

# THE BAR PLAN

## 2006 ANNUAL REPORT

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*Commitment      Financial Security      Stability*



KAREN R. MCCARTHY  
President and CEO

For the past twenty years, The Bar Plan has provided quality professional liability insurance for lawyers at the best possible value. Our mission since the beginning has been to offer lawyers broad coverage, exceptional customer service and practical educational and risk management programs. The Bar Plan consistently strives to accomplish this mission each year, adapting to changes in the practice of law and adjusting to trends in the insurance marketplace.

The Bar Plan has seen dramatic changes in the legal malpractice industry since our founding in 1985, most notably a concerning rise in claim severity during the past few years. An American Bar Association study conducted on malpractice claims between 2000 and 2003 found an alarming increase in the number of claims settled for more than \$2 million dollars compared to earlier years. The study noted that these big claim losses have gone from bad to worse.

The Bar Plan has had a similar experience in Missouri and the other states where we offer lawyers' professional liability insurance. Claim severity increased significantly toward the end of 2004; and in 2005, the average claim cost tripled for the first time ever. The severity continued through the first half of 2006 and began to show signs of improvement in the second half of the year.

Beginning in 2005, The Bar Plan initiated several steps to improve claim experience. In addition to identifying specific risk management concerns and working with Insureds to address them, we have educated attorneys on the types of claims most frequently seen and how to prevent them through our risk management seminars and continuing legal education programs. These programs emphasize that malpractice prevention has become a necessary part of the practice of law and in the end promotes professionalism and service to clients. The Bar Plan also continues to offer a confidential risk management hotline and firm audits to assist law firms in evaluating their law office management and client communication procedures. It appears these efforts are beginning to show positive results.

The good news is that The Bar Plan's financial condition remains healthy and stable as evidenced by A.M. Best's recent reaffirmation of our "A-" "Excellent" rating. The company retains a strong capitalization and premium base in the four states where we are a leading writer of insurance to lawyers and has diligently held the line on expenses without compromising service and performance. Our court bond program is flourishing and is now servicing the needs of lawyers in 47 states.

The Bar Plan's top priority remains serving the lawyers we insure. We do this by maintaining fiscal health to write the broad, stable coverage our insureds need and providing the necessary customer service and educational programs our insureds count on. The real key to this success, however, lies with the lawyers who have trusted The Bar Plan with their professional liability insurance business. Your continued loyalty is the reason why we are the success we are today.

Warmest Regards,

A handwritten signature in cursive script that reads "Karen R. McCarthy".

Karen R. McCarthy  
President and CEO

## RISK MANAGEMENT EDUCATION

In 2006, The Bar Plan Foundation conducted 59 seminars across Missouri, Kansas and Indiana, reaching over 3,700 attorneys while addressing critical risk management and professionalism issues.

## ANNUAL CHARITY GOLF TOURNAMENT

The Bar Plan Foundation's Thirteenth Annual Golf Tournament was held September 18, 2006 at WingHaven Golf Course and Country Club. With the help of the participating golfers, numerous hole sponsors, and major underwriters the outing was the most successful Foundation Tournament in recent years.

The Foundation's 14th Annual Charity Golf Tournament will again be held at WingHaven, September 17, 2007.

## 2006 SCHOLARSHIP RECIPIENTS

This year, The Bar Plan Foundation awarded scholarships to five remarkable young law students. All of the scholarship recipients exemplified high standards for ethics and professionalism as law students and will continue to set examples for other lawyers as they continue their careers in the practice of law.

Miriam Bailey, a third-year law student at the University of Missouri-Kansas City School of Law, was the 2006 recipient of The Bar Plan Foundation – Roy A. Larson Scholarship. The ability to provide this award is a direct result of a generous gift and support from the Roy A. Larson Memorial Scholarship Fund.

Jonathan Little, a third-year law student at the University of Missouri-Kansas City School of Law, was the 2006 recipient of The Bar Plan Foundation's Richard P. Sprinkle Scholarship. The Richard P. Sprinkle Scholarship was established by the family of Roy A. Larson. The Larson family wanted to honor Richard P. Sprinkle for his many contributions to the legal profession.

The Foundation also awarded scholarships to Jessica Sleater, a third-year law student at Saint Louis University School of Law, Tyler Roush, a third-year law student at the University of Missouri School of Law and Saraliene Smith, a third-year law student at the University of Kansas School of Law.

