



C A L I F O R N I A  
SELF-INSURERS'  
SECURITY FUND

# 2023 Member Informational Meeting

May 15<sup>th</sup>, 2023

William Lyons, Chairman

Daniel Sovocool, Outside General Counsel

Grant Heinitz, SISF Credit Risk Manager

Jill Dulich, SISF Claims and Operations Manager



CALIFORNIA  
SELF-INSURERS'  
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**Mission Statement:**

"To provide continuity of workers' compensation benefits to injured workers of insolvent, private self-insured companies at the lowest overall long-term cost, equitably distributed to the self-insurance community."

# CA Self-Insurance Overview

Entities	<b>522</b> (including 26 SIG' s)
Payroll	<b>\$144 billion</b>
Employees	<b>2.4 million</b>

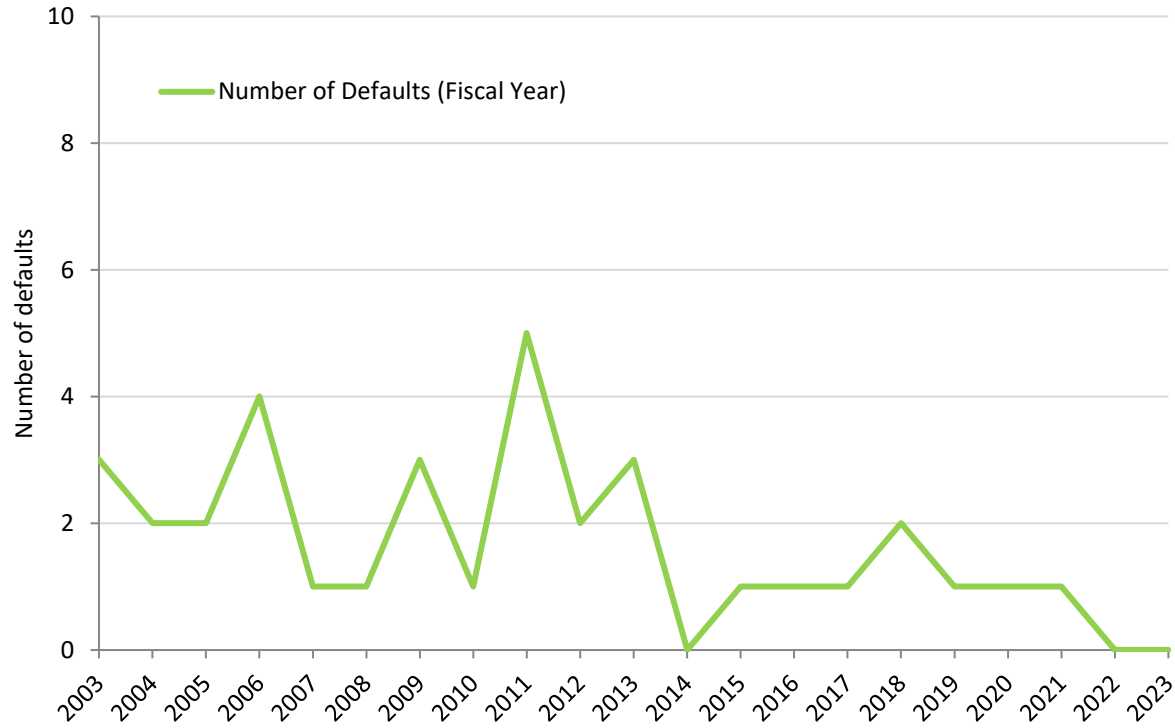
# Estates and Workers' Compensation Claims

		<u>FY2023</u>	<u>FY2022</u>	<u>Δ</u>
<b>Estates</b>	<b>Total</b>	88	88	
	<b>Active</b>	41	41	
<b>Claims</b>	<b>Open</b>	362	422	-60
(as of 3/31/23 and 6/30/22)				
<b>Claim Liability (net)</b>	<b>Paid (gross)</b>	<b>\$5,142,455<sup>1</sup></b>	<b>\$6,441,083</b>	<b>-\$1,298,628</b>
	<b>Open Case Reserves (EFL) (net)</b>	<b>\$18,649,080</b>	<b>\$22,951,535</b>	<b>-\$4,302,455</b>
	<b>IBNR (net) + ULAE</b>	<u>\$16,157,263</u>	<u>\$19,331,028</u>	<u>-\$3,173,765</u>
		<b>\$34,806,343</b>	<b>\$42,282,563</b>	<b>-\$7,476,220</b>
<b>SISF total net assets</b>				
(as of 6/30)		\$669,007,729 <sup>1</sup>	\$627,301,055 <sup>2</sup>	\$41,706,674
<b>Projected annual costs</b>	<b>- claims (net of excess)</b>	\$2,970,365	\$3,630,185 <sup>2</sup>	-\$659,820
	<b>- claims admin</b>	<u>\$1,061,328</u>	<u>\$1,261,664<sup>2</sup></u>	<u>-\$200,336</u>
	<b>- Total</b>	<u><b>\$4,031,693</b></u>	<u><b>\$4,891,849</b></u>	<u><b>-\$860,156</b></u>

