



ACIG news

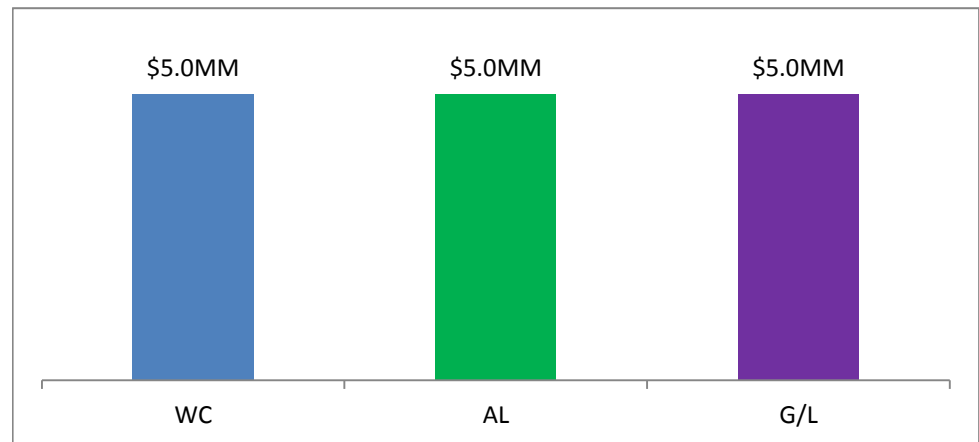
Project Independence Evolution

ACIG is unique amongst captive insurance companies in that we have built a domestic insurance organization with an A.M. Best Rating of A (Excellent). Beginning in 1986, ACIG embarked on Project Independence, with a goal to become independent of the traditional insurance marketplace.

The first step in this process was the formation of American Contractors Insurance Company Risk Retention Group (ACICRRG). Under Federal law, Risk Retention Groups could be formed to insure its Members liability exposures. ACICRRG has underwritten our primary auto and general liability coverage since 12/31/1986. Under the Federal Legislation, once we were licensed in one state we were authorized to write in all states. ACICRRG is also free of burdensome regulations as to coverage forms and rates.

Our second step was to license ACIG Insurance Company, our Workers Compensation company, in those states where our Members had operations. This effort began in 1989 and nineteen (19) years later we were licensed in forty-nine (49) states, and the District of Columbia. New Hampshire is the only state that has not licensed ACIG Insurance Company.

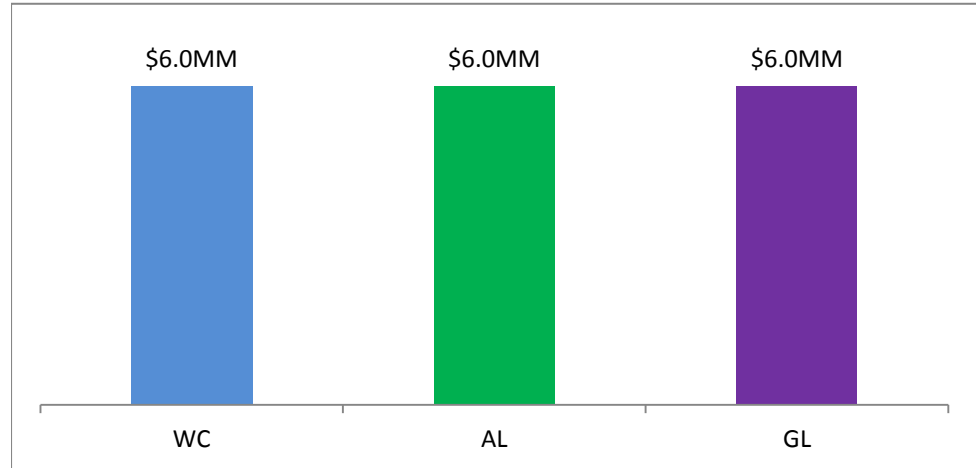
At September 30, 2014 ACIG's equity is \$149,000,355. This level of equity supports our current retention/policy limits as follows:



Our Executive Committee and Board of Directors have voted to increase our retention/policy limits for the June 1, 2015-2018 rating plan to \$6,000,000 per occurrence as illustrated on the next page.

