that is satisfactory to the State in its reasonable discretion, then at the State's option: (a) the State may procure the affected services from an alternate source, and the State shall not be liable for payments for the unperformed services under the Contract for so long as the delay in performance shall continue; (b) the State may cancel any portions of the Contract so affected and the charges payable hereunder shall be equitably adjusted to reflect those services canceled; or (c) the Contract will be canceled without liability of the State to the Contractor as of the date specified by the State in a written notice of cancellation to the Contractor. The Contractor will not have the right to any additional payments from the State as a result of any excusable failure occurrence or to payments for services not rendered as a result of the excusable failure condition. Defaults or delays in performance by the Contractor which are caused by acts or omissions of its subcontractors will not relieve the Contractor of its obligations under the Contract except to the extent that a subcontractor is itself subject to any excusable failure condition described above and the Contractor cannot reasonably circumvent the effect of the subcontractor's default or delay in performance through the use of alternate sources, workaround plans or other means.

## 2.7 Remedies

### 2.701 CANCELLATION

The State may cancel this Contract without further liability or penalty to the State, its departments, divisions, agencies, offices, commissions, officers, agents, and employees for any of the following reasons:

1. Material Breach by the Contractor. In the event that the Contractor breaches any of its material duties or obligations under the Contract, which are either not capable of or subject to being cured, or are not cured within the time period specified in the written notice of breach provided by the State, or pose a serious and imminent threat to the health and safety of any person, or the imminent loss, damage or destruction of any real or tangible personal property, the State may, having provided written notice of cancellation to the Contractor, cancel this Contract in whole or in part, for cause, as of the date specified in the notice of cancellation.

In the event that this Contract is cancelled for cause, in addition to any legal remedies otherwise available to the State by law or equity, the Contractor shall be responsible for all costs incurred by the State in canceling the Contract, including but not limited to, State administrative costs, attorneys fees and court costs, and any additional costs the State may incur to procure the services required by this Contract from other sources. All excess re-procurement costs and damages shall not be considered by the parties to be consequential, indirect or incidental, and shall not be excluded by any other terms otherwise included in the Contract.

In the event the State chooses to partially cancel this Contract for cause charges payable under this Contract will be equitably adjusted to reflect those services that are cancelled.

In the event this Contract is cancelled for cause pursuant to this section, and it is therefore determined, for any reason, that the Contractor was not in breach of contract pursuant to the provisions of this section, that cancellation for cause shall be deemed to have been a cancellation for convenience, effective as of the same date, and the rights and obligations of the parties shall be limited to that otherwise provided in the Contract for a cancellation for convenience.

2. Cancellation For Convenience By the State. The State may cancel this Contract for its convenience, in whole or part, if the State determines that such a cancellation is in the State's best interest. Reasons for such cancellation shall be left to the sole discretion of the State and may include, but not limited to (a) the State no longer needs the services or products specified in the Contract, (b) relocation of office, program changes, changes in laws, rules, or regulations make implementation of the Contract services no longer practical or feasible, and (c) unacceptable prices for additional services requested by the State. The State may cancel the Contract for its convenience, in whole or in part, by giving the Contractor written notice 30 days prior to the date of cancellation. If the State chooses to cancel this Contract in part, the charges payable under this Contract shall be equitably adjusted to reflect those services that are cancelled.



3. Non-Appropriation. In the event that funds to enable the State to effect continued payment under this Contract are not appropriated or otherwise made available. The Contractor acknowledges that, if this Contract extends for several fiscal years, continuation of this Contract is subject to appropriation or availability of funds for this project. If funds are not appropriated or otherwise made available, the State shall have the right to cancel this Contract at the end of the last period for which funds have been appropriated or otherwise made available by giving written notice of cancellation to the Contractor. The State shall give the Contractor written notice of such non-appropriation or unavailability within 30 days after it receives notice of such non-appropriation or unavailability.
4. Criminal Conviction. In the event the Contractor, an officer of the Contractor, or an owner of a 25% or greater share of the Contractor, is convicted of a criminal offense incident to the application for or performance of a State, public or private Contract or subcontract; or convicted of a criminal offense including but not limited to any of the following: embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, attempting to influence a public employee to breach the ethical conduct standards for State of Michigan employees; convicted under State or federal antitrust statutes; or convicted of any other criminal offense which in the sole discretion of the State, reflects upon the Contractor's business integrity.
5. Approvals Rescinded. The State may terminate this Contract without further liability or penalty in the event any final administrative or judicial decision or adjudication disapproves a previously approved request for purchase of personal services pursuant to Constitution 1963, Article 11, section 5, and Civil Service Rule 7. Termination may be in whole or in part and may be immediate as of the date of the written notice to Contractor or may be effective as of the date stated in such written notice.

## 2.702 RIGHTS UPON CANCELLATION

**Termination Assistance.** If this Contract (or any Statement of Work issued under it) is terminated for any reason prior to completion, Contractor agrees to provide for up to six (6) months after the termination all reasonable termination assistance requested by the State to facilitate the orderly transfer of such Services to the State or its designees in a manner designed to minimize interruption and adverse effect. Such termination assistance will be deemed by the parties to be governed by the terms and conditions of this Contract (notwithstanding its termination) other than any terms or conditions that do not reasonably apply to such termination assistance. Such termination assistance shall be at no additional charge to the State if the termination is for Contractor's Default pursuant to Section 2.602; otherwise the State shall compensate Contractor for such termination assistance on a time and materials basis in accordance with the Amendment Labor Rates identified within this Contract agreement.

OR

### A. Rights and Obligations Upon Termination

- (1) If this Contract is terminated by the State for any reason, Contractor shall (a) stop all work as specified in the notice of termination, (b) take any action that may be necessary, or that the State may direct, for preservation and protection of Deliverables or other property derived or resulting from this Contract that may be in Contractor's possession, (c) return all materials and property provided directly or indirectly to Contractor by any entity, agent or employee of the State, (d) in the event that the Contractor maintains title in equipment and software that is intended to be transferred to the State at the termination of the Contract, Contractor will transfer title in, and deliver to, the State, unless otherwise directed, all Deliverables and other Developed Materials intended to be transferred to the State at the termination of the Contract and which are resulting from the Contract (which shall be provided to the State on an "As-Is" basis except to the extent the amounts paid by the State in respect of such items included compensation to Contractor for the provision of warranty services in respect of such materials), and (e) take any action to mitigate and limit any potential damages, or requests for Contractor adjustment or termination settlement costs, to the maximum practical extent, including terminating or limiting as otherwise applicable those subcontracts and outstanding orders for material and supplies resulting from the terminated Contract.



- (2) In the event the State terminates this Contract prior to its expiration for its own convenience, the State shall pay Contractor for all charges due for Services provided prior to the date of termination and, if applicable, as a separate item of payment pursuant to this Contract, for partially completed Deliverables, on a percentage of completion basis. All completed or partially completed Deliverables prepared by Contractor pursuant to this Contract shall, at the option of the State, become the State's property, and Contractor shall be entitled to receive equitable fair compensation for such Deliverables. Regardless of the basis for the termination, the State shall not be obligated to pay, or otherwise compensate, Contractor for any lost expected future profits, costs or expenses incurred with respect to Services not actually performed for the State.
- (3.) If any such termination by the State is for cause, the State shall have the right to set-off against any amounts due Contractor the amount of any damages for which Contractor is liable to the State under this Contract or pursuant to law or equity.
- (4.) Upon a good faith termination, the State shall have the right to assume, at its option, any and all subcontracts and agreements for services and materials provided under this Contract, and may further pursue completion of the Services under this Contract by replacement contract or otherwise as the State may in its sole judgment deem expedient.

#### **B. Termination Assistance**

If the Contract (or any Statement of Work issued under it) is terminated for any reason before completion, Contractor agrees to provide for up to two-hundred seventy (270) calendar days after the termination all reasonable termination assistance requested by the State to facilitate the orderly transfer of such Services to the State or its designees in a manner designed to minimize interruption and adverse effect. Such termination assistance will be deemed by the parties to be governed by the terms and conditions of the Contract (notwithstanding its termination) other than any terms or conditions that do not reasonably apply to such termination assistance. The State shall compensate Contractor for such termination assistance at the same rates and charges set forth in the Contract on a time and materials basis in accordance with the Labor Rates indicated within Contractors pricing section. If the Contract is terminated by Contractor under **Section 20**, then Contractor may condition its provision of termination assistance under this Section on reasonable assurances of payment by the State for such assistance, and any other amounts owed under the Contract.

#### **C. Reservation of Rights**

Any termination of the Contract or any Statement of Work issued under it by a party shall be with full reservation of, and without prejudice to, any rights or remedies otherwise available to such party with respect to any claims arising prior to or as a result of such termination.

#### **D. End of Contract Transition**

In the event the Contract is terminated, for convenience or cause, or upon expiration, the Contractor agrees to comply with direction provided by the State to assist in the orderly transition of equipment, services, software, leases, etc. to the State or a third party designated by the State. In the event of termination or the expiration of the Contract, the Contractor agrees to make all reasonable efforts to effect an orderly transition of services within a reasonable period of time that in no event will exceed 270 calendar days. These efforts shall include, but are not limited to, the following:

- (1) Personnel - The Contractor shall work with the State, or a specified third party, to develop a transition plan setting forth the specific tasks and schedule to be accomplished by the parties, to effect an orderly transition. The Contractor shall allow as many personnel as practicable to remain on the job to help the State, or a specified third party, maintain the continuity and consistency of the services required by the Contract. In addition, during or following the transition period, in the event the State requires the Services of the Contractor's subcontractors, as necessary to meet its needs, Contractor agrees to reasonably, and with good-faith, work with the State to use the Services of Contractor's subcontractors.



- (2) Knowledgeable Personnel. Contractor will make available to the State or a Third Party Provider knowledgeable personnel familiar with the operational processes and procedures used to deliver products and services to the State. The Contractor personnel will work with the State or third party to help develop a mutually agreeable transition plan, work to transition the process of ordering, shipping and invoicing equipment and services to the State.
- (3) Information - The Contractor agrees to provide reasonable detailed specifications for all Services needed by the State, or specified third party, to properly provide the services required under the Contract. The Contractor will also provide any licenses required to perform the Services under the Contract.
- (4) Software. - The Contractor shall reasonably assist the State in the acquisition of any Contractor software required to perform the Services under the Contract. This shall include any documentation being used by the Contractor to perform the Services under the Contract. If the State transfers any software licenses to the Contractor, those licenses shall, upon expiration of the Contract, transfer back to the State at their current revision level.
- (5) Payment - If the transition results from a termination for any reason, reimbursement shall be governed by the termination provisions of the Contract. If the transition results from expiration, the Contractor will be reimbursed for all reasonable transition costs (i.e. costs incurred within the agreed period after Contract expiration that result from transition operations). The hourly rates or fixed price to be charged will be agreed upon prior to the work commencing.
- (6) Single Point of Contact. Contractor will maintain a Single Point of Contact (SPOC) for the State after termination of the Contract until all product and service obligations have expired.