<sup>1</sup> 6/30/23 Projected

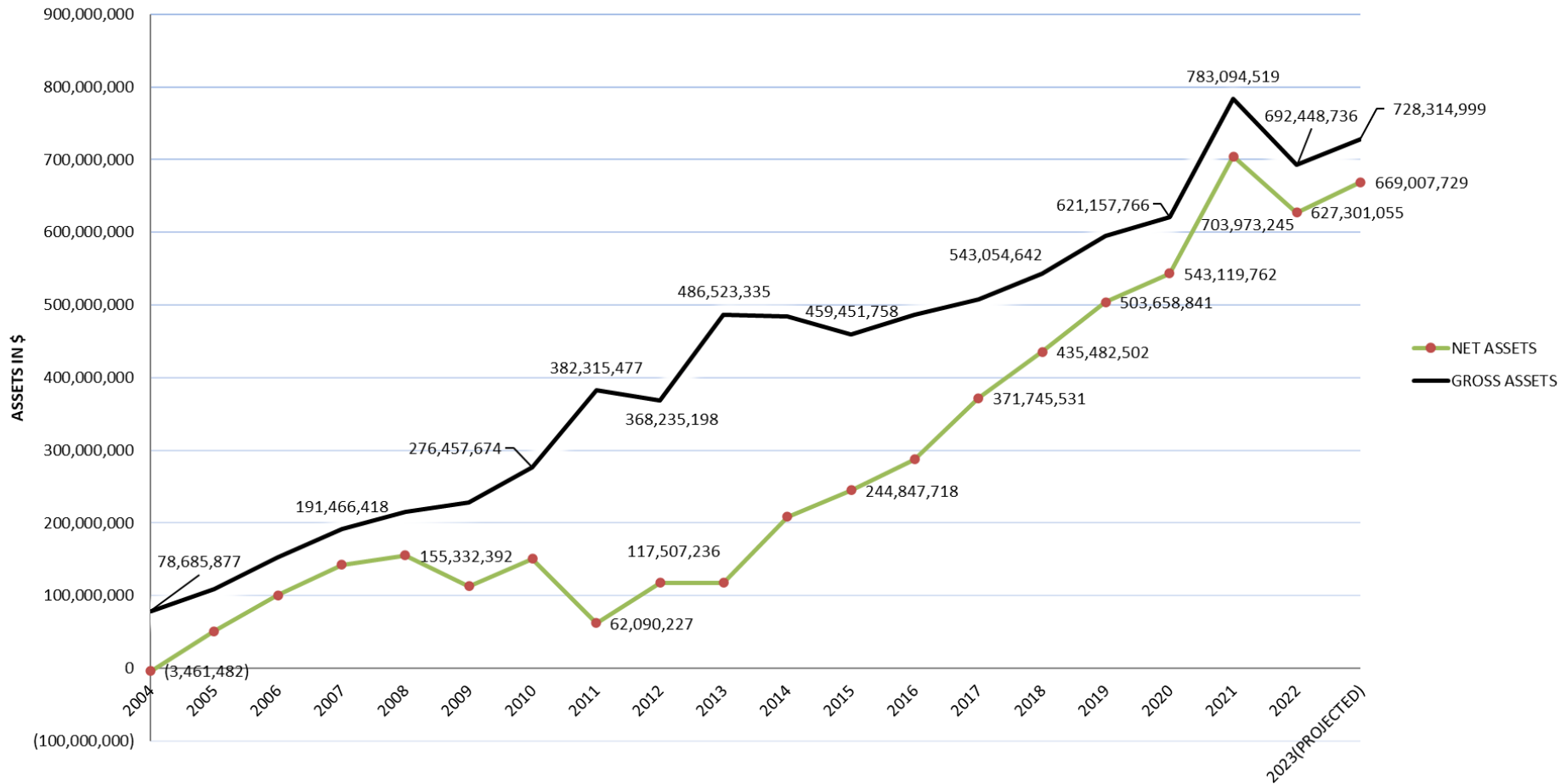
<sup>2</sup> Actual

# Default History

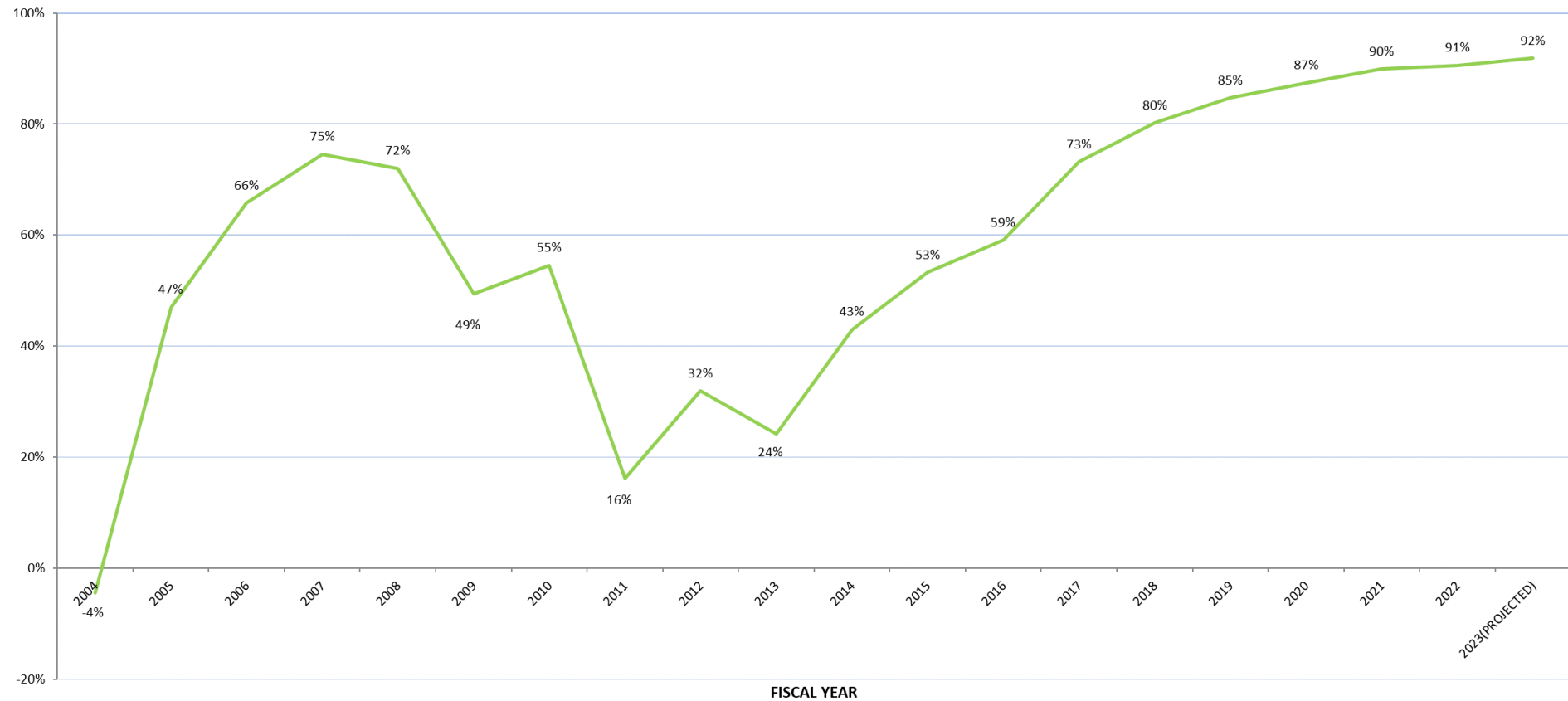


Defaults as of 4/24/23

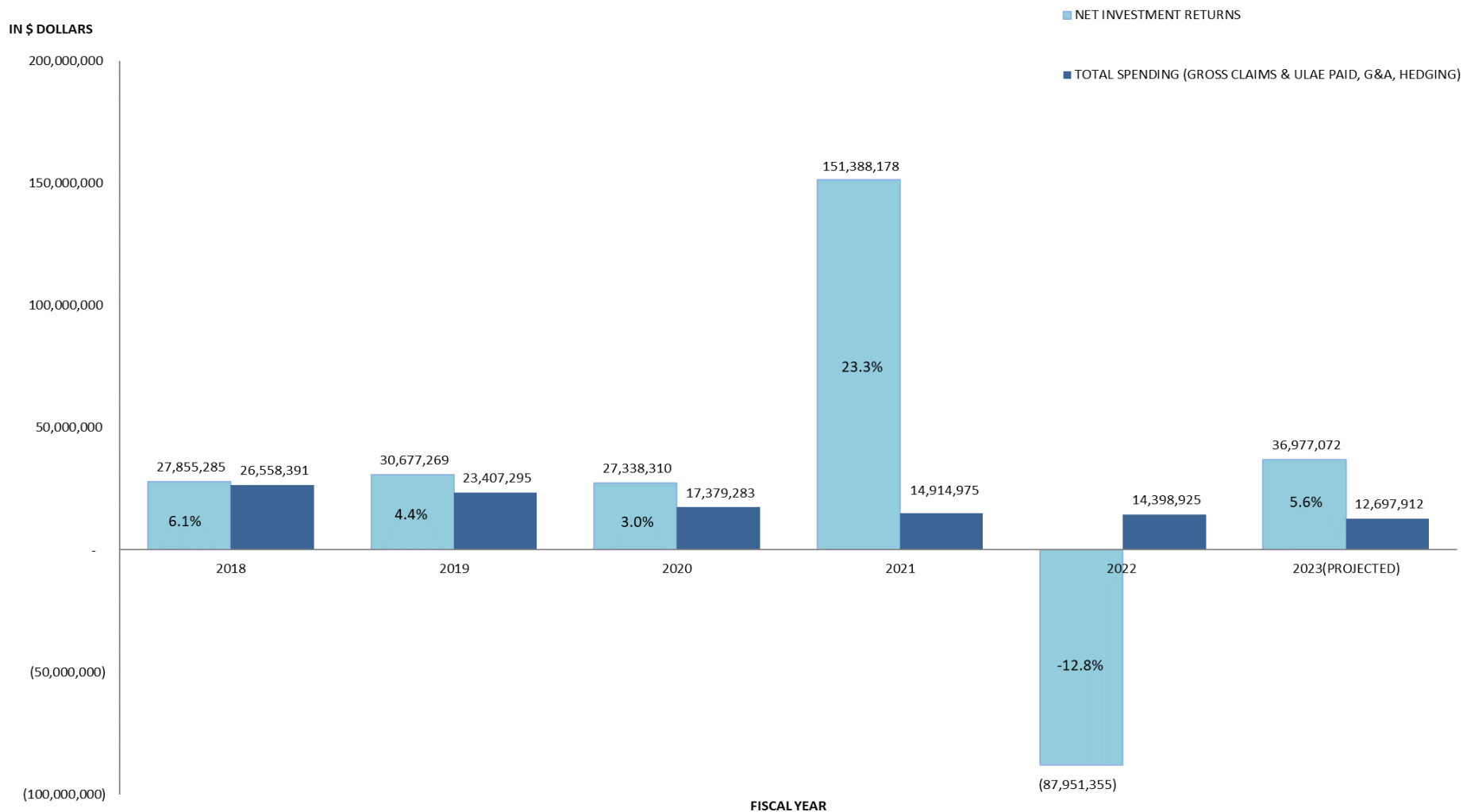
# Net and Gross Assets (ASP inception)



# % Net Assets / Gross Assets (ASP inception)



# Total Spending and Investment Returns



Last six fiscal years

# Investments

## **Reserve Portfolio**

The portfolio has a customized approach to optimize return given the duration of the aggregate liabilities which may be dynamic. Determining the reserve designated assets is a function of cash flow needs, economic capital study, assessment strategy, and funds reserved to cover unforeseen needs that may arise. This is determined on a semiannual basis.