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Our increased retention/policy limits require ACIG to increase its capital by \$4.4MM per year to maintain our conservative retention/policy limits to shareholders equity ratio.

We received positive support from our A.M. Best analysts on increasing our retention/policy limits. They felt that stepping up to higher retention/policy limits was the natural evolution of a mature captive insurance company.

ACIG Financial Report September 30, 2014

Balance Sheet Profile

ACIG reported total assets of \$425,161,000 as of September 30, 2014 versus assets of \$393,150,000 reported at December 31, 2013. ACIG's shareholders' equity was \$149,355,000 (versus \$143,012,000 at December 31, 2013).

Operating Results for the Nine Months Ended September 30, 2014

ACIG reported pretax income of \$33,359,000 for the nine months ended September 30, 2014 before policyholder dividends and other return premiums of \$26,062,000 and related bonuses of \$4,563,000. ACIG accrued premium refunds of \$26,062,000 payable to the ACIG insureds pursuant to our capital management strategy versus budgeted transactions of \$17,241,000. ACIG reported net income of \$2,209,000 for the nine months ended September 30, 2014 versus budgeted net income of \$2,504,000.

ACIG's Investment Portfolio

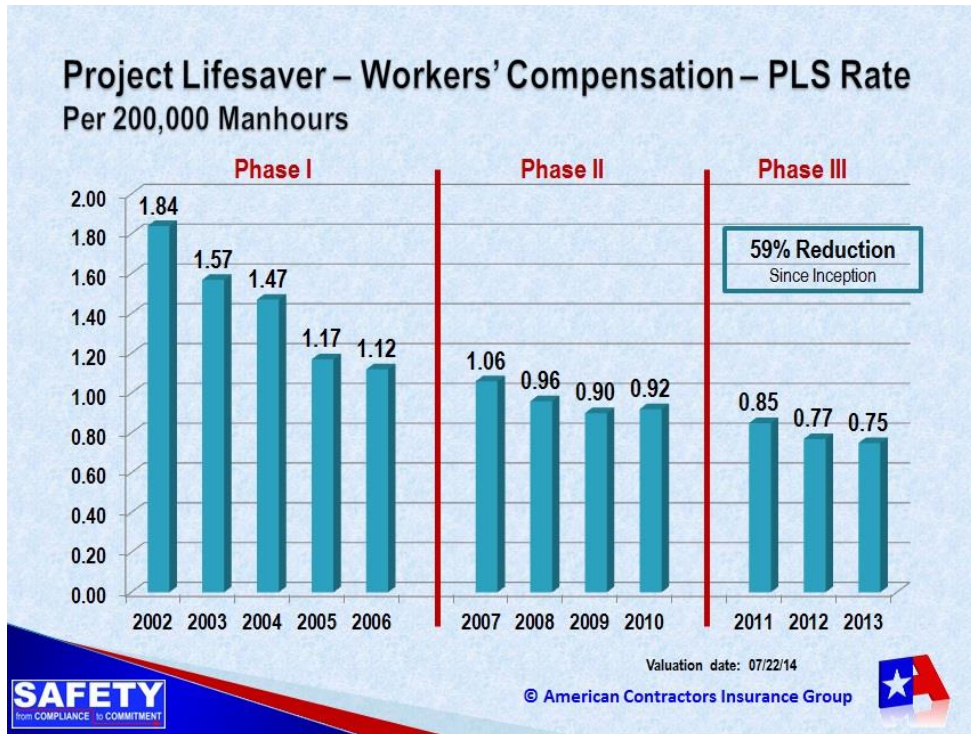
Asset Allocation as of September 30, 2014