#### **E. Transition out of this Contract**

- (1) In the event that this Contract is terminated, dissolved, voided, rescinded, nullified, or otherwise rendered unenforceable, the Contractor agrees to perform the following obligations, and any others upon which the State and the Contractor agree:
  - (i) Cooperating with any contractors, vendors, or other entities with whom the State contracts to meet its telecommunication needs, for at least two hundred and seventy (270) days after the termination of this Contract;
  - (ii) Reserved.
  - (iii) Providing the State with all asset management data generated from the inception of this Contract through the date on which this Contract is terminated, in a comma-delimited format unless otherwise required by the Program Office;
  - (iv) Reconciling all accounts between the State and the Contractor;
  - (v) Allowing the State to request the winding up of any pending or ongoing projects at the price to which the State and the Contractor agreed at the inception of the project;
  - (vi) Freezing all non-critical software changes;
  - (vii) Notifying all of the Contractor's subcontractors of procedures to be followed during the transition out phase;
  - (viii) Assisting with the communications network turnover, if applicable;
  - (ix) Assisting in the execution of a parallel operation until the effective date of termination of this Contract
  - (x) Answering questions regarding post-migration services;
  - (xi) Delivering to the State any remaining owed reports and documentation still in the Contractor's possession.
- (2) In the event that this Contract is terminated, dissolved, voided, rescinded, nullified, or otherwise rendered unenforceable, the State agrees to perform the following obligations, and any others upon which the State and the Contractor agree:
  - (i) Reconciling all accounts between the State and the Contractor;
  - (ii) Completing any pending post-project reviews.

**2.703 LIQUIDATED DAMAGES**

*RESERVED*

**2.704 STOP WORK**

1. The State may, at any time, by written stop work order to the Contractor, require that the Contractor stop all, or any part, of the work called for by this Contract for a period of up to 90 days after the stop work order is delivered to the Contractor, and for any further period to which the parties may agree. The stop work order shall be specifically identified as such and shall indicate that it is issued under this section. Upon receipt of the stop work order, the Contractor shall immediately comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the stop work order during the period of work stoppage. Within the period of the stop work order, the State shall either:
  - a) Cancel the stop work order; or
  - b) Cancel the work covered by the stop work order as provided in the cancellation section of this Contract.
2. If a stop work order issued under this section is canceled or the period of the stop work order or any extension thereof expires, the Contractor shall resume work. The State shall make an equitable adjustment in the delivery schedule, the contract price, or both, and the Contract shall be modified, in writing, accordingly, if:
  - a) The stop work order results in an increase in the time required for, or in the Contractor's costs properly allocable to the performance of any part of this Contract; and
  - b) The Contractor asserts its right to an equitable adjustment within 30 days after the end of the period of work stoppage; provided, that if the State decides the facts justify the action, the State may receive and act upon a proposal submitted at any time before final payment under this Contract.
3. If the stop work order is not canceled and the work covered by the stop work order is canceled for reasons other than material breach, the State shall allow reasonable costs resulting from the stop work order in arriving at the cancellation settlement.
4. If a stop work order is not canceled and the work covered by the stop work order is canceled for material breach, the State shall not allow, by equitable adjustment or otherwise, reasonable costs resulting from the stop work order.

An appropriate equitable adjustment may be made in any related contract of the Contractor that provides for adjustment and is affected by any stop work order under this section. The State shall not be liable to the Contractor for loss of profits because of a stop work order issued under this section.

**2.705 SUSPENSION OF WORK**

The Contract Administrator may order the Contractor, in writing, to suspend, delay, or interrupt all or any part of the work of this contract for the period of time that the Contract Administrator determines appropriate for the convenience of the Government.

If the performance of all or any part of the work is, for an unreasonable period of time, suspended, delayed, or interrupted (1) by an act of the Contract Administrator in the administration of this contract, or (2) by the Contract Administrator's failure to act within the time specified in this contract (or within a reasonable time if not specified), an adjustment shall be made for any increase in the cost of performance of this contract (excluding profit) necessarily caused by the unreasonable suspension, delay, or interruption, and the contract modified in writing accordingly. However, no adjustment shall be made under this clause for any suspension, delay, or interruption to the extent that performance would have been so suspended, delayed, or interrupted by any other cause, including the fault or negligence of the Contractor, or for which an equitable adjustment is provided for or excluded under any other term or condition of this contract.



A claim under this clause shall not be allowed:

- (1) For any costs incurred more than 20 days before the Contractor shall have notified the Contract Administrator in writing of the act or failure to act involved (but this requirement shall not apply as to a claim resulting from a suspension order); and
- (2) Unless the claim, in an amount stated, is asserted in writing as soon as practicable after the termination of the suspension, delay, or interruption, but not later than the date of final payment under the contract.

## 2.8 Changes, Modifications, and Amendments

### 2.801 APPROVALS

The Contract may not be modified, amended, extended, or augmented except by a writing executed by the parties hereto, and any breach or default by a party shall not be waived or released other than in writing signed by the other party.

### 2.802 TIME EXTENTIONS

Time extensions for contract changes will depend upon the extent, if any, by which the changes cause delay in the completion of the various elements of performance as described in the statement of work. The change order granting the time extension may provide that the contract completion date will be extended only for those specific elements related to the changed work and that the remaining contract completion dates for all other portions of the work will not be altered. The change order also may provide an equitable readjustment of liquidated damages under the new completion schedule.

### 2.803 MODIFICATION

Acquisition Services reserves the right to modify this contract at any time during the contract term. Such modification may include changing the locations to be serviced, additional locations to be serviced, method or manner of performance of the work, number of days service is to be performed, addition or deletion of tasks to be performed, addition or deletion of items, and/or any other modifications deemed necessary. Any changes in pricing proposed by the Contractor resulting from the proposed changes are subject to acceptance by the State. Changes may be increases or decreases. **IN THE EVENT PRICES ARE NOT ACCEPTABLE TO THE STATE, THE CONTRACT SHALL BE SUBJECT TO COMPETITIVE BIDDING BASED UPON THE NEW SPECIFICATION.**

**The State reserves the right to add an item(s) that is not described on the item listing and is available from the Contract vendor.** The item(s) may be included on the Contract, only if prior written approval has been granted by Acquisition Services.

### 2.804 AUDIT AND RECORDS UPON MODIFICATION

DEFINITION: records includes books, documents, accounting procedures and practices, and other data, regardless of whether such items are in written form, electronic form, or in any other form

Contractor shall be required to submit cost or pricing data with the pricing of any modification of this contract to the Contract Administrator in Acquisition Services. Data may include accounting records, payroll records, employee time sheets, and other information the state deems necessary to perform a fair evaluation of the modification proposal. Contract Administrator or authorized representative of the state shall have the right to examine and audit all of the contractor's records, including computations and projections, related to:

1. The proposal for modification;
2. The discussions conducted on the proposal, including those related to negotiation;
3. Pricing of the modification; or
4. Performance of the modification.

Contractor shall make available at its office at all reasonable times the materials described in the paragraphs above.



If this contract is completely or partially terminated, the records relating to the work terminated shall be made available for 3 years after any resulting final termination settlement.

#### 2.805 CHANGES

- (a) The Contract Administrator may, at any time, without notice to the sureties, if any, by written order designated or indicated to be a change order, make changes in the work within the general scope of the contract, including changes:
  - (1) In the specifications (including drawings and designs);
  - (2) In the method or manner of performance of the work;
  - (3) In the Government-furnished facilities, equipment, materials, services, or site; or
  - (4) Directing acceleration in the performance of the work.
  
- (a) Any other written or oral order (which, as used in this paragraph (b), includes direction, instruction, interpretation, or determination) from the Contract Administrator that causes a change shall be treated as a change order under this clause; Provided, that the Contractor gives the Contract Administrator written notice stating:
  - (1) The date, circumstances, and source of the order; and
  - (2) That the Contractor regards the order as a change order.
  
- (b) Except as provided in this clause, no order, statement, or conduct of the Contract Administrator shall be treated as a change under this clause or entitle the Contractor to an equitable adjustment.



## NATIONAL ACTUARIAL NETWORK, INC.

### APPENDIX A

#### STATEMENT OF WORK – P&C

We have scheduled an examination of \_\_\_\_\_, a property and casualty insurance company. The scheduled examiner-in-charge is \_\_\_\_\_. The approximate timeframe for the examination is \_\_\_\_\_. We anticipate the actuarial work to commence approximately \_\_\_\_\_ . This examination will cover the period from \_\_\_\_\_. Attached electronically is pertinent financial data as of December 31, \_\_\_\_\_. Additional financial information is available electronically on the NAIC's website at [www.naic.org](http://www.naic.org).

The Office of Financial and Insurance Services (OFIS) needs a property and casualty actuary to opine to the adequacy of the actuarially determined assets and liabilities of the Company as of December 31, \_\_\_\_\_. The following is a list of the annual statement line items that the NAIC requires actuaries to opine to at a minimum and the balance at December 31, \_\_\_\_\_:

Page 3, line 1	Losses	\$
Page 3, line 3	Loss Adjustment Expenses	

The actuarial firm awarded this contract is responsible for opining on all actuarially determined items in the annual statement.

The certification must be on both gross and net reserves as of \_\_\_\_\_. The certification must meet the standards as set forth by the NAIC. As a point of clarification, the actuarial firm awarded this examination is responsible for reconciling all data used back to schedule P - Part 1.

The Company's independent actuary is \_\_\_\_\_.

The actuarial firm must deliver a draft actuarial report no later than the completion of OFIS on-site fieldwork. At least four copies of the finalized actuarial report and opinion must be delivered to OFIS no later than one week after the actuarial firm receives approval from OFIS to finalize the report and opinion. The actuarial firm that performed the analysis during the last examination is precluded from award of this actuarial work. Please do not submit a proposal if your firm performed the analysis during the last examination.



## NATIONAL ACTUARIAL NETWORK, INC.

Please be aware that the scheduling of the examination activity is subject to change. If for some unforeseen reason an examination listed above is rescheduled for next year, the contractor awarded this examination will be given the opportunity to perform the certification for the same price as originally quoted. If the contractor does not want to perform the certification, the examination will be sent out to the entire pool for an opportunity to bid.

### Proposal Due Date:

If you have done work for the Company in the previous two years, you cannot be considered for this examination. To bid on this examination, prepare and submit your bid in electronic format (i.e., Microsoft Word, Adobe Acrobat PDF) via e-mail to OFIS by 5 p.m., \_\_\_\_\_. Responses received after this date and time will not be considered.

### Proposal Format and Content:

Your proposal should provide a flowchart of the tasks that will be performed, the individual assigned to perform each task and the time that will be spent in completing the task. You must specifically detail previous experience in analyzing companies of similar size and complexity, and the amount of work with similar companies. The proposal should also address how work will be performed and reports prepared in a timely manner if you are awarded the maximum of three contracts in any one round of bidding.

A price bid must provide a breakdown of the total estimated number of hours to complete a project and the total cost of the certification, including travel costs. The travel costs should be provided as a separate amount added to the total cost of certification. Once a contract has been awarded, the bid price will remain firm. Additional funds will not be paid due to cost overruns.



## NATIONAL ACTUARIAL NETWORK, INC.

### APPENDIX B

#### STATEMENT OF WORK – LIFE

We have scheduled an examination of \_\_\_\_\_, a life and health insurance company. The scheduled examiner-in-charge is \_\_\_\_\_. The approximate timeframe for the examination is \_\_\_\_\_. We anticipate the actuarial work to commence approximately \_\_\_\_\_. This examination will cover the period from \_\_\_\_\_. Attached electronically is pertinent financial data as of December 31, \_\_\_\_\_. Additional financial information is available electronically on the NAIC's website at [www.naic.org](http://www.naic.org).