Elevating the importance of ethics and professionalism, through the recognition of these individuals, is one of the key missions of The Bar Plan Foundation.

**THE BAR PLAN SURETY AND FIDELITY COMPANY**

**T**he Bar Plan Court Bond Program offers a full range of probate and other court bonds. The program distinguishes itself by offering a 24-hour turnaround service, very competitive rates, and an attorney-managed underwriting staff dedicated to working with attorneys and principals to meet their individual needs. The Bar Plan makes it easy to apply for a bond. In addition to the traditional phone and fax methods, it offers online purchasing through a fully operational internet site.

The Bar Plan Surety and Fidelity Company operates in four states (IL, KS, MO, and OK). As the Court Bond Program has expanded across the country, it has been licensed under The Bar Plan Mutual Insurance Company to meet the financial and seasoning requirements of the various states. The Program currently offers bonds in all states, except Connecticut, New Hampshire and Maryland.

The Court Bond Program continues to experience growth. Direct written premiums grew by 6% in 2006, and through the first quarter of 2007, are 12% ahead of the same period in 2006. The Court Bond Program is on solid footing and poised for continued growth in 2007 and beyond.

**THE BAR PLAN INSURANCE AGENCY, INC.**

**I**n December of 1994, The Bar Plan Insurance Agency, Inc. was established to service The Bar Plan Mutual Insurance Company's professional liability insurance book of business and to offer a broad range of insurance products important to lawyers and their practices. The Agency employs captive agents and an account representative who are available to assist lawyers with their insurance needs.

In January of 1998, The Bar Plan Insurance Agency, Inc. became the administrator for The Missouri Bar Group Term Life Insurance Program. The program is presently underwritten through ING/ReliaStar Life Insurance Company. Through this program, Missouri Bar members under the age of 60, their spouse and children, employees or spouse of an employee are eligible candidates for group term life insurance. A guarantee conversion provision is available to all insureds.

The Bar Plan Insurance Agency, Inc., through The Hartford, continues to offer Lawyers Office Package, Worker's Compensation and Commercial Auto Coverage to lawyers in Missouri and Kansas.

**S**ummaries of the Company's financial position at year end 2006 and 2005 are presented. The Company was audited by the accounting firm of Brown Smith Wallace, LLC.

The audited financial statements can be obtained by writing:

The Bar Plan Mutual Insurance Company  
1717 Hidden Creek Court  
St. Louis, MO 63131

**Statements of Admitted Assets, Liabilities and Surplus**

*(Statutory Basis)*

*December 31, 2006 and 2005*

*Dollars in thousands*

	<b>2006</b>	<b>2005</b>
<b>Admitted Assets</b>		
Bonds	\$37,123	\$32,197
Common stocks	8,146	7,327
Real estate - home office	1,597	1,579
Cash and short term investments	<u>5,523</u>	<u>3,815</u>
Cash and invested assets	52,389	44,918
Premium finance receivable	4,006	3,171
Reinsurance recoverable on paid losses	642	526
Federal income tax recoverable	232	155
Deferred tax asset, net	1,143	1,373
Electronic data processing equipment	33	53
Accrued investment income	439	357
Receivable from subsidiaries	53	79
Other assets	<u>361</u>	<u>409</u>
Total admitted assets	<u>\$59,298</u>	<u>\$51,041</u>
 <b>Liabilities and Surplus</b>		
<b>Liabilities:</b>		
Reserve for losses	\$18,759	\$15,085
Reserve for loss adjustment expenses	11,209	8,604
Accrued expenses	628	284
Taxes, licenses, and fees	25	140
Unearned premiums	6,824	6,090
Unprocessed premiums and advanced premium	679	1,401
Accounts withheld by company for accounts of others	24	42
Ceded reinsurance premiums payable	1,017	920
Guarantee fund payable	211	265
Unclaimed funds	6	8
Profit commission payable	258	148
Payable to subsidiaries	21	0
Provision for reinsurance	<u>37</u>	<u>70</u>
Total liabilities	<u>39,698</u>	<u>33,057</u>
 <b>Surplus</b>		
Policyholder contributions	2,662	2,692
Surplus note	5,020	0
Unassigned surplus	<u>11,918</u>	<u>15,292</u>
Total surplus	<u>19,600</u>	<u>17,984</u>
Total liabilities and surplus	<u>\$59,298</u>	<u>\$51,041</u>