## **Surplus Portfolio**

The Surplus Portfolio represents the assets that are not designated reserve assets. The objective is to generate returns with a focus on growth of capital and maintaining purchasing power.

# Investments- Strategic Long-Term Asset Allocations

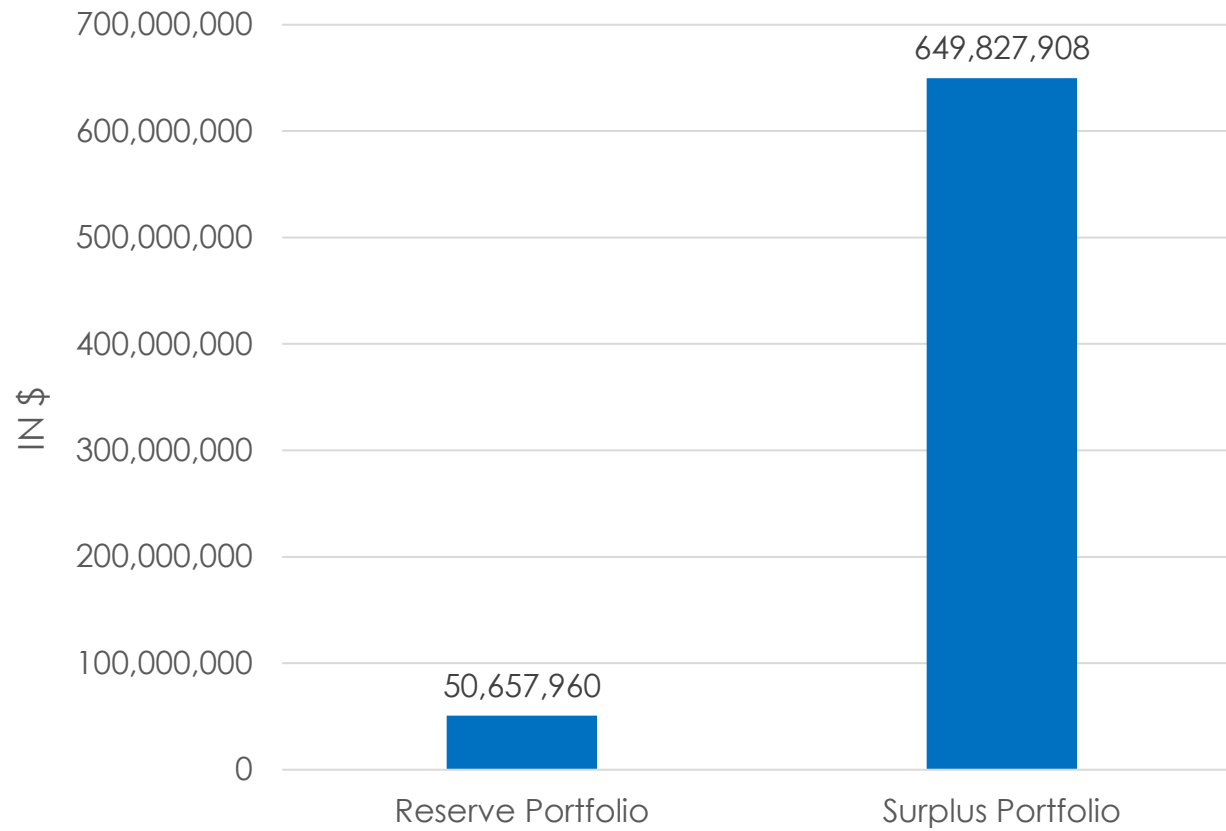
## Reserve Portfolio

Asset Class	Strategic Target	Upper Limit	Benchmark
Fixed Income	<b>100%</b>	100%	Custom Liability based Benchmark
<b>Total</b>	<b>100%</b>		

## Surplus Portfolio

Asset Class	Lower Limit	Strategic Target	Upper Limit	Benchmark
Public Equity	30%	<b>40%</b>	60%	MSCI ACWI Index
Fixed Income	15%	<b>20%</b>	25%	Citi World Government Bond Index
Hedge Funds	15%	<b>20%</b>	25%	HRFI FOF Composite Index
Private Equity	0%	<b>10%</b>	15%	Representative Private Equity Index
Real Assets	0%	<b>10%</b>	15%	Representative Real Assets Index
<b>Total</b>		<b>100%</b>		