The Office of Financial and Insurance Services (OFIS) needs a life and health actuary to opine to the adequacy of the actuarially determined assets and liabilities the Company as of December 31, \_\_\_\_\_. The following is a list of the annual statement line items that the NAIC requires actuaries to opine to at a minimum and the balance at December 31, \_\_\_\_\_:

Aggregate Reserve for Life Policies and Contracts (Exhibit 5)(Pg 3, Line1) \$  
Aggregate Reserve for Accident and Health Policies (Exhibit 6)(Pg 3, Line 2)  
Liability for Deposit-type Contracts (Exhibit 7)(Pg 3, Line 3)  
Policy and Contract Claims (Exhibit 8)(Pg 3, Line 4)  
Policyholders' Dividends Due and Unpaid (Exhibit 4)(Pg. 3, Line 5)  
Provision for Policyholders' Dividends Payable in Following Year (Pg. 3, Line 6)  
Separate Accounts (Pg. 3, Line 27)  
Net Deferred and Uncollected Premiums (Pg 2, Line 16 &17)

The actuarial firm awarded this contract is responsible for opining on all actuarial items in Exhibits 4, 5, 6, 7 and 8, and any other actuarially determined items in the annual statement. The certification must meet the standards as set forth by the NAIC.

The Company's independent actuary is \_\_\_\_\_.

As part of the work on this examination, the actuarial firm is expected to review asset/liability cash flow issues. The firm should perform the following, if necessary:

- review propriety of Company procedures to determine that reserves are supported by assets with suitable maturities and cash flows,
- review cash flow projections of the Company and determine the impact on reserves, if any. Factors reviewed shall include, at a minimum:



## **NATIONAL ACTUARIAL NETWORK, INC.**

1. asset default, credit quality and liquidity risks inherent in the underlying assets (C-1 risk),
2. profit margin inherent in the book of business (C-2 risk),
3. degree of asset/liability mismatch (C-3 risk),
4. degree of conservatism in the valuation basis (really a component of C-2 risk),
5. the assumed sensitivity of the liabilities to interest rate movements (a component of C-3 risk), and
6. the strategies utilized for reinvestment and interest crediting.

The actuarial firm must deliver a draft actuarial report no later than the completion of the OFIS on-site fieldwork. At least four copies of the finalized actuarial report and opinion must be delivered to OFIS no later than one week after the actuarial firm receives approval from OFIS to finalize the report and opinion. The actuarial firm that did the analysis on the last exam is precluded from award of this actuarial work. Please do not submit a proposal if your firm performed the analysis during the last examination.

Please be aware that the scheduling of the examination activity is subject to change. If for some unforeseen reason an examination listed above is rescheduled for next year, the contractor awarded this examination will be given the opportunity to perform the certification for the same price as originally quoted. If the contractor does not want to perform the certification, the examination will be sent out to the entire pool for an opportunity to bid.

### **Proposal Due Date:**

If you have done work for the Company in the previous two years, you cannot be considered for this examination. To bid on this examination, prepare and submit your bid in electronic format (i.e., Microsoft Word, Adobe Acrobat PDF) via e-mail to OFIS by 5 p.m., \_\_\_\_\_. Responses received after this date and time will not be considered.

### **Proposal Format and Content:**

Your proposal should provide a flowchart of the tasks that will be performed, the individual assigned to perform each task and the time that will be spent in completing the task. You must specifically detail previous experience in analyzing companies of similar size and complexity, and the amount of work with similar companies. The proposal should also address how work will be performed and reports prepared in a timely manner if you are awarded the maximum of three contracts in any one round of bidding.

A price bid must provide a breakdown of the total estimated number of hours to complete a project and the total cost of the certification, including travel costs. The travel costs should be provided as a separate amount added to the total cost of certification. Once a contract has been awarded, the bid price will remain firm. Additional funds will not be paid due to cost overruns.



NATIONAL ACTUARIAL NETWORK, INC.

# **APPENDIX C**

## **Contractor's Proposal**



**NATIONAL ACTUARIAL NETWORK, INC.**

***Proposal To Provide Life/Health  
Actuarial Services For***

***Michigan  
Office of Financial and Insurance Services***

Submitted by:

National Actuarial Network, Inc.  
Vendor ID: 2223219609/006

Mailing Address:  
55 Cooper Road  
Voorhees, New Jersey 08043  
Tel: (856) 753-7870  
Fax: (856) 753-7718

by: Joseph H. Tan, FSA, MAAA  
Director and Principal  
Email: jtan@erols.com



## **NATIONAL ACTUARIAL NETWORK, INC.**

### **A. BUSINESS ORGANIZATION**

The National Actuarial Network, Inc. (NAN) is a national actuarial consulting firm consisting of life and health actuaries in various geographical locations. NAN, a corporation incorporated in New Jersey, has its head office located in 55 Cooper Road, Voorhees, New Jersey. The corporation is predominantly owned and operated by women and minority. The staff from our California branch, located in 17951 Calle Barcelona, Rowland Heights, California, will also assist in performing the work related to this proposal.

Our actuarial consulting firm provides actuarial and management consulting services to U.S. and international insurance companies and insurance regulators. Recently, the firm has concentrated its services to working with insurance regulators. Our actuaries are qualified to provide actuarial services to the Michigan Office of Financial and Insurance Services (OFIS) because we:

- ! Specialize in providing actuarial assistance to insurance regulators.
- ! Have performed and are currently performing actuarial examinations and numerous actuarial assignments for various insurance regulators.
- ! Are experienced in the evaluation of policy reserves and other actuarially determined financial statement items.
- ! Have provided actuarial certifications and assisted insurance regulators evaluate reserves for statutory audit purposes.
- ! Have acted as expert witness in court proceedings on behalf of state insurance department in its petition for rehabilitation of troubled insurance company.
- ! Are familiar with the reserve valuation methodologies and actuarial requirements prescribed in the Michigan insurance laws and regulations (such as Michigan Insurance Law Section 623 and Michigan Insurance Regulations Chapters Ins 50 and 55) and the National Association of Insurance Commissioners (NAIC) Statement of Statutory Accounting Principles (SSAP), model regulations and actuarial guidelines.
- ! Have performed and reviewed cash flow testing and asset adequacy analysis.
- ! Have assisted insurance regulators in various rate filing reviews.



## NATIONAL ACTUARIAL NETWORK, INC.

- ! Are knowledgeable with all the recent developments in the actuarial and regulatory areas.
- ! Provide value added service by identifying opportunities to improve the company's operations and financial controls.
- ! Perform our work efficiently and effectively by investing in productivity tools and information materials. We maintain large libraries of public materials to help us keep abreast of the latest regulatory, actuarial, insurance and financial issues. We also invest heavily in computer hardware and software and make extensive use of new technologies in planning and performing our work.

Our firm has performed several actuarial consulting projects in connection with financial examinations of various state insurance departments. Our firm is currently performing numerous projects on behalf of five (5) other state insurance departments. Projects have ranged widely from providing actuarial opinions and reports in connection with financial examinations, asset adequacy analyses, special examinations, assistance in rate and product filing reviews, reinsurance reviews, supervision and rehabilitation of troubled insurance companies, asset liability management analysis, early warning signal evaluation, risk based capital evaluation and insurance taxation issue assessment. These projects involved entities ranging from Blue Cross/Blue Shield and Delta Dental organizations to life and health insurance companies, including U.S. domestic companies and Canadian companies using Michigan as the port of entry for doing business in U.S.

Based on our experience working with insurance regulators in various financial examinations, we are very familiar with the financial examination process and understand the needs and challenges faced by an examiner-in-charge (EIC) and his/her staff. Throughout the financial examination process, our actuarial team members keep the examiner-in-charge inform of the progress of the actuarial examinations and advise him/her of any major or unusual issues as we identify them. While on-site of the examination, our actuaries have also provided expertise, advice, and support to the EIC and his/her examination staff in the areas of reserves, product analysis, reinsurance, asset-liability management, cash flow testing, asset adequacy analysis and other areas as may be requested. Our actuaries are very experienced in working with the EIC in:

- ! Planning the actuarial and reserve examinations,
- ! Assisting the EIC and his/her staff on on-site field work,
- ! Performing actuarial examinations,
- ! Identifying and advising the EIC and his/her staff with respect to actuarial issues, and
- ! Identifying, explaining and commenting on examination findings and providing resolutions.



## NATIONAL ACTUARIAL NETWORK, INC.

We value a close working relationship with the EIC and his/her examination staff.

Besides its in-house actuaries and accountants, NAN also networks with numerous actuarial, accounting, systems and software specialists and investment specialist firms which NAN works and consults with from time to time as the nature of the projects required. For this proposal, we do not anticipate using the assistance of any outside specialist firm because we believe that our in-house actuaries and accountants possess the necessary knowledge and experience to successfully complete the actuarial examinations as stated in the Request For Proposal (RFP).

Over the past several years, NAN has concentrated its consulting services to working with insurance regulators, particularly state insurance departments. We have worked with various state insurance departments in the area of reserves review and examination in connection with the insurance departments' financial examinations. Our actuarial examination team members:

- # ***Have earned the confidence and trust of the various insurance departments= management and staff we worked with. This is evidenced by the numerous state insurance departments that have hired us and have remained loyal to us. Included in Appendix B are sample recommendation letters written by three state insurance departments= Commissioner, Deputy Commissioner and Chief Examiner, who highly recommend NAN=s work and work products.***
- # Have always been responsive and accommodating to the needs and demands of the insurance departments= staff.
- # Are very experienced and knowledgeable in the evaluation of policy reserves and other actuarially determined financial statement items.
- # Have worked extensively with various state insurance departments= examiners-in-charge (EICs) and examination staff. We understand and know the demands and challenges faced by the EICs and are pleased to learn that the various EICs and their staff appreciate the involvement of NAN's personnel in these examinations.
- # Have provided advice to several insurance departments= management and staff on various actuarial and insurance matters, including the revision, interpretation and application of the states= (including Michigan=s) and NAIC=s Statement of Statutory Accounting Principles (SSAP), model regulations and actuarial guidelines of an actuarial nature.



## NATIONAL ACTUARIAL NETWORK, INC.

- # Have from time to time, performed special projects beyond the scope of a routine examination and on non-domestic insurers on behalf of the various state insurance departments. ***We are pleased to learn that our assignments in connection with several complex reinsurance agreements analyses and the NAIC Insurance Regulatory Information System (IRIS) ratio analyses on behalf of the Michigan Office of Financial and Insurance Services (OFIS) are particularly well-received by the Michigan OFIS and other state insurance departments= staff.*** We are also pleased to hear that our participation as expert witness in a court proceeding in connection with the Oklahoma Insurance Department=s petition for the rehabilitation of a troubled insurance company was highly valued by the Oklahoma Insurance Commissioner and his staff.
- # Adhere to a strict code of professional ethic and conduct, including the need for continuing education and professional development required by the firm and the actuarial profession. Our actuarial and insurance knowledge has been kept current and up-to-date due to our extensive participation in the meetings and activities of the Society of Actuaries, the American Academy of Actuaries, local actuarial organizations, and various insurance industry and regulatory groups, including the National Association of Insurance Commissioners (NAIC) and the Society of Financial Examiners.
- # The key members of our actuarial examination team have extensive involvement in various actuarial and insurance industry activities. Our professional activity involvements include serving as key participants of various actuarial organizations, serving in various industry professional committees and study groups responsible for drafting and promulgating actuarial principles and guidelines, speaking in actuarial and insurance meetings and conferences, and publishing papers and articles related to actuarial and insurance matters.