**Statements of Operations and Changes in Surplus**

*(Statutory Basis)*

*For the years ended December 31, 2006 and 2005*

*Dollars in thousands*

	<b>2006</b>	<b>2005</b>
Net premiums earned	\$13,251	\$11,724
Losses incurred	(7,458)	(7,651)
Loss adjustment expense incurred	(7,490)	(5,755)
Other underwriting expenses incurred	<u>(4,056)</u>	<u>(3,992)</u>
Net underwriting gain (loss)	<u>(5,753)</u>	<u>(5,674)</u>
Net investment income	1,590	1,172
Other income, net	356	614
Net income before dividends to policyholders and federal income taxes	(3,807)	(3,888)
Dividends to policyholders	<u>0</u>	<u>0</u>
Net income after dividends to policyholders but before federal income taxes	(3,807)	(3,888)
Provision for federal income taxes	<u>202</u>	<u>137</u>
Net income	(3,605)	(3,751)
Other changes in surplus:		
Net increase/(decrease) in nonadmitted assets	(1,318)	(318)
Special (assigned) surplus returned	(30)	(30)
Net unrealized capital gains/(losses) on common stock	337	136
Other changes, net	33	(69)
Change in net deferred income tax	1,199	1,229
Issuance of surplus note	5,020	0
Aggregate write-ins for gains and losses in surplus	<u>(20)</u>	<u>0</u>
Change in Surplus	1,616	(2,803)
Surplus, beginning of year	<u>17,984</u>	<u>20,787</u>
Surplus, end of year	<u>\$19,600</u>	<u>\$17,984</u>

## CLAIMS DEPARTMENT

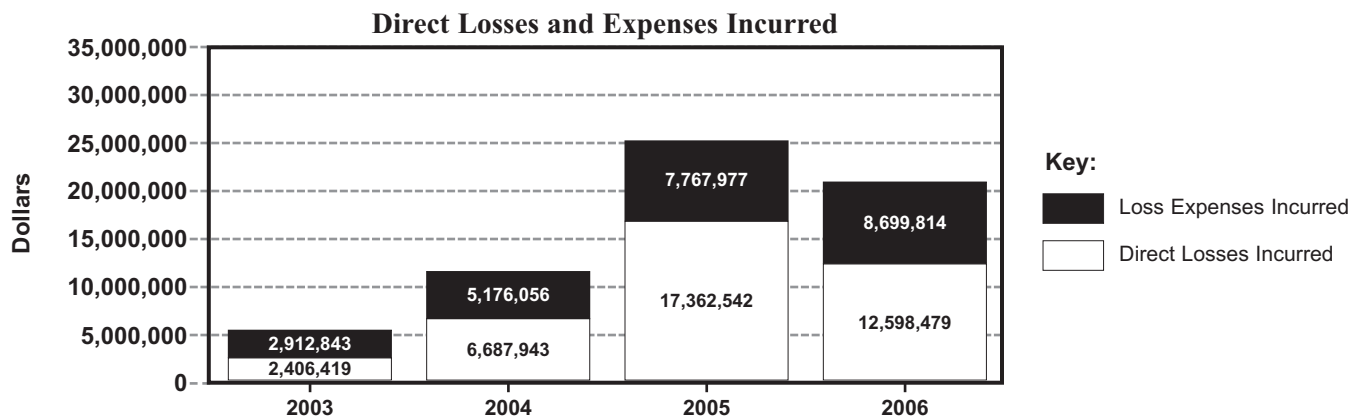
The Bar Plan continues to experience a relatively low level of frequency of claims per insured attorney. However, during calendar years 2005 and 2006, The Bar Plan experienced a spike in the severity of claims against its insured lawyers, as demonstrated in the graph below. Although many other lawyers' professional liability insurers have been reporting similar changes in severity for many years, The Bar Plan has historically fared better than its competitors.

The Bar Plan responded quickly to this change in experience, conducting internal and external evaluations of both claims and underwriting processes. As a result, The Bar Plan not only implemented rate increases in 2006 and 2007, but also chose to increase its claims staff of licensed lawyers for 2007 to provide the best possible claims service for our insureds.