	Market Value	Percent of Total
Insurance Reserves Portfolio	\$ 204,590,168	52.0%
BlackRock	\$ 168,630,520	
State Deposits	\$ 35,959,648	
Capital Portfolio	\$ 189,085,495	48.0%
Equities		
Dodge & Cox (Global)	\$ 12,619,515	3.2%
Primecap	\$ 29,238,586	7.4%
Wellington Global Perspectives	\$ 16,099,855	4.1%
Vanguard – International Growth	\$ 9,393,059	2.4%
Absolute Return		
AIA Absolute Return Fund*	\$ 17,941,506	4.6%
Convertibles		
Zazove	\$ 22,270,816	5.7%
Allianz	\$ 14,847,678	3.8%
Fixed Income		
Western – Absolute Return	\$ 16,864,334	4.3%
T. Rowe Price High Yield Fund	\$ 6,213,523	1.6%
PIMCO – Income Fund	\$ 21,329,245	5.4%
Franklin Templeton Global Bonds	\$ 11,625,789	3.0%
Real Assets		
Harvest MLP Income Fund	\$ 10,641,589	2.7%
TOTAL INVESTMENTS	\$ 393,675,663	100.0%
Shareholders' Equity	\$ 149,335,000	

“\$393,675,663
in total investments”

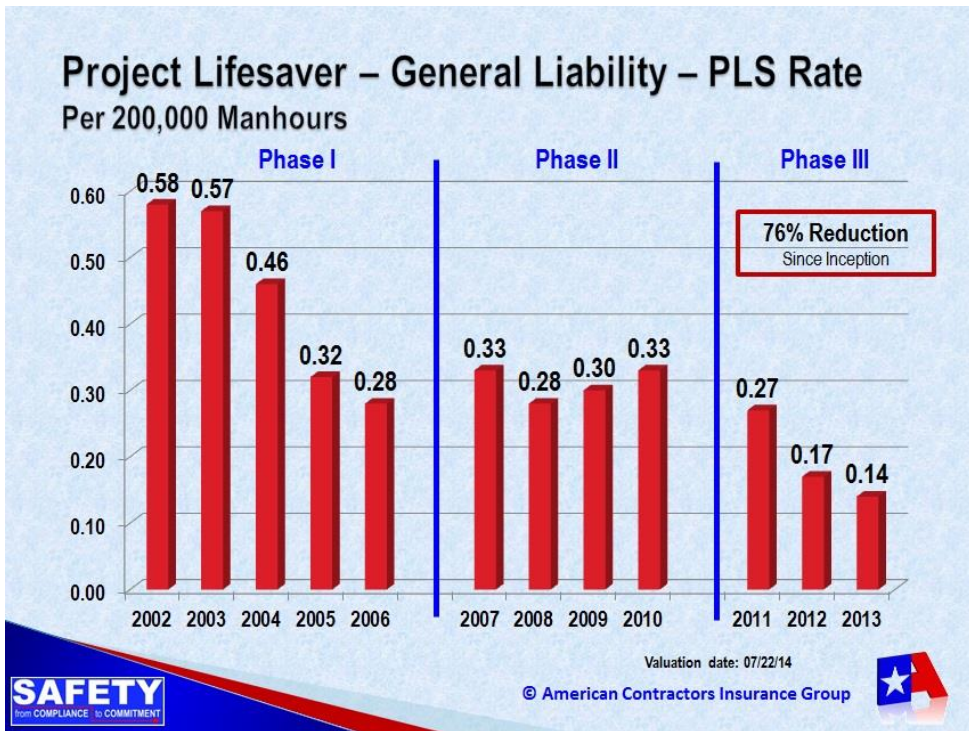
Project Lifesaver Report

ACIG Members continue to produce positive results in our Project Lifesaver Initiative. Over the last eleven (11) policy years, our Members have reduced their loss rates as follows:



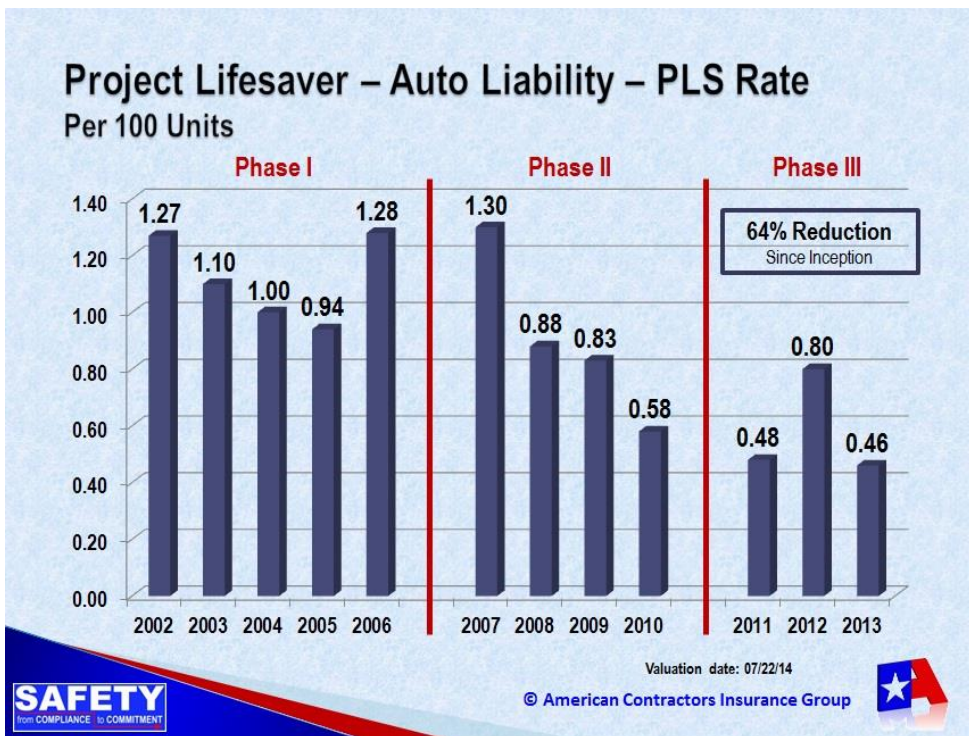
*“A 59% reduction in
PLS Workers
Compensation Rate”*

SpawGlass and Jaynes Corporation tied for 1st place, with no PLS reportable WC losses for 2 years. It is interesting to note that all ACIG Members achieved a Workers Compensation PLS rate of 1.62 or lower, signifying an overall improvement for the Members.



“General Liability PLS rate has been reduced by 76%”

Twelve (12) Members tied for first place. They had no PLS reportable losses for 2 years.



“Auto Liability PLS rate has been reduced by 64%”

Graycor Services L.L.C. and Diamond B Construction Company, L.L.C. tied for 1st place, no PLS reportable A/L losses for 2 years.

Improving Construction Market Creates Higher Risk Profile

The Construction Industry is recovering from a years-long downturn. A good barometer for future construction activity is the Architecture Billing Index (ABI) calculated by the American Institute of Architects (AIA). The reported ABI for September was 55.2, up from 53.0 in August. Any score above 50 indicates an increase in billings. According to the AIA, there is an “approximate nine to twelve month lag time between architecture billings and construction spending on non-residential construction.



One of the biggest challenges facing contractors is the lack of professional staff and craft workers. The Associated General Contractors of America (AGC) released the results of its recent Workforce Survey of over 1,000 construction firms.

Eighty-three (83) percent of responding firms nationwide are having difficulty filling craft worker positions: carpenters, equipment operators and laborers. Sixty-one (61) percent are having a hard time filling professional positions: project managers, estimators and engineers.

Hiring new and inexperienced craft and professional workers increases the contractor risk profile. Our claims data shows a correlation between workers compensation claims and experience levels; employees on the job less than one (1) year had higher frequency and severity of lost time claims.

Risk mitigation activities are key to managing these high risk individuals. Well-defined hiring practices coupled with effective orientation, training and buddy-systems are tools that are being employed. One of the most effective strategies for controlling claims costs is an aggressive return to work (RTW) program. These programs can positively impact workers compensation costs, medical, lost-time and legal.

As more craft labor is provided by subcontractors, it is imperative that contractors validate their commitment to safety and quality.

How Does Your State Rank on Workers Compensation Rates?

The Oregon Department of Consumer and Business Services publishes a Workers Compensation Rate Study every two (2) years. The study puts workers compensation rates on a comparable basis using a constant set of risk classifications for each state.

The average calculated index rate by state ranged from a low of \$.88 cents per \$100 of payroll for North Dakota to a high of \$3.48 in California. The national median rate was \$1.85.