## **NATIONAL ACTUARIAL NETWORK, INC.**

### **B. STATEMENT OF THE PROBLEM**

NAN is pleased to respond to the need of the Office of Financial and Insurance Services (OFIS) for fully certified actuaries with training in the fields of life and health insurance actuarial science. NAN's representatives, who are Fellows of the Society of Actuaries (FSAs) will opine, analyze and evaluate the adequacy of reserves and other financial statement items of an actuarial nature of the regulated entities under examination by OFIS. These regulated entities include Blue Cross/Blue Shields organizations, HMO's, and life and health insurance companies. The insurance companies include Michigan's domestic insurance companies or foreign insurance companies using Michigan as the entry point to the United States.

When a written work statement for analyzing the adequacy of reserves in connection with specific company examinations is received from OFIS Contract Administrator, NAN will submit a work plan in response to the work statement within two weeks and a task proposal by the date specified in the work statement. Each task proposal will include the following:

1. Introduction - statement of the assignment
2. End product of the assignment
3. Services to be provided (activities, tasks and individuals assigned to each task or activity)
4. Background information and relevant specific experience of firm and names, experience and resumes of individuals assigned to the project
5. Details of costs - indicating who will be assigned, the hours they will be assigned, the hourly rate and travel costs.

During each engagement, NAN's designated project manager will meet or confer with the Contract Administrator monthly or more often as necessary to review the progress of NAN's work and to bring to the attention of the Contract Administrator any problems or significant issues and exceptions noted. For each assignment, NAN will provide an appropriately written report and actuarial opinion, which will be signed by Fellows of the Society of Actuaries, no later than the end of the on-site examination by OFIS staff examiners (unless prior consent is given by OFIS ). The detailed report shall include a discussion of the scope of the work performed and assumptions used, a summary of findings, any recommendations for improving the company's system, loss developments, the accuracy of the company's reserves and other provisions for policy obligations and any other pertinent information used to render the opinion.

We understand that the overall objective of this Request For Proposal (RFP) is to pre-qualify firms who demonstrate the capability to provide services as defined in the OFIS=s Request For Proposal specifications in the areas of life/health and property/casualty insurance actuarial



**NATIONAL ACTUARIAL NETWORK, INC.**

science. We read the Request For Proposal and believe NAN qualifies in the area of life/health actuarial science. We also acknowledge that NAN meets and will abide by all the general requirements listed in the RFP [General Requirements: Pre-qualified Actuaries](#) section.

As NAN currently does not have in its staff Fellow of the Casualty Actuarial Society (FCAS), NAN is currently not proposing on property and casualty assignments.



## **C. MANAGEMENT SUMMARY**

### **C.1 Narrative**

Over the past several years, NAN has concentrated its consulting services to working with insurance regulators, particularly state insurance departments. We have worked with various state insurance departments in the area of reserves review and evaluation in connection with the insurance departments' financial examinations. In addition to the Michigan OFIS, we are currently also performing reserves review in connection with financial examinations for the California Department of Insurance, Connecticut Insurance Department, Georgia Insurance Department, Oklahoma Insurance Department, and Pennsylvania Insurance Department. Our actuarial examination team members are:

- ! Very experience and knowledgeable in the evaluation of policy reserves and other actuarially determined financial statement items.
- ! Have worked extensively with various Michigan OFIS's examiners-in-charge (EICs) and examination staff. We understand and know the demands and challenges faced by the EICs and are pleased to learn that the EICs and their staff appreciate the involvement of NAN's personnel in these examinations.
- ! Are very familiar and knowledgeable with the Michigan Insurance Laws and Regulations and policies and procedures related to the financial examinations.
- ! Have earned the confidence and trust of the various OFIS management and staff we worked with.
- ! Have been consulted by the OFIS management and staff on actuarial and insurance matters, including the revision, interpretation and application of Michigan Insurance Laws and Regulations.
- ! Have always been responsive and accommodating to the needs and demands of OFIS. We have always been willing to respond to OFIS's requests of an emergency nature on short notice, to defend our findings and conclusions, to testify as an expert witness, and to perform other tasks related to our area of expertise as requested by OFIS.
- ! Have from time to time, performed special projects beyond the scope of a routine examination and on non-domestic insurers on behalf of OFIS .



**NATIONAL ACTUARIAL NETWORK, INC.**

*We are pleased to learn that our assignments in connection with several complex reinsurance agreements analyses and the NAIC Insurance Regulatory Information System (IRIS) ratio analyses on behalf of OFIS are particularly well-received by the Michigan OFIS=s and other state insurance departments= staff. We are also pleased to hear that our participation as expert witness in a recent court proceeding in connection with the Oklahoma Insurance Department=s petition for the rehabilitation of a troubled insurance company was highly valued by the Oklahoma Insurance Commissioner and his staff.*

- ! Adhere to a strict code of professional ethic and conduct, including the need for continuing education and professional development required by the firm and the actuarial profession. Our actuarial and insurance knowledge has been kept current and up-to-date due to our extensive participation in the meetings and activities of the Society of Actuaries, the American Academy of Actuaries, local actuarial organizations, and various insurance industry and regulatory groups, including the National Association of Insurance Commissioners (NAIC) and the Society of Financial Examiners.

*Included in Appendix C is a paper published in the December 1993 edition of Best=s Review (Life/Health Edition), [ and also published in the Spring 1995 edition of The Examiner ], which was co-authored by Mr. Joseph H. Tan (NAN=s Director) and Mr. Robert A. Bailey (the previous First Deputy Commissioner of the Michigan OFIS).*

*Incidentally, the article shown in Appendix C discusses and explains how the various forms of financial reinsurance (including surplus relief reinsurance) work and the various issues the insurance regulators would be concerned with.*

*Also included in Appendix D is a paper published in the December 1997 edition of Contingencies (the periodical of the American Academy of Actuaries), which was authored by Mr. Joseph H. Tan (NAN=s Director) and which provides a comparison of the Canadian and U.S. Statutory reserve methodologies.*

- ! The key members of our actuarial examination team have extensive involvement in various actuarial and insurance industry activities. Our professional activity involvements include serving as key participants of various actuarial organizations, serving in various industry professional committees and study groups responsible for drafting and promulgating actuarial principles and guidelines, speaking in actuarial and insurance meetings and conferences, and publishing papers and articles related to actuarial and insurance matters.



## **NATIONAL ACTUARIAL NETWORK, INC.**

In the next section, we indicate how we perform our work and ensure that our work is performed effectively, efficiently and timely. It also illustrates how we coordinate the work to be performed with the examination being performed by OFIS of which our work is a part.

### **C.2 Technical Work Plan**

In conducting the actuarial review, we place special emphasis to ensure that our work is performed effectively, efficiently, and timely. While the approach used may differ by the specific circumstances of the company being examined, our approach generally includes the following:

- ! Meet with the Chief Examiner, the EIC, or his staff to obtain a clear understanding of our role, the scope of our work, and any issues, concerns or matters related to the company being examined.
- ! Review existing documentation or work performed on the company. These include the previous OFIS 's examination results, the internal and external auditors' work papers, the company's actuarial opinion and report, published statements, Best Insurance Reports and other public sources of information related to the company, etc.
- ! In conjunction with the EIC and his staff, meet with the company's actuarial and key management personnel and the company's auditors to discuss issues currently faced by the company and matters pertinent to the examinations.
- ! For each line of business, decide on the procedures and examination steps to use in conducting the examination. Unless warranted by the specific circumstances, the examination steps and procedures chosen will follow the firm's statutory examinations program template. When determined to be appropriate (such as the existence of risky areas or significant issues), the examination program template may be expanded and additional examination steps and procedures included.
- ! Make the EIC aware of our approaches and elicit his inputs and suggestions. Discuss with the EIC the work involved in the testing of the underlying master file and other data which NAN will rely on for completeness and accuracy.
- ! Perform the examination steps and procedures. Revise as warranted.



## NATIONAL ACTUARIAL NETWORK, INC.

- ! Periodically keep the EIC informed of our progress and notify him of any exceptions and significant issues noted to-date. For issues of a more technical or specialized nature, we will also, upon consultation with the EIC, confer and consult with other members of OFIS.
- ! After conferring with the EIC, prepare a list of potential actuarial issues and proposed examination adjustments and discuss with the company's actuarial or key management personnel. Ensure that the company fully understands the issues we raise and our position related to the issues.
- ! Consider the company's responses to the issues raised. Revise our position and perform additional work where necessary.
- ! For those significant issues where the company's and our positions differ, perform additional work to fully support our position. This generally includes additional conferences with OFIS staff and consultation with other actuaries and regulators, particularly the regulatory actuaries from other state insurance departments.
- ! Finalize the resolution of the issues and write the actuarial opinion and report.
- ! Consider OFIS's and the company's comments and reactions to the draft copies of the actuarial opinion and report. Make revisions as deemed warranted.
- ! Provide signed copies of the actuarial opinion and report. Assist in providing suggestions to OFIS's Examination Report and management letter as requested by OFIS.

In evaluating the reserves for the various lines of business, different examination steps and procedures are used. Even though the firm's statutory examination program template contains a set of required and prescribed steps and procedures for each line of business, the particular steps and procedures chosen may differ based on the particular company's circumstances. In some cases, additional examination steps and procedures not contained in the firm's program template may be warranted.



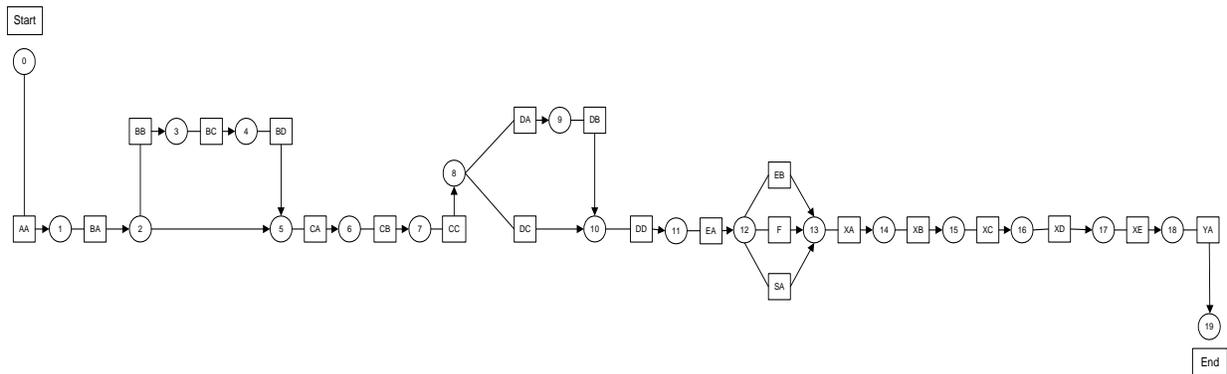
**NATIONAL ACTUARIAL NETWORK, INC.**

As instructed, the remainder of this section shows a sample work plan related to the actuarial evaluation of ABC Life Insurance Company as presented in Appendix B of the Request For Proposal. The sample work plan presented here consists of both a PERT chart and a Gantt chart. The PERT and Gantt charts show a PERT-type display, time related, showing each event, task, the decision point in our work, and the number of person-hours allocated to each task. Appendix E contains the descriptions of the various *activities* used in the PERT chart. These various *activities* represent the specific examination steps and procedures to be performed for the ABC Life Insurance Company.