Our staff consists of licensed lawyers trained in the intricacies of lawyers' professional liability insurance and claim handling techniques. Our claims personnel assist our policyholders with questions and concerns regarding claims handling and claims avoidance, and professionally guide our insureds from initial report through the conclusion of each matter reported to The Bar Plan.

**Open Claim Count by Area of Law As of Date Reported 12/31/2006**

Rank	Area of Law	Count of Claims	As % of Open	As % of \$'s Paid and Reserved
1	Personal Injury Property Damage Plaintiff	126	29%	26%
2	Collection and Bankruptcy	55	13%	13%
3	Estate Trust and Probate	49	11%	11%
4	Family Law	42	10%	5%
5	Real Estate	34	8%	5%
6	Business Transactions Commercial Law	24	6%	14%
7	Criminal	22	5%	2%
8	Personal Injury Property Damage Defendant	16	4%	4%
9	Corporate and Business Organizations	11	3%	2%
10	Labor Law	11	3%	4%
11	Civil Rights and Commission	8	2%	1%
12	Patents Trademarks Copyrights	6	1%	2%
13	Taxation	6	1%	1%
14	Workers Compensation	6	1%	2%
15	Environment	3	1%	1%
16	Securities SEC	3	1%	1%
17	Construction Building Contracts	2	0%	0%
18	Government Contracts and Claims	2	0%	0%
19	Local Government	2	0%	0%
20	Consumer Claims	2	0%	5%
21	Immigration and Naturalization	1	0%	1%
<b>Total</b>		<b>431</b>	<b>100%</b>	<b>100%</b>



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## BOARDS OF DIRECTORS

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# The Bar Plan Staff

## Executive Department

**Karen R. McCarthy**  
President and Chief Executive Officer

## Legal and Compliance Dept.

**Patrick O'Leary**  
Vice President - General Counsel

**Kim Edgar**  
Compliance Analyst

**Tracy Britt**  
Compliance Assistant

## Underwriting Department

**Gayle E. Tegtmeier**  
Vice President - Underwriting

**Linda Langley**  
Senior Underwriter

**Linda Herndon Balagna**  
Underwriter

**Bev Fieser**  
Underwriter Trainee

**Thresa Betts**  
Underwriting Assistant

**Carol Paris**  
Underwriting Clerk

## IS Department

**Gregory H. Klaus**  
Chief Financial Officer

**Cindy Sanderbeck**  
Network Administrator

**Katrinna Brangenberg**  
Senior Database/Applications Programmer

**Michael Barnard**  
Database/Applications Programmer

## Risk Management

**Christian A. Stiegemeyer**  
Director of Risk Management

## Finance Department

**Gregory H. Klaus**  
Chief Financial Officer

**Tina Daniels**  
Senior Accountant

**Kelly Townsend**  
Accountant

**Vicky Barreau**  
Accounting Assistant

## Corporate Operations

**Cynthia L. Pulvirenti**  
Vice President - Corporate Operations

**Kathy Keeling**  
Human Resource Generalist

**Mark Bockius**  
Facilities Manager

**Brenda Bauman**  
Receptionist

## Marketing

**David Ritchey**  
Marketing Specialist

## TBP Foundation

**Karen R. McCarthy**  
President

**Christian A. Stiegemeyer**  
Executive Vice President

## Claims Department

**Steve C. Couch**  
Vice President - Claims

**Valerie Polites**  
Senior Claims Counsel

**Shannon Rulo**  
Claims Counsel

**Lisa Von Gontard**  
Claims Counsel

**Allison Price**  
Claims Counsel

**Sheila Rasipovits**  
Claims Paralegal

**Janet Meier**  
Claims Assistant

## TBP Surety and Fidelity Co.

**Karen R. McCarthy**  
President and Chief Executive Officer

**Kim Edgar**  
Vice President - Surety Underwriting

**Teresa Niederwimmer**  
Claims Manager

**Cathy Ahearn**  
Senior Bond Underwriter

**Deborah Eller**  
Bond Underwriter

## TBP Insurance Agency, Inc.

**Karen R. McCarthy**  
President

**Robert Murray**  
Regional Sales Manager

**Annette Hilyard**  
Account Representative





**THE  
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