Here is a listing for all fifty (50) states plus the District of Columbia:

Workers Compensation Rates by State

2014 Ranking	2012 Ranking	State	Index Rate	Percent of study median
1	3	California	3.48	188%
2	2	Connecticut	2.87	155%
3	7	New Jersey	2.82	152%
4	5	New York	2.75	148%
5	1	Alaska	2.68	145%
6	6	Oklahoma	2.55	137%
7	4	Illinois	2.35	127%
8	14	Vermont	2.33	125%
9	30	Delaware	2.31	125%
10	15	Louisiana	2.23	120%
11	8	Montana	2.21	119%
12	9	New Hampshire	2.18	118%
13	10	Maine	2.15	116%
14	19	Idaho	2.01	109%
17	13	Washington	2.00	108%
17	16	South Carolina	2.00	108%
17	12	Pennsylvania	2.00	108%
20	27	New Mexico	1.99	108%
20	20	Rhode Island	1.99	107%
20	17	Minnesota	1.99	107%
21	36	Missouri	1.98	107%
22	19	Tennessee	1.95	105%
23	12	Wisconsin	1.92	104%
24	25	Iowa	1.88	101%
25	23	South Dakota	1.86	100%
27	35	Hawaii	1.85	100%
27	25	North Carolina	1.85	100%
28	29	Florida	1.82	98%
29	21	Alabama	1.81	97%
30	33	Nebraska	1.78	96%
31	31	Wyoming	1.76	95%
32	27	Georgia	1.75	95%
33	28	Ohio	1.74	94%
34	32	Michigan	1.68	91%
35	34	Maryland	1.64	88%
36	38	Texas	1.61	87%
37	37	Arizona	1.60	86%
38	42	Mississippi	1.59	85%
39	41	Kansas	1.55	83%
40	22	Kentucky	1.51	82%
41	43	Colorado	1.50	81%
43	40	West Virginia	1.37	74%
43	39	OREGON	1.37	74%
45	45	Utah	1.31	71%
45	47	District of Columbia	1.31	70%
46	46	Nevada	1.26	68%
48	44	Massachusetts	1.17	63%
48	48	Virginia	1.17	63%
49	49	Arkansas	1.08	58%
50	50	Indiana	1.06	57%
51	51	North Dakota	0.88	47%

Tribute to Joseph Thomas Vaughn – “This is Joe.” The Epitome of a Construction Man

“This is Joe.” That is the way Joe Vaughn answered the phone, whether it was a customer, a captain or a carpenter calling. Joe, who founded Vaughn Construction, died January 16, 2014 at age 70. He was as genuine and authentic a man as you will ever know. Big and imposing, blunt and straight-forward, smart and decisive and, above all, caring and witty, were his hallmarks. He was the epitome of a construction man, the absolute “best of breed” of builders.

Joe was from the field and for the field. He started in the industry at age 12 and served as a carpenter, ironworker, laborer, engineer and superintendent, before becoming an operations manager and ultimately an owner/CEO. He created a builders’ culture at Vaughn. He respected field craftsman and revered field superintendents. The Vaughn lobby is full of candid pictures of superintendents in action at their job sites.

And, at his service, in the St. Thomas High School Assembly Hall, converted to a chapel to handle the huge crowd, it was poignant, moving and so fitting that his casket was carried in by six superintendents in their Vaughn shirts. He was their hero and they were his.

Joe’s beliefs and values about the importance of field work and field people can serve as a timely and guiding beacon for us all as we confront the skilled worker shortage. His passing can raise the question, “Have we lost sight of the fundamental fact that we are paid as contractors to put work in place in the field?” And in this age of technology, with all of its “wow” factors (BIM, I-Pads, mobile apps), and in this time of new delivery systems, with all their promise (3-P; IPD), “Have we, as an industry, become distracted from the fact that we are paid, first and foremost, to build, and to manage as a derivative activity of the building process?” We need to use Joe’s life as a lesson to get refocused on creating career craft workers and field superintendents who can execute our primary mission.

Joe’s legacy is being preserved and expanded by his sons, Tom, Bill and Mike, and by Vaughn Construction’s leadership role with C-3 (Construction Career Collaborative). He was a rare and remarkable leader whose life validated his motto, “Do it once and do it right.” We will miss him.