# NATIONAL ACTUARIAL NETWORK, INC.

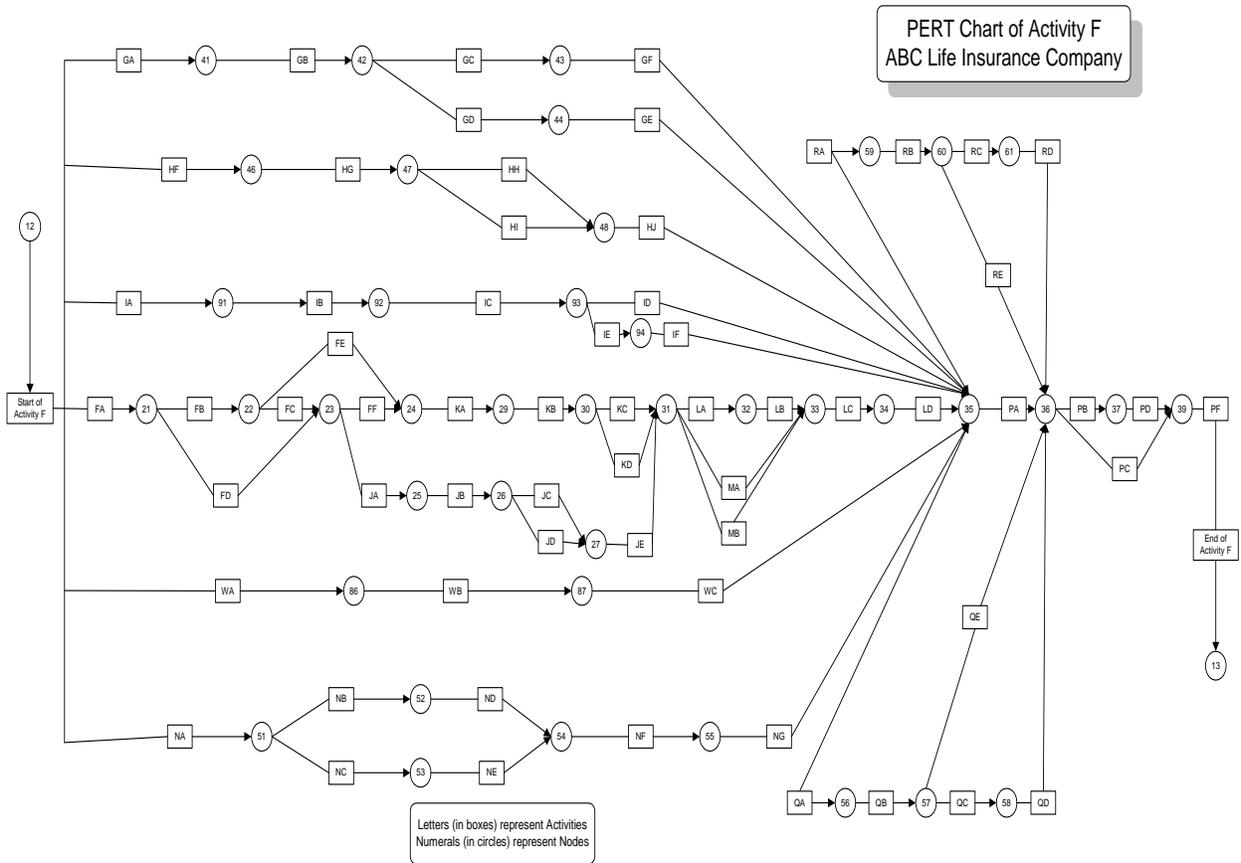
PERT Chart - ABC Life Insurance Company



Letters (in boxes) represent Activities  
Numerals (in circles) represent Nodes



# NATIONAL ACTUARIAL NETWORK, INC.





## NATIONAL ACTUARIAL NETWORK, INC.

When the actual company to be examined is known, a work plan, similar to that of ABC Life Insurance Company, but specific and appropriate to the company under examination will be drawn up. The underlying objective in the work plan is to complete the reserve evaluation efficiently, effectively and at the least possible amount of time and cost without sacrificing quality and integrity. This requires the preparation of a well-organized plan, the assignment of appropriate parts of the work to qualified professional with the lowest billing rate and the drawing up of a time-line showing how the various tasks are sequenced and interrelated.



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### C.3 Prior Experience

As discussed above, NAN specializes in providing actuarial assistance to state insurance regulators. Besides the Michigan OFIS, NAN is currently performing reserve evaluation assignments on behalf of five (5) other state insurance departments --- California Department of Insurance, Connecticut Insurance Department, Georgia Insurance Department, Oklahoma Insurance Department, and Pennsylvania Insurance Department.

The following is a selected list of our experience in providing actuarial services, with particular emphasis on insurance products relevant to the life and health insurance business.

- ! Had performed and are currently performing actuarial examinations of life and health insurance companies, health maintenance organizations (HMOs), Blue Cross Blue Shield Associations, and Delta Dental Plans as part of the state insurance department financial examinations. The insurance products examined include:
  - # Traditional life insurance
  - # Universal life, interest sensitive life and variable life insurance
  - # Variable annuity and separate account
  - # Equity indexed annuity
  - # Individual health insurance, including disability income insurance and long term care insurance
  - # Credit life and health insurance
  - # Group life insurance
  - # Group long term disability and other group health insurance
  - # Individual annuities, both deferred and immediate
  - # Group annuities, including group pension products
  - # Guaranteed investment contracts and other deposit funds
  - # Supplementary contracts, with and without life contingencies
  - # Waiver of premiums, extended death benefits and other supplementary benefits
  - # Liability for benefits for employees and agents under self-insured plans
  - # Hospital and medical insurance
  - # Dental insurance
  - # Long Term Care insurance



## NATIONAL ACTUARIAL NETWORK, INC.

- ! Had performed actuarial review work in connection with various state insurance departments= examinations of large insurers and life and fraternal insurers with significant exposures to interest sensitive products.
- ! Reviewed and worked with various insurance and annuity administrative systems and reserve valuation systems used in the industry.
- ! Performed and reviewed cash flow testing, asset adequacy analysis and asset-liability management process.
- ! Supervised the performance of in-force records testing, including the full and false inclusion testing, data accuracy, consistency, and completeness check. Also reviewed the in-force testing work performed by the insurance companies' internal and external auditors and suggested additional work required and recommended improvements.
- ! Experienced in working with the EIC in planning the actuarial and reserve examinations, assisting the EIC and his/her staff on on-site field work, reviewing the actuarial examination work papers, advising the EIC and his/her staff with respect to actuarial issues, and commenting on examination findings.
- ! Provided actuarial certifications and actuarial reports as part of the insurance companies' financial examinations by various state insurance regulators.
- ! Appointed special examiner by insurance department commissioner in conjunction with the examinations of troubled insurance companies. Some of the examinations had led to the eventual supervision and rehabilitation of troubled insurance companies.
- ! Had acted as expert witness in defending the actions taken by state insurance commissioner in court proceedings.
- ! Provided actuarial consultation to insurance regulators in their examinations of insurance companies' reinsurance programs, including surplus relief reinsurance.
- ! Provided actuarial assistance to insurance regulators in the area of dividend (refund) determination and dividend (refund) liability.
- ! Provided assistance to state insurance regulators in the area of product and rate review and health care cost containment review.

Regarding the reserve evaluation assignments we performed, we have been very successful in defending our examination findings. We believe that this is primarily due to our experience in performing reserves evaluation, the approach we used in conducting our review, and the support from the regulators resulting from their confidence on our ability and work product. Our reserve review often uncovers significant weaknesses in a company's reserves or financial statement items and results in the identification of significant reserve adjustments and issues.



## NATIONAL ACTUARIAL NETWORK, INC.

Over the last few years, NAN had performed various actuarial examination projects on behalf of the Michigan OFIS. We believe that the various Michigan OFIS management and staff we have worked with closely and are familiar with our work are our best references. Among others, these persons include the following. Note that some of these Michigan OFIS staff we worked with in the past had already retired or had left the OFIS.



**NATIONAL ACTUARIAL NETWORK, INC.**

- ! Mr. Robert Bailey, FCAS  
First Deputy Commissioner (retired) Tel: (517)373-1819
  
- ! Mr. James Holland, CFE, CIE  
Retired OFIS Chief Life and Health Examiner  
Currently Chief Examiner of  
U. S. Virgin Island  
Division of Banking and Insurance Tel: (340)774-7166
  
- ! Mr. Chester Czubko, Jr., CFE, CIE  
Deputy Commissioner (already left OFIS) Tel: (517)335-4406
  
- ! Mr. Steven Henry  
Actuary (retired) Tel: (517)335-1731
  
- ! Mr. Daniel Schaefer, CFE  
Examiner-In-Charge Tel: (517)335-1740
  
- ! Mr. Robert Lamberjack CFE  
Chief Examiner Tel: (517)335-1740

As stated above, NAN had performed many actuarial reviews in connection with the Michigan OFIS=s financial examinations of different life and health companies and the Blue Cross and Blue Shield of Michigan. Currently, NAN is performing on-going actuarial reviews in connection with the OFIS=s financial examinations of the following two companies:

- ! Great West Life Assurance Company, December 31, 2003 Examination
  
- ! Household Life Insurance Company, December 31, 2003 Examination

In addition to Michigan OFIS, we have also performed work for the insurance regulators of other state insurance departments. The following is a selected list of the life and health insurance companies and Blue Cross Blue Shield plans that NAN has recently performed actuarial reviews in connection with the financial examinations by the different state insurance departments.





**NATIONAL ACTUARIAL NETWORK, INC.**

- ! Chesapeake Life Insurance Company, December 31, 1997 Examinations
- ! USG Annuity & Life Company, December 31, 1997 Examinations
- ! Century Life Assurance Company, December 31, 2002 Examinations
- ! Medical Savings Insurance Company, December 31, 2002 Examinations
- ! Directors Life Assurance Company, December 31, 2003 Examinations

4. Mr. Ramon Calderon, CFE  
Deputy Commissioner (Former Chief Examiner)  
California Department of Insurance

Tel: (213)346-6116

- ! West Coast Life Insurance Company, December 31, 1997 and 2000 Examinations
- ! Aurora National Life Assurance Company, December 31, 1994, 1997 and 2002 Examinations
- ! Transamerica Occidental Life Insurance Company, December 31, 1995 and 1999 Examinations
- ! Pacific Life Insurance Company, December 31, 2001 Examinations
- ! Trans World Assurance Company, December 31, 2002 Examinations
- ! Metlife Investors Insurance Company of California, December 31, 2003 Examinations

5. Mr. Mark Ossi, CFE  
Chief Examiner  
Georgia Insurance Department

Tel: (404)656-0718

- ! Aetna U.S. Healthcare of Georgia, Inc., December 31, 1998 and 2001 Examinations
- ! American Medical Security Insurance Company of Georgia, December 31, 1998 Examinations
- ! Coventry Health care of Georgia, Inc., December 31, 1999 and 2002 Examinations
- ! United Family Life Insurance Company, December 31, 1999 and 2002 Examinations
- ! CIGNA U.S. Healthcare of Georgia, Inc., December 31, 2001 Examinations
- ! Humana Employers Health Plan of Georgia, Inc., December 31, 2001 Examinations
- ! Kaiser Foundation Health Plan of Georgia, Inc., December 31, 2001 Examinations



**NATIONAL ACTUARIAL NETWORK, INC.**

- ! United Healthcare of Georgia, Inc., December 31, 2002 Examinations
- ! Blue Cross Blue Shield of Georgia, Inc., December 31, 2000 and 2003 Examinations
- ! Blue Cross Blue Shield Healthcare Plan of Georgia, Inc., December 31, 2000 and 2003 Examinations
- ! Greater Georgia Life Insurance Company, December 31, 2000 and 2003 Examinations



**NATIONAL ACTUARIAL NETWORK, INC.**

6. Mr. Ray Martinez  
Deputy Commissioner  
North Carolina Department of Insurance                      Tel: (919)733-2002
- ! Transamerica Life Insurance and Annuity Company, December 31, 1995 Examinations
  - ! Transamerica Life Insurance and Annuity Company, December 31, 1999 Examinations
  - ! MAMSI Life and Health Insurance Company, Special Examinations, as of December 31, 1999

Additional list of insurance companies which NAN had recently performed actuarial examinations on behalf of other state insurance departments (other than the above), including various on-going, uncompleted and (certain confidential) actuarial examinations, will be provided upon request.