# Investments



As of 3/31/23

## SISF Performance Estimates\*

March 31, 2023

California Self-Insurers' Security Fund	Value	Allocation	Mar. 2023	YTD 2023	Trailing One Year	2022	2021	2020
<b>SISF - Reserve Portfolio</b>	<b>\$50,657,960</b>	<b>100.00%</b>	<b>1.35%</b>	<b>1.55%</b>	<b>-0.43%</b>	<b>-4.01%</b>	<b>-1.01%</b>	<b>0.60%</b>
<b>Fixed Income</b>	<b>\$50,647,804</b>	<b>99.98%</b>	<b>1.35%</b>	<b>1.55%</b>	<b>-0.47%</b>	<b>-4.05%</b>	<b>-1.01%</b>	<b>0.61%</b>
<b>Cash</b>	<b>\$10,157</b>	<b>0.02%</b>						
<b>SISF - Surplus Portfolio</b>	<b>\$649,827,908</b>	<b>100.00%</b>	<b>1.68%</b>	<b>4.45%</b>	<b>-4.63%</b>	<b>-14.39%</b>	<b>12.37%</b>	<b>16.99%</b>
<b>Equities</b>	<b>\$289,332,805</b>	<b>44.52%</b>	<b>2.62%</b>	<b>7.70%</b>	<b>-7.55%</b>	<b>-22.33%</b>	<b>16.76%</b>	<b>24.47%</b>
<b>Fixed Income</b>	<b>\$127,864,611</b>	<b>19.68%</b>	<b>2.42%</b>	<b>2.87%</b>	<b>-3.92%</b>	<b>-11.67%</b>	<b>-1.15%</b>	<b>5.84%</b>
<b>Hedge Funds</b>	<b>\$129,681,488</b>	<b>19.96%</b>			<b>-2.57%</b>	<b>-7.03%</b>	<b>7.74%</b>	<b>8.98%</b>
<b>Alternative Investments</b>	<b>\$102,938,770</b>	<b>15.84%</b>			<b>4.34%</b>	<b>9.45%</b>	<b>27.35%</b>	
<b>Cash</b>	<b>\$10,234</b>	<b>0.00%</b>						
<b>Total</b>	<b>\$700,485,869</b>	<b>100.00%</b>	<b>1.66%</b>	<b>4.23%</b>	<b>-4.26%</b>	<b>-13.53%</b>	<b>11.12%</b>	<b>15.15%</b>
S&P 500			3.51%	7.03%	-9.29%	-19.44%	26.89%	16.26%
Russell 1000			3.00%	7.00%	-9.91%	-20.41%	24.76%	18.87%
Russell 2000			-4.98%	2.34%	-12.93%	-21.56%	13.70%	18.36%
MSCI All Country World			2.82%	6.84%	-9.11%	-19.80%	16.80%	14.33%
MSCI All Country World Ex US (Net Return)			2.44%	6.87%	-5.07%	-16.00%	7.82%	10.65%
MSCI Emerging Markets			2.73%	3.55%	-13.27%	-22.37%	-4.59%	15.84%
Bloomberg US Aggregate (Total Return)			2.54%	2.96%	-4.78%	-13.01%	-1.54%	7.51%
Bloomberg Global Aggregate (Total Return)			3.16%	3.01%	-8.07%	-16.25%	-4.71%	9.20%
FTSE World Govt Bond Index All Maturities (USD)			3.78%	3.51%	-9.55%	-18.26%	-6.97%	10.11%
HFRI Fund of Funds Composite				1.69%	-0.95%	-5.27%	6.17%	10.88%
HFRX Global Hedge Fund (USD)			-1.42%	-0.25%	-3.33%	-4.40%	3.65%	6.76%

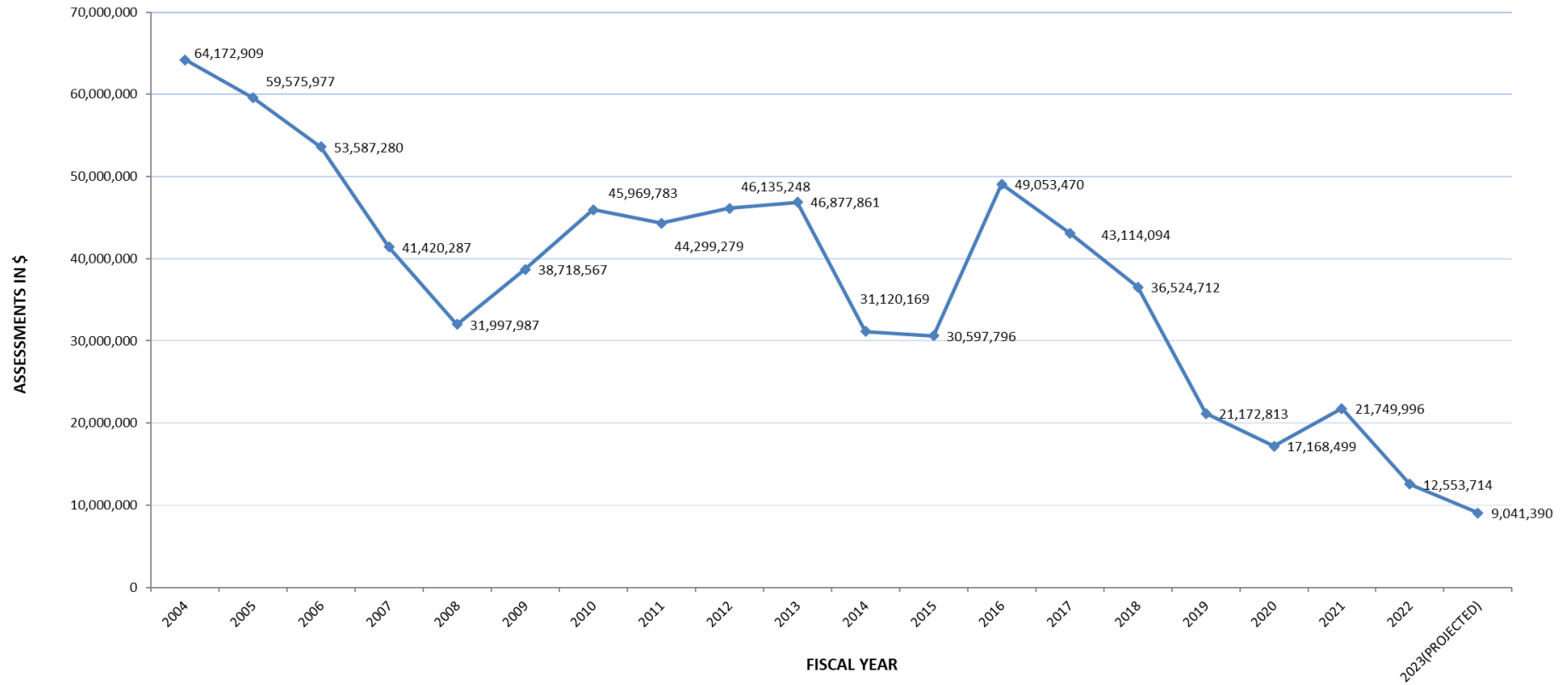
\*Alternative Investments Valuations are based on most recent statement available.