*Pat Kiley, former Executive Director of the Associated General Contractors of America.

ACIG Contractors in the News

BMWC Constructors, Inc. received several 2014 *Metro Indianapolis Construction Coalition for Safety (MICCS)* Awards including the coveted Crystal Eagle Award. This is the highest honor that MICCS can bestow upon a company. This was BMWC's fourth Crystal Eagle Award.



Cajun Deep Foundations won the *Associated Builders and Contractors (ABC)* Pyramid Award for its work on the Louisiana State University (LSU) Tiger Stadium expansion.



Graycor Industrial Project won *Engineering News Record (ENR)* Best Project of the Year Mid-Atlanta Region for its Clariton C Battery Project.



The Haskell Company was named one of Florida's Best Companies to Work For. The program identifies and recognizes companies that have been successful in creating and maintaining workplace excellence.



Kitchell Corporation was selected as one of Arizona's Most Admired Companies. It was selected for its Leadership Excellence and commitment to innovation and leadership development.



Phillips and Jordan, Incorporated has worked over 3,000,000 manhours without a lost-time accident.



Shimmick Construction Co., Inc. ranked in seven (7) 2014 *Engineering News Record (ENR)* specialty rankings:

#3	Dams and Reservoirs
#11	Marine and Port Facilities
#12	Bridges
#17	Water Supply
#20	Mass Transit and Rail
#25	Water Treatment
#40	Transportation



Vaughn Construction and its joint venture partners won the 2014 Health Care Best Project Award from *Engineering News Record (ENR)* Texas and Louisiana for its University Hospital Project. The new Sky Tower, a 1.1 million square foot addition was built by ZVL, a joint venture of Zachary Construction, Vaughn Construction and Layton Construction.



Wagman Companies, Inc. Voted Best Place to Work in Pennsylvania for 2014. The award recognizes and honors the best places to be employed, benefitting the state's economy, its workforce and businesses.





Bill McIntyre



Mike O'Neill



Matt Reade



Kelly Gallagher



Carl Heinlein



James Shay



Tricia Kagerer



Mike Ruefer

ACIG News and Notables

International Risk Management Institute's (IRMI) 34th Annual Construction Risk Conference is scheduled for November 10-13. ACIG and its Members will be presenting on a variety of topics:

Bill McIntyre – Conference Co-Chairman

Mike O'Neill, President & CEO, **Matt Reade**, Shimmick Construction Risk Manager, **Kelly Gallagher**, J.D. Abrams Chief Financial Officer – “Strategies for a Successful Construction Joint Venture”.

Carl Heinlein, Senior Safety Consultant – “Fleet Risk Management Strategies”.

James Shay, Vice President Risk Management and **Tricia Kagerer**, Risk Management Executive – “Building a Firm Foundation”.

Mike Ruefer, ACIG Senior Safety Consultant wrote an article for Graycor's Newsletter on Project Lifesaver.

ACIG 2015 Education and Networking Calendar

Event	Location	Dates
ACIG University	Dallas, TX	January 28-30
Best Practices	Newport Beach, CA	February 18-21
ACIG Annual Meeting	Newport Beach, CA	February 18-21
Vail Contractors Forum	Vail, CO	March 26-28
Spring Safety/Claims Workshop	San Antonio, TX	April 7-9
Fall Safety/Claims Workshop	Atlanta, GA	September 22-24
In-House Legal Counsel Forum	Dallas, TX	TBD
ACIG Risk Management Workshop	Sea Island, GA	October 29-31
Quality Peer Groups	Various	Various
Safety Peer Groups	Various	Various

Concluding Thoughts

In a recently published study, A.M. Best confirmed that captive insurance companies, both single parent and group, outperform the traditional commercial sector in every key financial measure.

Captives achieved a five-year average combined ratio of 85.2, which compares to the commercial composite's average of 103.2, a full 18 point differential. Captive's focus on Enterprise Risk Management led to lower losses and underwriting expenses.

We have said for decades "Captive business is the best performing segment of the insurance business". Best's recent study affirms our observation.

All the best,



President & CEO