**NATIONAL ACTUARIAL NETWORK, INC.**

We believe that the various state insurance departments= (non-Michigan) management and staff we have worked with closely in the last two to three years in the above actuarial examinations are also our good references. Among others, these people include:

- ! The Honorable John Oxendine  
Insurance and Safety Fire Commissioner  
Georgia Insurance Department Tel: (404)656-2056
- ! Mr. John Beers  
Chief Examiner  
Oklahoma Department of Insurance Tel: (405)522-4612
- ! Mr. Ramon Calderon, CFE  
Deputy Commissioner  
California Department of Insurance Tel: (213)346-6401
- ! Ms. Margaret Cheng, ASA  
Supervising Examining Actuary  
Texas Department of Insurance Tel: (972)889-3093
- ! Mr. John Coleman, CFE  
Chief Examiner  
Government of the District of Columbia  
Dept. of Insurance and Securities Regulation Tel: (202)442-7783
- ! Ms. Jacqueline Cunningham  
Deputy Commissioner  
Virginia Bureau of Insurance Tel: (804)371-9154
- ! Mr. David Del Biondo  
Chief Examiner  
Pennsylvania Insurance Department Tel: (717)783-4312
- ! Mr. Walter James, ASA, MAAA  
Life, Accident and Health Actuary  
North Carolina Department of Insurance Tel: (919)733-3284



**NATIONAL ACTUARIAL NETWORK, INC.**

- ! Mr. Ray Martinez  
Deputy Commissioner  
North Carolina Department of Insurance                      Tel: (919)733-2002
  
- ! Mr. Mark Ossi  
Chief Examiner  
Georgia Insurance Department                                      Tel: (404)656-0718
  
- ! Mr. Don Roof  
Director, Regulatory Division  
Georgia Insurance Department                                      Tel: (404)656-5867
  
- ! Mr. Sheldon Summers, FSA, MAAA  
Chief Life Actuary  
California Department of Insurance                                Tel: (213)346-6151
  
- ! Ms. Margaret Witten  
Chief Counsel  
Georgia Insurance Department                                      Tel: (404)651-6501



## NATIONAL ACTUARIAL NETWORK, INC.

### **C.4 Project Staffing**

Our strategy in assembling the actuarial engagement team is to bring together a relatively small group of highly qualified actuarial professionals who possess the specific skills and experience that are needed for the successful completion of our engagement.

#### **"Lead" Actuary (Team Leader) - Joseph H. Tan**

- . Principal and Director of the Actuarial Consulting Group of the firm.
- . Extensive experience in performing actuarial examinations of reserves for life and health insurers, including Michigan domestic insurers and Canadian insurers using Michigan as the state of entry to the United States.
- . Familiar and experience in the application and interpretation of various provisions of the Michigan Insurance Laws and Regulations to actuarial and insurance issues faced by the companies.
- . Appointed special examiner by insurance commissioner in conjunction with the examination and supervision of troubled insurance companies, including Michigan-domestics.
- . Has performed and reviewed numerous cash flow testing and asset adequacy analyses.
- . Has prepared and signed numerous actuarial opinions and reports provided to various insurance regulators.
- . Fellow of the Society of Actuaries (FSA)
- . Member of the American Academy of Actuaries (MAAA)
- . Fellow of the Life Management Institute (FLMI)
- . Ph.D. Business Administration (Ph.D.B.A.), Temple University, Philadelphia, Pennsylvania
- . Past Chairperson, Society of Actuaries Investment Section Council
- . Member, Asset Liability Management Principles Committee of the Society of Actuaries
- . Prior Chairperson, Society of Actuaries Committee on Life Insurance Principles
- . Member, Society of Actuaries Committee on Actuarial Principles
- . Associate Editor, Journal of Actuarial Practice
- . Frequent speaker at various insurance industry and actuarial conferences
- . Author of numerous papers on actuarial and insurance matters.

***Included as Appendix D is a recent article published in the December 1997 edition of Contingencies, the periodical of the American Academy of Actuaries, which was authored by Mr. Joseph H. Tan (NAN=s Director and the Alead@ actuary). This article discusses and compares the statutory reserve requirements of a life and health insurers in United States and Canada.***



## **NATIONAL ACTUARIAL NETWORK, INC.**

*The information provided in this article were the results of the experience gained by Mr. Tan and his staff in performing actuarial examinations of U.S. insurers and Canadian insurers using Michigan as the port of entry.*

Please refer to Appendix A for additional information.

### **Supporting Actuary - Angelica Michail**

- . Has performed actuarial review in connection with the regulatory financial examinations, including Michigan domestic insurers and Canadian insurers using Michigan as the state of entry to the United States.
- . Extensive experience in reinsurance treaties and transactions. Have participated in various special projects involving reinsurance reviews that the firm performed on behalf of OFIS.
- . Possesses knowledge and familiarity with Michigan Insurance Code and related laws and regulations.
- . Fellow of the Society of Actuaries (FSA)
- . Member of the American Academy of Actuaries (MAAA)
- . Chartered Life Underwriter (CLU)
- . Chartered Financial Consultant (ChFC)
- . Past Chairperson, Society of Actuaries International Section Council
- . Member, Society of Actuaries Management Committee

Please refer to Appendix A for additional information.

### **Supporting Actuary – Chin-Tung Lin**

- . Has performed actuarial review in connection with the regulatory financial and market conduct examinations.
- . Experience in performing actuarial analyses of health insurance carriers.
- . Familiar with various accounting, administrative and actuarial projection/valuation systems and processes.
- . Experience in the development of health insurance manual rate basis, rate filing and rate determination
- . Familiar with various reserve calculation techniques.
- . Extensive experience in the use and preparation of the various annual statements actuarial exhibits and schedules and other statutory reporting requirements.
- . Extensive experience in life and health insurance pricing and product development.
- . Has performed financial projections and analyses of several blocks of business of various insurance companies.



## NATIONAL ACTUARIAL NETWORK, INC.

- . Fellow of the Society of Actuaries (FSA)
- . Member of the American Academy of Actuaries (MAAA)

Please refer to Appendix A for additional information.

### **Actuarial Associate - Sohbi Michail**

- . Extensive experience in annuities and fund products.
- . Experience with various actuarial and pension valuation systems, process and procedures.
- . Familiar with numerous reserve calculation software.
- . Associate of the Society of Actuaries (ASA)
- . Enrolled Actuary (EA)

### **Actuarial Associate - Gim Lim**

- . Extensive experience in the calculation of policy reserve and claim reserves.
- . Experience with the use of our firm's reserve calculation software.
- . Familiar with various reserve calculation techniques and software.
- . Extensive experience in actuarial and accounting work papers organization and documentation.

The "lead" and supporting actuaries are key to the successful completion of the project. We expect that the dedicated management and coordination time to take between ten to twenty percent depending on the particular company's circumstances. With the exception of the "lead" and supporting actuaries, we expect that members of the actuarial engagement team will perform their functions and predominant work in the firm's offices. The "lead" actuary and supporting actuary will likely visit the company on-site one or more times as needed by the assignments. Their visits will be arranged and scheduled with the appropriate EICs.



**NATIONAL ACTUARIAL NETWORK, INC.**

### **C.5 Subcontractors**

As discussed above, we do not anticipate the use of subcontractors in accomplishing the various tasks related to this proposal.



**NATIONAL ACTUARIAL NETWORK, INC.**

**D. BIDDER'S AUTHORIZED EXPEDITOR**

The National Actuarial Network, Inc. (NAN) representative authorized to expedite any proposed contract with the State is

Joseph H. Tan, FSA, MAAA  
Principal and Director  
National Actuarial Network, Inc.  
Tel: (856)753-7870  
Fax: (856)753-7718



**E. ADDITIONAL INFORMATION AND COMMENTS**

1. NAN agrees to not be associated with (either financially or contractually) the entity regulated by OFIS to which NAN is providing services and that such a relationship not be entered into two years prior to, during the life of and for two years after the contract awarded in response to this RFP without the written permission of OFIS .
2. NAN's actuarial engagement team "lead" actuary has been and will continue to be available for meetings with the regulated entity and OFIS , to appear at a place designated by OFIS , to discuss issues of an emergency nature on short notice, to be flexible in changing work efforts to accommodate OFIS 's concerns, and to defend and explain NAN's findings.
3. We will comply with Section 222 (4) of the Michigan Insurance Code regarding the confidentiality of all information and knowledge obtained by NAN during an examination of an entity under this contract.
4. We understand that the actuarial examination work papers are the property of the Michigan OFIS and will provide them at the conclusion of the examination.
5. We understand that we will be responsible to the EIC of the examination. We value a close working relationship with the EIC and will keep him/her closely informed.
6. We will verify and ensure that no conflict or potential conflict of interest exists before undertaking any assignments in accordance with OFIS 's and NAN's independence requirements. Any potential or apparent conflict will be fully disclosed.
7. We will use, if available, the company=s actuarial opinion, report and work papers to the greatest extent possible without compromising our responsibility to perform the necessary tests to render our opinion.
8. We understand that from time to time, we may be called upon to help OFIS analyze complex reinsurance arrangements and transactions or any other special assignments, or to perform special projects beyond the scope of a routine examination and on non-domestic insurers. *As noted above, we are pleased to learn that our assignments in connection with several complex reinsurance agreements analyses and the NAIC Insurance Regulatory Information System (IRIS) ratio analyses are particularly well-received by the Michigan OFIS and other state insurance departments= staff.*



**NATIONAL ACTUARIAL NETWORK, INC.**

We are also pleased to hear that our participation as expert witness in a recent court proceeding in connection with the Oklahoma Insurance Department=s petition for the rehabilitation of a troubled insurance company was highly valued by the Oklahoma Insurance Commissioner and his staff.

**F. PRICE PROPOSAL**

Fees for our services are based on staff hours actually worked. Work performed under this proposal will be billed at \$165 per hour. This hourly rate includes all costs incurred, including administrative, clerical, overhead and profit.

<u>Name of Unit</u>	<u>Dollars/Hr.</u>
Actuarial Services	\$165

This rate will be firm for the period as stated in the RFP. The hourly rate does not include travel, lodging and meals. We understand that these expenses will be reimbursed at State rates in effect at the time of the expense.

This cost and price analysis is submitted in full compliance with the provisions of the paragraph titled 'Independent Price Determination' in Part III of the RFP to which this proposal is a response.



NATIONAL ACTUARIAL NETWORK, INC.

**G. APPENDICES**

- A. Resumes of key personnel --- lead actuary and supporting actuaries
- B. The activity names and the corresponding activity descriptions used in the PERT chart
- C. Contractor's Pricing



NATIONAL ACTUARIAL NETWORK, INC.

**APPENDIX A**

**JOSEPH H. TAN, FSA**

**EDUCATION**

FSA --Fellow of the Society of Actuaries  
MAAA - Member of the American Academy of Actuaries  
FLMI - Fellow of the Life Management Institute  
Ph.D. - Business Administration, Temple University (1986),  
Recipient of the Conwell Russell Fellowship  
M.S. - Actuarial Mathematics, University of the Philippines (1979).  
B.S.- Statistics (Magna cum laude), University of the Philippines (1976).