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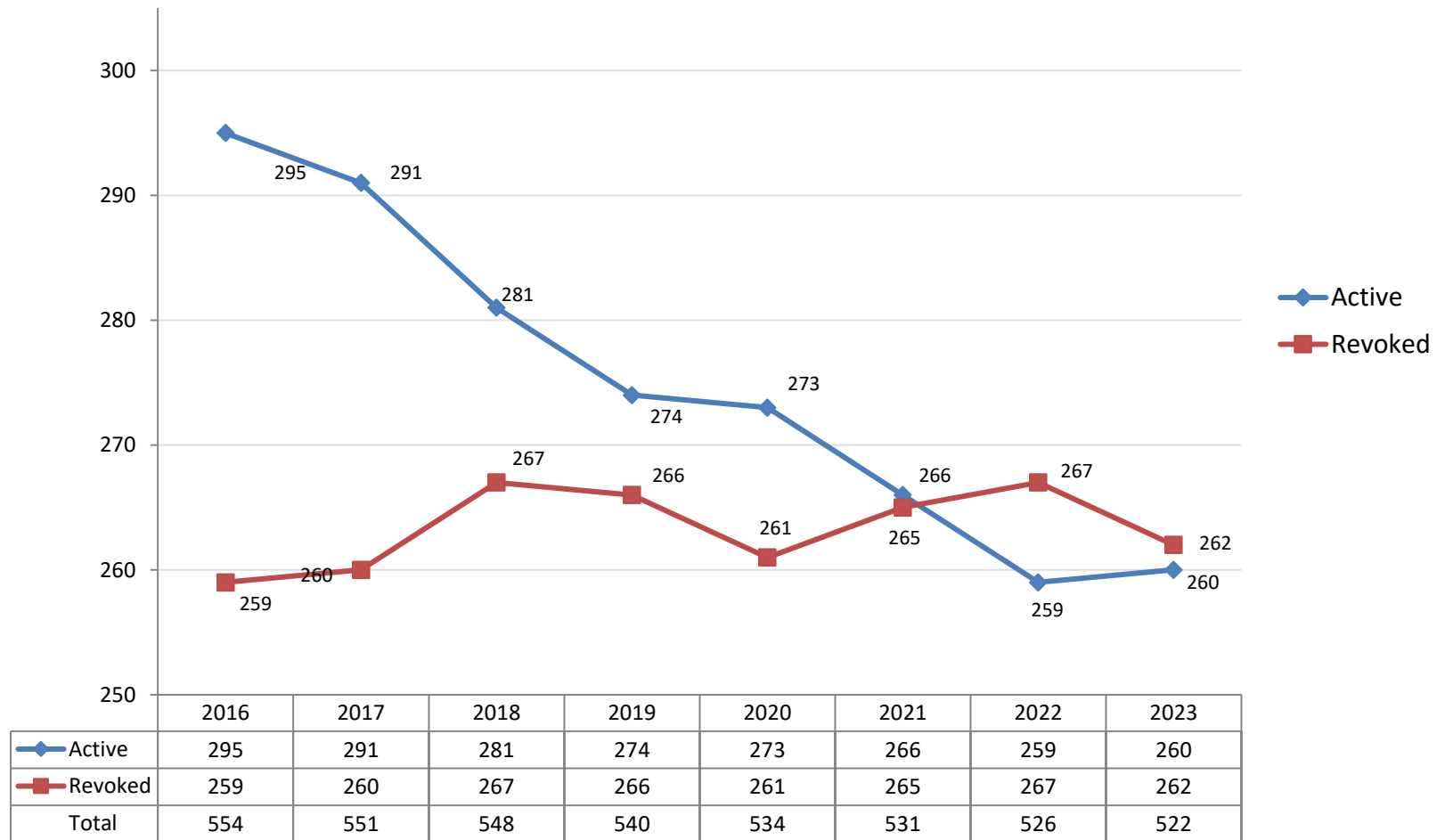
# SISF Performance Highlights

- Negative results in calendar year 2022. The total portfolio lost -13.53%, driven primary by losses in public equities, fixed income, and hedge funds.
- In the first quarter of 2023, the total portfolio gained 4.23%.
- For the trailing one-year period ending 3/31/23, the SISF portfolio generated a negative return of -4.26%.
  - The SISF Reserve portfolio was down -0.43% over the one year period, compared to a benchmark of -0.24%.
  - The SISF Surplus portfolio was down -4.63% over the one year period, compared to a benchmark of -7.92%.
  - Positive contributors to performance over the one-year period had private equity (2.55%), private credit (4.49%), and private real assets (4.73%).