**RANGE OF  
EXPERIENCE**

Joe heads the National Actuarial Network, Inc. Actuarial Consulting Group. He provides actuarial and management consulting services to U.S. and international insurance companies and insurance regulators. Joe has extensive experience in statutory and GAAP accounting, financial reporting and examinations, mergers and acquisitions, asset liability management, insurance taxation, agents compensation, reinsurance transactions, capital management, pricing and valuation systems, and insurance company strategy development and implementation.

**PROFESSIONAL  
AND BUSINESS  
HISTORY**

Heads the National Actuarial Network, Inc. Actuarial Consulting Group (1993); Price Waterhouse (1989-1993); Coopers & Lybrand (1988-1989); CIGNA (1981-1984 and 1987-1988); Penn Mutual Life Insurance Company (1984-1987); Philippine-American Life Insurance Company, an AIG subsidiary in Asia (1977-1979).

**PROFESSIONAL  
AND BUSINESS  
ACTIVITIES**

Fellow of the Society of Actuaries  
Member of the American Academy of Actuaries  
Fellow of the Life Management Institute  
Immediate Past Chairperson, Society of Actuaries Investment Section Council  
Member, Committee on Actuarial Principles, Society of Actuaries



## NATIONAL ACTUARIAL NETWORK, INC.

Past Chairperson, Society of Actuaries Committee on Life Insurance Principles  
Member, Asset Liability Management Committee, Society of Actuaries  
Associate Editor, Journal of Actuarial Practice  
Chairperson, Finance Committee, Philadelphia CGC Church  
Speaker at various insurance industry and actuarial conferences

### **PUBLICATIONS**

"A Comparison of Canadian Statutory and US Statutory Reserve Methodology of a Life and Health Insurer", The Examiner, 1997

"Relieving the Strain of First - Year Business" co-authored with Robert A. Bailey. The Examiner, Spring 1995.

"Source of Earnings Analysis Under FASB 97 Universal Life Accounting", Transactions of The Society of Actuaries, XLI.

"Varying Rate of Return By Product Line" Actuary, January 1989.

"Source of Earnings Analysis For Flexible Premium and Interest Sensitive Products", Transactions of the Society of Actuaries, XL.

A discussion on the paper "Verification of Pricing, Valuation and Management-Basis Financials for Participating and Non-guaranteed Element Contracts", Transactions of the Society of Actuaries, XL.

A discussion on the paper "Interest Rate Scenarios", Transactions of the Society of Actuaries, XL.

"An Approximate Dynamic GAAP Method", Financial Reporter, 1987.



## NATIONAL ACTUARIAL NETWORK, INC.

**ANGELICA MICHAEL, FSA**

### **EDUCATION**

FSA - Fellow of the Society of Actuaries  
MAAA - Member of the American Academy of Actuaries  
CLU - Chartered Life Underwriter  
ChFC - Chartered Financial Consultant  
M.B.A. - Claremont Graduate School (Drucker Management Center), 1995.  
M.A. - Mathematics Education, Jersey City State College, 1971.  
B.S. - Mathematics, University of the Phil., 1966.

### **RANGE OF EXPERIENCE**

Angelica is a member of the National Actuarial Network, Inc. Actuarial Consulting Group. She provides actuarial support and assistance regarding examinations of and consulting services for insurance and other clients as well as firm-wide insurance projects. She has assisted state insurance regulators in financial examinations and special actuarial consulting projects. Her strengths and experience in reinsurance transactions and practical business perspectives provide a valuable addition to any regulatory consulting work.

### **PROFESSIONAL AND BUSINESS HISTORY**

Joined National Actuarial Network, Inc. Actuarial Consulting Group (1993); Executive Life Insurance Company (1989-1992); Transamerica Occidental Life Insurance Company (1985-1989); North American Reassurance Company (1981-1985); Metropolitan Life Insurance Company (1969-1981); Brent School (1966-1968)

### **PROFESSIONAL AND BUSINESS ACTIVITIES**

Fellow of the Society of Actuaries  
Member of the American Academy of Actuaries  
Chartered Life Underwriter (CLU)  
Chartered Financial Consultant (ChFC)  
Chairperson, Society of Actuaries International Section Council



## NATIONAL ACTUARIAL NETWORK, INC.

Member, Society of Actuaries Management Committee  
Member, Toastmasters Club  
Speaker at various insurance industry and actuarial meetings

### **PUBLICATIONS**

Article on Universal Life, Actuarial Digest, June, 1987.  
Article on Term Insurance, Society of Actuaries Reinsurance Section  
Newsletter, December, 1989.



NATIONAL ACTUARIAL NETWORK, INC.

**CHIN-TUNG LIN, FSA**

**EDUCATION**

FSA- Fellow of the Society of Actuaries  
MAAA - Member of the American Academy of Actuaries  
Ph.D. - University of Houston, Texas  
B.S. - National Taiwan University, Republic of China

**RANGE OF  
EXPERIENCE**

Chin-Tung is a member of the National Actuarial Network, Inc. Actuarial Consulting Group. He provides actuarial support and assistance regarding examinations of and consulting services for insurance and other clients as well as firm-wide insurance projects. He has assisted in various in financial examinations and special actuarial consulting projects. His strengths and experience in health insurance financial reporting, financial analysis, rate filing and in-depth underwriting and business experience provide a valuable addition to any regulatory financial examinations work.

**PROFESSIONAL  
AND BUSINESS  
HISTORY**

National Actuarial Network, Inc. Actuarial Consulting Group (2000- )  
Wellpoint Health Networks (1999-2000)  
Duncanson & Holt Group, NJ and UNUM Life Insurance Co. of America, NJ (1997-1999)  
New York Life Insurance Co. and NYL Care Health Plans, Inc., New York (1990-1997)  
Mutual Life Insurance Co. of New York (1989-1990)  
TPF&C/Towers Perrin, Philadelphia (1989)  
Provident Mutual Life Insurance Co., Philadelphia (1986-1989)  
Life Insurance Co. of North America (CIGNA), Philadelphia (1982-1986)  
Reliance Standard Life Insurance Co. Philadelphia (1978-1982)  
Aetna Life and Casualty Insurance Co., Hartford (1976-1978)

**PROFESSIONAL  
AND BUSINESS  
ACTIVITIES**

Fellow of the Society of Actuaries  
Member of the American Academy of Actuaries



NATIONAL ACTUARIAL NETWORK, INC.

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Sobhi Michail, ASA

**EDUCATION**

ASA- Associate of the Society of Actuaries  
B.S. - Science and Education, Teachers College, Cairo, Egypt

**RANGE OF  
EXPERIENCE**

Sobhi is a member of the National Actuarial Network, Inc. Actuarial Consulting Group. He provides actuarial support and assistance regarding examinations of and consulting services for insurance and other clients as well as firmwide insurance projects. He has assisted in financial examinations and special actuarial consulting projects. His strengths and experience in annuity and interest sensitive products and in-depth systems and computer knowledge provide a valuable addition to any regulatory financial examination work.

**INSURANCE  
AND ACTUARIAL  
HISTORY**

National Actuarial Network, Inc. Actuarial Consulting Group  
Consulting Actuary (1996)  
McGinn Actuaries Ltd., Whittier, California  
Consulting Actuary (1992-1993)  
Pacific Mutual, Newport Beach, California  
Annuity Pricing Actuary (1990-1992)  
Mercer Consulting, Los Angeles, California  
Pension Actuary (1986-1990)  
Transamerica Life and Annuity, Los Angeles, California  
Manager (1984-1986)  
Metropolitan Life Insurance Co., New York, New York  
Manager (1970-1984)

**PROFESSIONAL  
AND BUSINESS**

#071B5200324

Associate of the Society of Actuaries  
Los Angeles Actuarial Club



NATIONAL ACTUARIAL NETWORK, INC.

**ACTIVITIES**

Toastmasters Club



NATIONAL ACTUARIAL NETWORK, INC.

## **APPENDIX B**



Appendix B

The Activity Names and The Corresponding  
Activity Descriptions Used In The PERT Charts

ACTIVITY  
NAME

ACTIVITY  
DESCRIPTION

- AA Meet with the Chief Examiner, the examiner-in-charge (EIC), or his staff to obtain a clear understanding of our role, the scope of our work, and any issues, concerns or matters related to the company being examined.
- BA Review existing documentation or work performed on the company. These include the previous Department's examination results, the internal and external auditors' work papers, the company's actuarial opinion and report, published statements, Best Insurance Reports and other public sources of information related to the company, etc.
- BB Understand the policy provisions of the significant products sold by the company to determine the appropriate reserve assumptions and methodologies.
- BC Read and review the reserve filing work papers with the Department.
- BD Review existing internal documentation related to reserve methods and assumptions.
- BE Review the valuation actuary's opinion and memorandum submitted in connection with the company's Annual Statement.
- CA In conjunction with the EIC and his staff, meet with the company's actuarial and key management personnel and the company's auditors to discuss issues currently faced by the company and matters pertinent to the examinations.
- CB Interview the company's actuaries regarding the company's reserve methods and assumptions.
- CC Confirm the reasonableness and consistency of the actuary's responses to various sources of information and our knowledge of industry practices and experiences.
- DA Utilize various analytical and risk assessment approaches to determine areas requiring greater attention and review.



## NATIONAL ACTUARIAL NETWORK, INC.

- DB** Evaluate available test work and top-level analysis performed by the company.
- DC** Evaluate whether the company's reserve methods and assumptions comply with the Department's and NAIC's laws, regulations and guidelines.
- DD** For each line of business, decide on the procedures and examination steps to use in conducting the examination. Unless warranted by the specific circumstances, the examination steps and procedures chosen will follow our firm's statutory examinations program template. When determined to be appropriate (such as the existence of risky areas or significant issues), the examination program template may be expanded and additional examination steps and procedures included.
- EA** Make the EIC aware of our approaches and elicit his inputs and suggestions. Discuss with the EIC regarding the work to be performed in the testing of the underlying master file and other data which NAN will rely on for completeness and accuracy.
- EB** Coordinate with the EIC and his staff regarding the work related to the data and master file testing.
- F** Perform the examination steps and procedures for the various blocks of business and Annual Statement items. Revise the examination steps and procedures as warranted. (Note: Activity F is used to denote a set of numerous activities. These activities include Activities FA, FB, FC, ... , etc.)
- FA** Review the various traditional life policy forms and product descriptions to obtain an understanding of the product features.
- FB** Review and analyze the documentation provided by the company with respect to its traditional life reserve assumptions and methodology.
- FC** Understand and review the reserve assumptions and methodologies used by the traditional life reserving system of the company.
- FD** Trace the traditional life reserves recorded in the Annual Statement to various summary reports.
- FE** Review dividend determination and dividend liability.
- FF** Recalculate and review sample traditional life reserve values for reasonableness and traced to summary reports.
- GA** Review the various universal life policy forms and product descriptions to obtain an understanding of the product features.
- GB** Review and analyze the reserve methodology and assumptions used by the company to calculate universal life reserves.
- GC** For sample universal life products, review and analyze the reserve methodology and assumptions described in the company's filing with the Department.
- GD** Trace the universal life reserves recorded in the Annual Statement to various summary reports.