# Assessments (ASP inception)

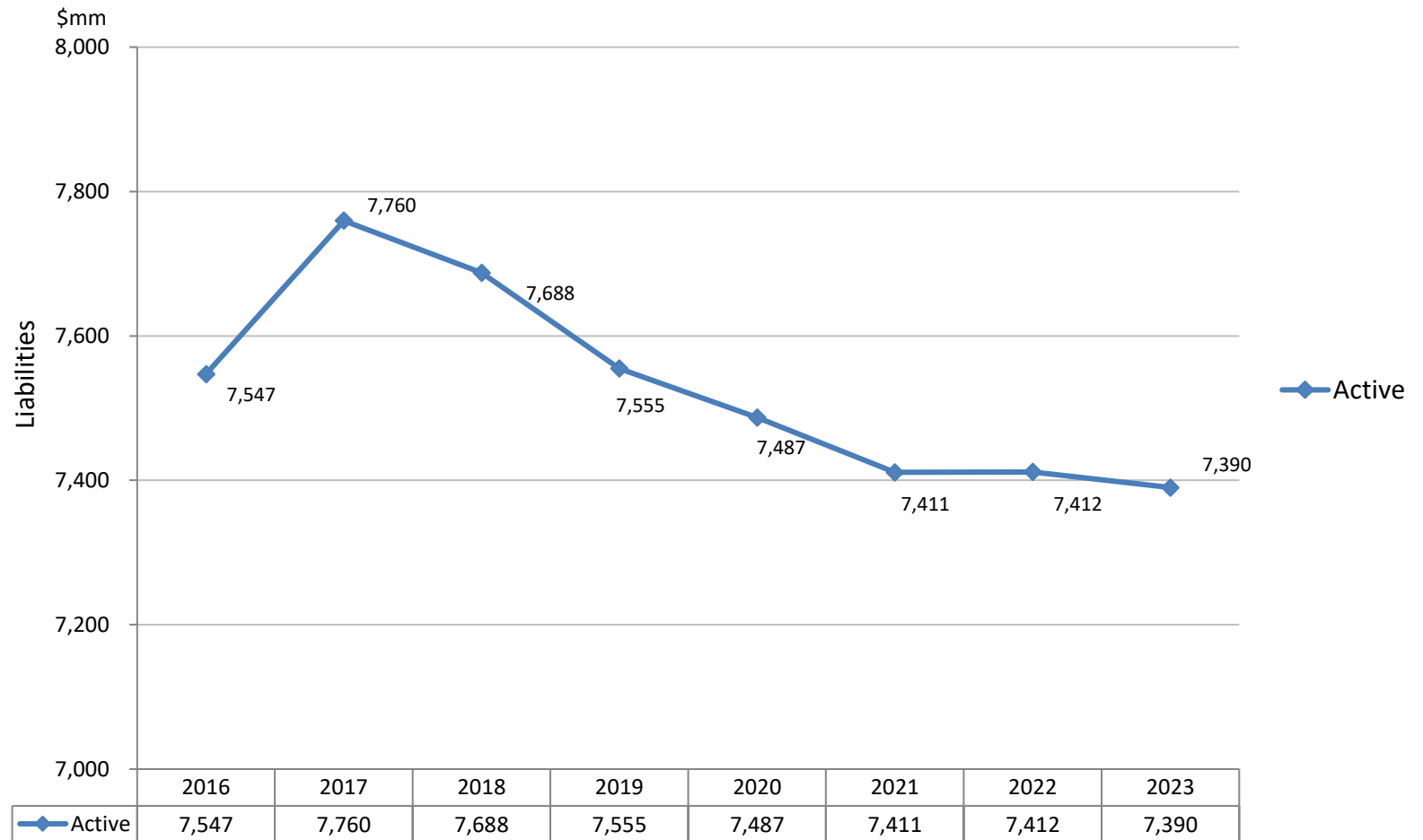


# Members by Status



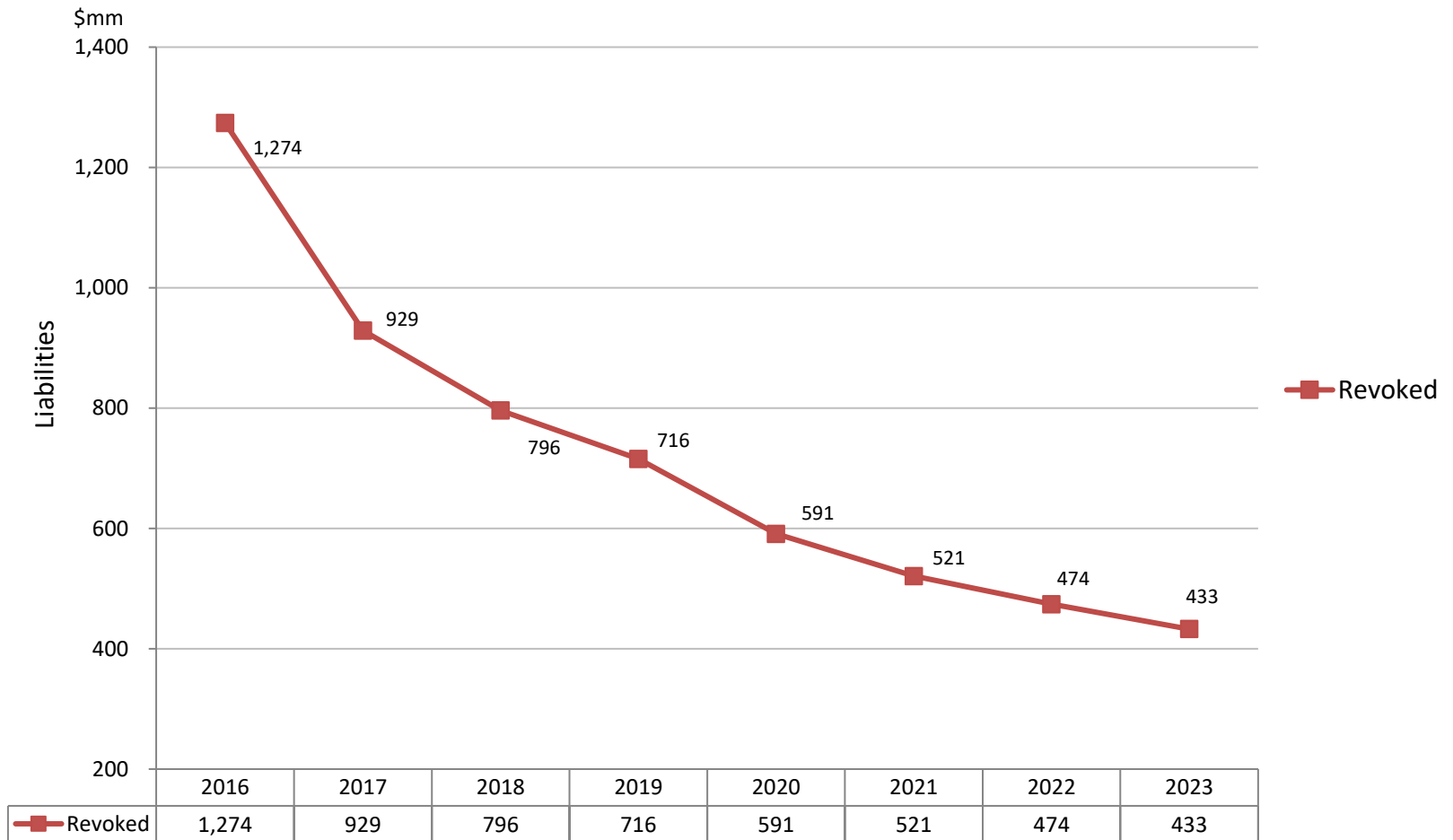
Last eight fiscal years

# Active Member Exposure



Last eight fiscal years

# Revoked Member Exposure



Last eight fiscal years

# Grant Heinitz

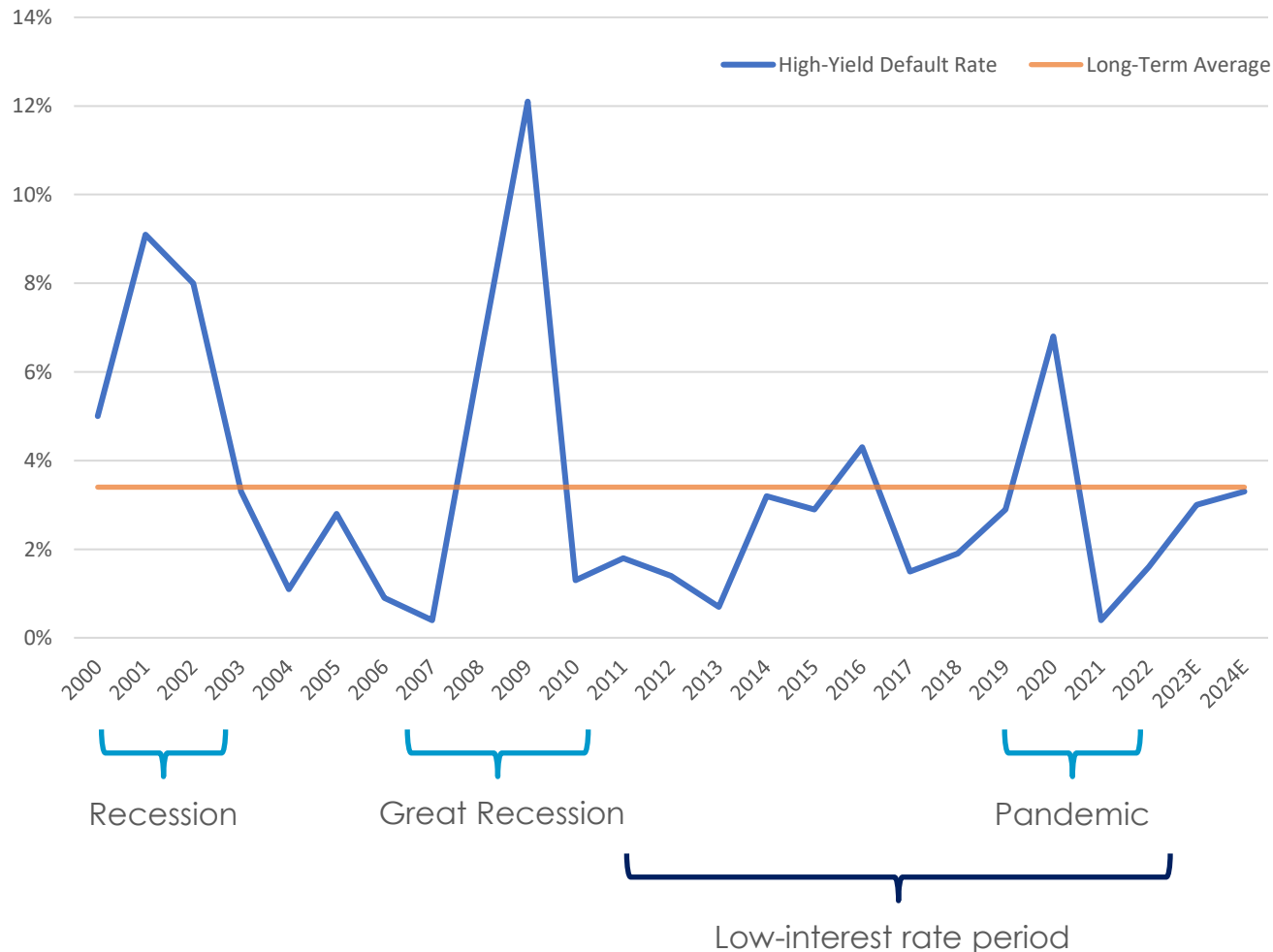
## Credit Risk Manager



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# Economics and Credit

All expansions come to an end. This is often tied to tight US labor markets, inflation (or inflation risk) that produces a restrictive Fed policy stance, and a range of financial and economic imbalances.

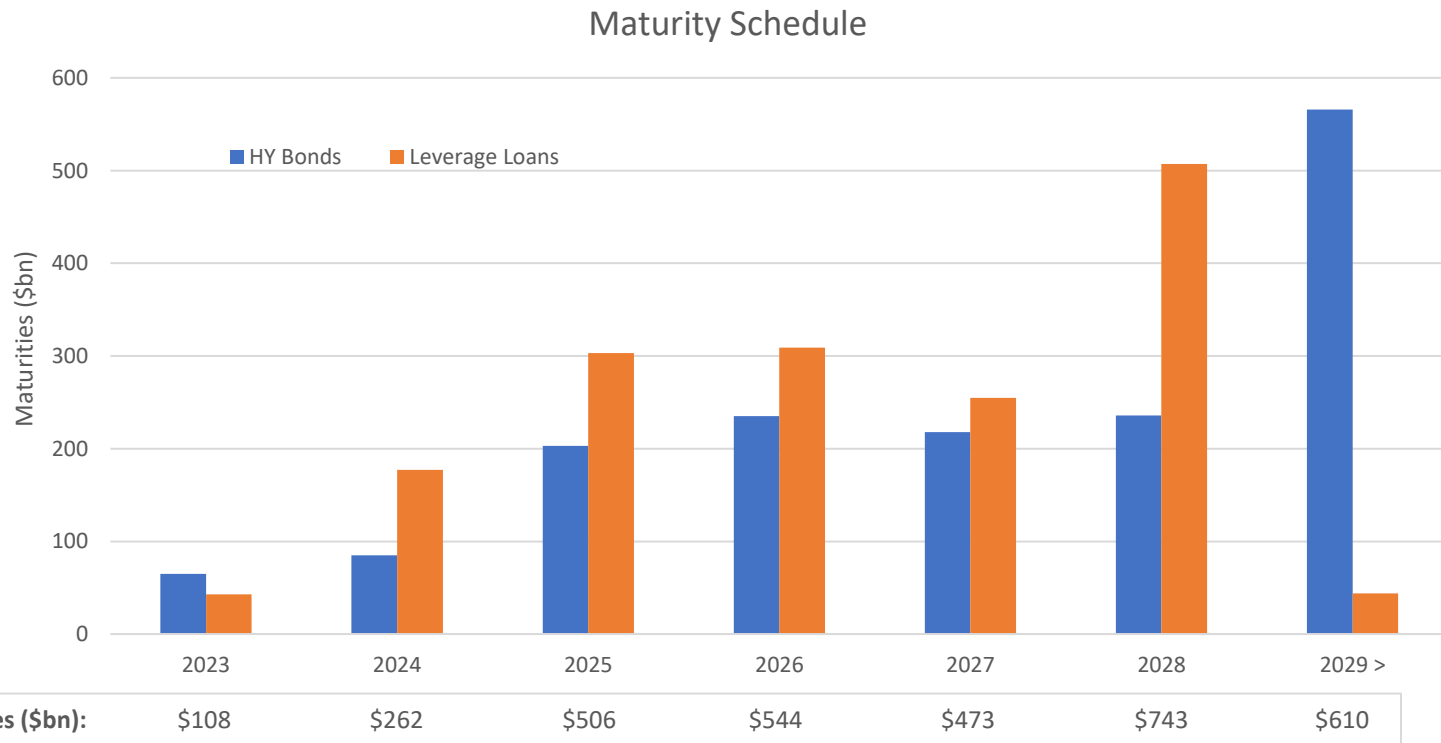


- Inflation ~5%
- Food / oil prices
- Wholesale Prices
- Fed rate 5.00%+
- Banks stressed
- GDP at 1.1%
- Mild recession?

Source: J.P. Morgan U.S. High-Yield Default Rate

# Economics and Credit (cont'd)

Several companies have taken advantage of the record low-interest rate environment and refinanced debt, extending maturities.



Majority of companies with maturities in 2024 and onward will hit a crossroads - issuing / refinancing debt in a higher interest rate environment, leading to lower coverage ratios.

# ASP Regulatory Compliance Tracking

The Security Fund regularly tracks member submissions for regulatory compliance and the data below reflects submission count for the upcoming 2023 ASP plan year.