- GE Perform and review the aggregate rollforward analysis of the universal life account balance. This type of analysis is typically used to examine the aggregate level of universal life reserves held for reasonableness.
- GF Recalculate and review sample universal life reserve values for reasonableness and traced to summary reports.
- HA Review the various group life insurance policy forms and product descriptions to obtain an understanding of the product features.
- HB Review and examine the group life reserve calculation methods and assumptions for compliance with the Department's requirements.
- HC Understand and review the reserve assumptions and methodologies used by the group life insurance reserving system of the company.
- HD Give special attention to those blocks of group life insurance business with large face amounts and little or no reserves. These were generally determined to be monthly or annually renewable term business with beginning of the month payment dates.
- HE Trace and reconcile the group life reserves recorded in the Annual Statement to various summary reports provided by the company.
- HF Review the various credit life insurance policy forms and product descriptions to obtain an understanding of the product features.
- HG Review and examine the credit life reserve calculation methods and assumptions for compliance with the Department's requirements.
- HH Understand and review the reserve assumptions and methodologies used by the credit life insurance reserving system of the company.
- HI Recalculate and review sample credit life reserve values for reasonableness and traced to summary reports.
- HJ Trace and reconcile the credit life reserves recorded in the Annual Statement to various summary reports provided by the company.
- IA Review the various ordinary and group fixed annuity and supplementary contracts policy forms and product descriptions to obtain an understanding of the product features.
- IB Review and discuss with the company's actuary regarding the fixed annuity reserve calculation formulas shown in the company's documentation.
- IC Understand and review the annuity and supplementary contract reserve methodology and assumptions used by the company to ensure compliance with Department's and NAIC requirements.



- ID Recalculate and verify the reserve calculation of several sampled individual and group annuity policies and supplementary contracts.
- IE Reconcile and trace the annuity and supplementary contract reserves recorded in the Annual Statement to various summary reports.
- IF Perform and review the rollforward analysis of the annuity account balance. This type of analysis is typically used to examine the reasonableness of the aggregate level of annuity reserves held during the accumulation phase.
- JA Discuss the company's supplementary benefit reserve methodology and assumptions with the company's actuaries.
- JB Reconcile the supplementary benefit reserves recorded to various supporting documents.
- JC Analyze and review the supplementary benefit reserve amounts to determine if they were within a reasonable range of acceptable values.
- JD Review the reserve methodology and assumptions of the various supplementary benefits for reasonableness and compliance with the Department's requirements.
- JE Recalculate the reserves of some sample supplementary benefits with significant amount of reserves.
- KA Reconcile the Annual Statement values for non-deduction and return of premium reserves of the various valuation cells to supporting documents.
- KB Analyze and review the non-deduction and return of premium reserve expressed as \$1,000 benefit payment to ensure that the resulting amount is within a range of acceptable values. This was accomplished by dividing the reserves with the annualized premium, and comparing the result to the overall Ordinary life reserve factor of the company.
- KC Analytically review the reserve methodology and assumptions used by the company to calculate the non-deduction and return of premium reserves for reasonableness.
- KD Review the reserve methodology and assumptions of the company's non-deduction and return of premium reserves to ensure compliance with the Department's requirements.
- LA Review the documentation provided by the company with respect to its deficiency reserve calculation methodology and assumptions.
- LB Analytically review and trace the various deficiency reserve manual adjustments made by the company to supporting documents.
- LC Evaluate the appropriateness of the deficiency reserve amount and calculation method of the company to ensure their compliance with the Department's requirements.



- LD Recalculate the deficiency reserves of some sample life insurance policies.
- MA Determine and evaluate the appropriateness of the additional liability held for policies whose cash surrender values were greater than the reserves otherwise held in Exhibit 8. Most companies calculate this additional liability as part of the reserve program used to calculate Exhibit 8A reserves.
- MB Evaluate the appropriateness of the additional reserves held for group conversion and term conversion.
- NA Analyze the consistency of the current year's claim reserve amount with the corresponding prior year amounts.
- NB Where appropriate, analytically review the various claim reserves as a function of the appropriate base, i.e., earned premium.
- NC Evaluate the company's Annual Statement Schedules H and O to determine whether claim reserves and liabilities have been historically adequate.
- ND Review the documentation provided by the company regarding its claim reserve methodology and assumptions for reasonableness and compliance with the Department's and NAIC requirements.
- NE Reconcile the Annual Statement claim reserve values to supporting reserve calculation worksheets.
- NF Evaluate and verify the claim reserve calculation (including long term disability reserve, where appropriate).
- NG Where available and appropriate, redetermine the appropriate claim reserve amounts based on the most recent claim development experience.
- NH Independently determine the amount of unpaid claim liability and the associated claim expense liability amounts.
- OA Review the various ordinary and group deferred annuity policy forms and product descriptions to obtain an understanding of the product features.
- OB Review and discuss with the company's actuary regarding the deferred annuity reserve calculation formulas shown in the company's documentation.
- OC Understand and review the deferred annuity reserve methodology and assumptions used by the company to ensure compliance with Department's and NAIC requirements.
- OD Recalculate and verify the reserve calculation of several sampled individual and group deferred annuity policies and supplementary contracts.
- OE Reconcile and trace the deferred annuity reserves recorded in the Annual Statement to various summary reports.



## NATIONAL ACTUARIAL NETWORK, INC.

- OF Perform and review the rollforward analysis of the deferred annuity account balance. This type of analysis is typically used to examine the reasonableness of the aggregate level of annuity reserves held during the accumulation phase.
- OK Review the various ordinary and group immediate annuity (including any structured settlement annuity) and supplementary contracts policy forms and product descriptions to obtain an understanding of the product features.
- OL Review and discuss with the company's actuary regarding the immediate annuity and supplementary contract reserve calculation formulas shown in the company's documentation.
- OP Understand and review the immediate annuity and supplementary contract reserve methodology and assumptions used by the company to ensure compliance with Department's and NAIC requirements.
- OQ Recalculate and verify the reserve calculation of several sampled individual and group immediate annuity policies and supplementary contracts.
- OR Reconcile and trace the immediate annuity and supplementary contract reserves recorded in the Annual Statement to various summary reports.
- PA Evaluate and discuss the asset-liability management practices of the company with the company's actuaries.
- PB Review the cash flow testing and asset-liability analysis supporting work papers for reasonableness and evaluate the methodologies used in the various work papers for appropriateness. This includes the evaluation of various reports, documents and computer outputs provided by the company.
- PC Evaluate the composition and characteristics of the assets allocated or segmented by the company in support of the liabilities of the various lines of business in the NAIC statement to ensure that no apparent significant deficiency of assets supporting the various lines of business exists.
- PD Review the company's cash flow testing procedures and/or asset adequacy analysis procedures for reasonableness and compliance with the Department's and NAIC requirements (including the requirements for the so-called Section 7 opinions, if applicable), the applicable Actuarial Standards of Practice and the American Academy of Actuaries requirements.
- PE In conjunction with the Department staff, determine the various issues and concerns associated with the company's financial condition and financial performance outlook. This step also includes a review and evaluation of the company's risk based capital requirements.
- PF Where appropriate, perform additional cash flow testing work under alternative scenarios and assumptions, or request the company to perform such additional work.
- QA Analytically review the net due and deferred premium balance held. This includes comparing the amounts with previous years' amounts and other sources.



NATIONAL ACTUARIAL NETWORK, INC.

- QB Review and discuss with the company regarding the procedure used by the company in determining the due and deferred premium asset balance.
- QC Based on test work performed for Exhibit 8A reserves, evaluate the reasonableness of the ratio of net to gross premiums.
- QD Recalculate the net due and deferred premiums of some sample policies.
- QE Agree and reconcile the net due and deferred premium amounts recorded to supporting documents provided by the company.
- RA Analytically review the cost of collection liability balance held. This includes comparing the amount with previous years' amounts and other sources.
- RB Review and discuss with the company regarding the procedure used by the company in determining the cost of collection liability balance.
- RC Evaluate the reasonableness of the assumptions used in the various cost of collection factors and compare the values with the cost of collection factors derived from Exhibit I of the Annual Statement.
- RD Recalculate the cost of collection liability amounts for some of those blocks of business with significant liability amounts.
- RE Agree and reconcile the cost of collection liability amounts recorded to supporting documents provided by the company and other relevant sources of information.
- SA Periodically keep the EIC informed of our progress and notify him of any exceptions and significant issues noted to-date. For issues of a more technical or specialized nature, we will also, upon consultation with the EIC, confer and consult with other members of the Department.
- TA Review the various sample group and individual policy contracts and product descriptions to obtain an understanding of the product features offered by the company.
- TB Review and discuss with the company's actuary regarding the Claims unpaid calculation methodologies, formulas and assumptions.
- TC Understand and review the reserve methodology and assumptions used by the company to ensure compliance with any applicable Department's and NAIC requirements.
- TD Independently recalculate Claims unpaid amounts for various significant blocks of business using our firm's claim reserve software.
- TE Reconcile and trace the reserves recorded in the Annual Statement to various summary reports.
- UA Review and discuss with the company's actuary regarding the Unpaid claims adjustment expenses calculation methodologies and assumptions.



NATIONAL ACTUARIAL NETWORK, INC.

- UB Review available expense study or perform expense analysis to ascertain the reasonableness of the assumed expense factors and other assumptions used by the company.
- UC Independently recalculate Unpaid claims adjustment expenses amounts for various significant blocks of business.
- UD Reconcile and trace the amount recorded in the Annual Statement to various summary reports.
- VA Review the various individual and group accident and health contracts policy forms and product descriptions to obtain an understanding of the product features.
- VB Review and discuss with the company's actuary regarding the accident and health reserve calculation formulas shown in the company's documentation.
- VC Understand and review the accident and health reserve methodology and assumptions used by the company to ensure compliance with Department's and NAIC requirements.
- VD Recalculate and verify the reserve calculation of several sampled individual and group accident and health policies.
- VE Reconcile and trace the accident and health contract reserves recorded in the Annual Statement to various summary reports.
- WA Review all significant reinsurance assumed treaties and transactions.
- WB Review all significant reinsurance ceded treaties and transactions.
- WC Review the reasonableness of the determination of the reserve amounts and other actuarial items related to significant reinsurance treaties.
- XA After conferring with the EIC, prepare a list of potential actuarial issues and proposed examination adjustments and discuss with the company's actuarial or key management personnel. Ensure that the company fully understand the issues we raise and our position related to the issues.
- XB Consider the company's responses to the issues raised. Revise our position and perform additional work where necessary.
- XC For those significant issues where the company's and our positions differ, perform additional work to fully support our position. This generally includes additional conferences with the Department's staff and consultation with other actuaries and regulators, particularly the regulatory actuaries from other state insurance departments.
- XD Finalize the resolution of the issues and write the actuarial opinion and report.
- XE Consider the Department's and the company's comments and reactions to the draft copies of the actuarial opinion and report. Make revisions as deemed warranted.



- YA Provide signed copies of the actuarial opinion and report. Assist in providing suggestions to the Department's Examination Report and management letter as requested by the Department.
- ZA Review the various additional actuarial liability items as reported by the company (including the reporting of \$0 amount). These liability items may include Accrued Medical Incentive Pool, Aggregate Policy Reserve and Aggregate Claim Reserve.
- ZB Review and discuss with the company's actuary regarding the calculation methodologies, formulas and assumptions of these liability items.
- ZC Understand and review the reserve methodology and assumptions used by the company to ensure compliance with any applicable Department's and NAIC requirements.
- ZD Reconcile and trace these liability items as recorded in the Annual Statement to various summary reports.

**APPENDIX C  
CONTRACTORS PRICING**

**Not to Exceed hourly rate of \$165.00 see Section 1.101 for tier two bidding process**