## Actuary reports:

- 274 out of 277 received (98.9%)
  - Publicly-traded Cos. 100%
  - Private Cos. – three outstanding

## Audited Financial Statements:

- 407 out of 522 received (78%)
  - Publicly-traded Cos. 100%
  - Private Cos. – sixty outstanding
  - Excluded Cos. – fifty-five outstanding

Thank you for your timely submissions.

# Simplified Admission Requirements

- Expedited OSIP and SISF decision-making on entry into self-insurance
- Credit-based underwriting for new admission
- Credit-based, expedited decision-making for entry into ASP (no waiting period)

Credit level	Rating Equivalency			Member Type	Deposit retained by SISF	Collateral posted with OSIP	Expedited decision-making for entry into ASP
	S&P	Fitch	Moody's				
1	AAA	AAA	Aaa	Fully Participating	100%	-	Immediate Entry
2	AA+	AA+	Aa1		100%	-	
3	AA	AA	Aa2		100%	-	
4	AA-	AA-	Aa3		100%	-	
5	A+	A+	A1		100%	-	
6	A	A	A2		100%	-	
7	A-	A-	A3		100%	-	
8	BBB+	BBB+	Baa1		100%	-	
9	BBB	BBB	Baa2		100%	-	
10	BBB-	BBB-	Baa3		100%	-	
11	BB+	BB+	Ba1	Partial Participating	100%	-	Subject to Credit Committee Approval
12	BB	BB	Ba2		100%	-	
13	BB-	BB-	Ba3		90%	10%	
14	B+	B+	B1		75%	25%	Not Admitted on midyear basis
15	B	B	B2		50%	50%	
16	B-	B-	B3		25%	75%	

# Credit Underwriting and Monitoring

## Credit underwriting

- Audited Financial Statements
- Formal or equivalent implied credit ratings
- Discretionary

## Credit monitoring

- Credit committee meets once per month (twice per month during pandemic)
- Credit-relevant media coverage (Moody's, S&P, Fitch, Reorg, and JPMorgan Markets)
- Private co. credit data (Credit Risk Monitor / Experian, Orbis / Bureau van Dijk, Cortera)
- Quarterly unaudited financials required for private non-investment grade members
- Watchlist and internal scorecard
- Management discussions

# Credit Underwriting Update

- Moody's EDF-X (recently released)
  - Advanced platform that uses data and decision analytics to pre-score 400+ million companies (small family-owned businesses to large global enterprises). Allows portfolio management of public and private companies together and calculates probability of default (PD) / implied ratings based on financial inputs and/or trade payment data behavior.
- Adoption of ASC 842 – Lease accounting
  - Operating leases are now reported on the balance sheet as a right-of-use (ROU) asset with a corresponding current / noncurrent liability entry. Going forward these operating lease liabilities will be treated as short-term and long-term debt within Moody's RiskCalc input.

# ASP – Overview

- Successful implementation of 2022/23 Alternative Security Program
  - 10<sup>th</sup> year post SB863
  - ASP liabilities decreased slightly (-0.8%)
- Financial strength of the Fund continues to improve<sup>1</sup>
  - net         \$699 mill
  - gross       \$728 mill
- Overall portfolio credit rating improves – Baa2
- Assessment decreased 15.6% (\$19.0mm vs. \$22.5mm) from the prior year
  - \$10mm in Premium credit was returned to eligible members
  - Actual assessment of \$9.0mm (net of Premium Credit)

<sup>1</sup> SISF 6/30/2023 Projection

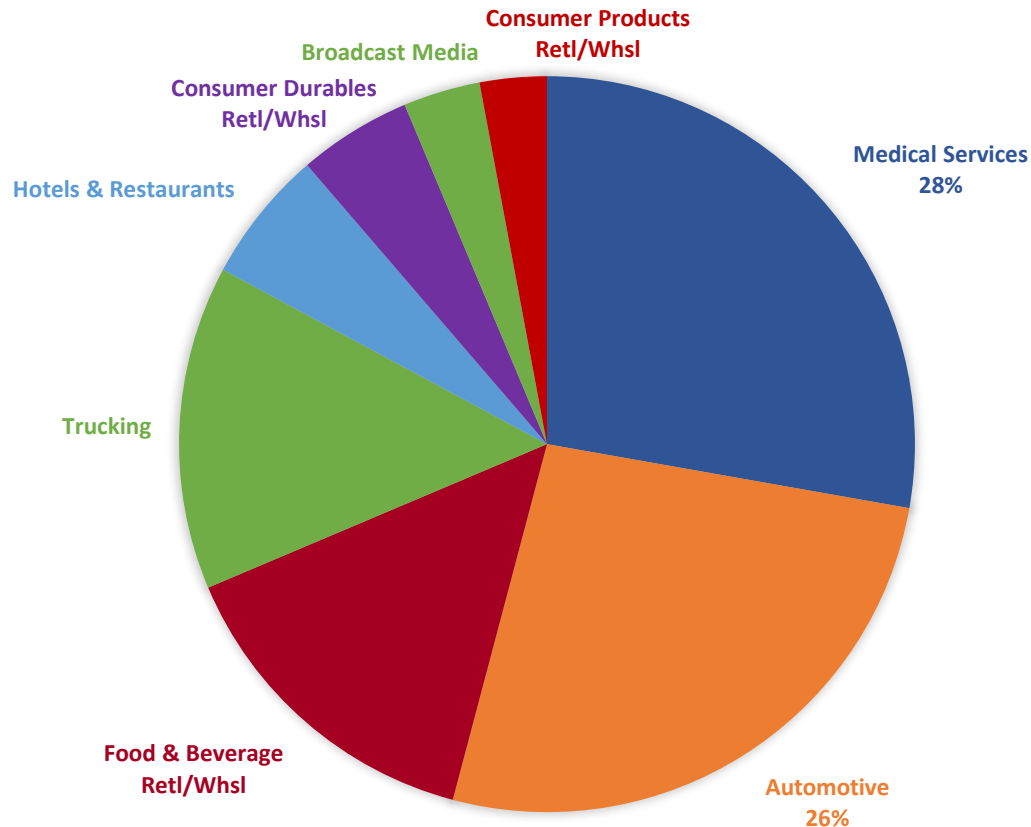
# ASP – Participation Summary

ASP liabilities have decreased consistently since the passage of SB863.

	2022/23		2021/22		Δ	
	\$ (mm)	#	\$ (mm)	#	\$ (mm)	%
Fully	6,714	298	5,504	290	1,210	22.0%
Partial	167	30	1,233	44	(1,066)	-86.4%
<b>Composite Deposit</b>	6,881	328	6,737	334	144	2.1%
Partial	146	30	330	44	(184)	-55.8%
Excluded	796	194	819	192	(23)	-2.8%
<b>3701 Security</b>	942		1,149		(207)	-18.0%
<b>Total ASP</b>	7,823	522	7,886	526	(63)	-0.8%

# ASP – Industries that experienced large increases

2022 experienced the tail end of the pandemic and the world's economy reopening, industries took note and increased payroll to offset demand for goods and services.

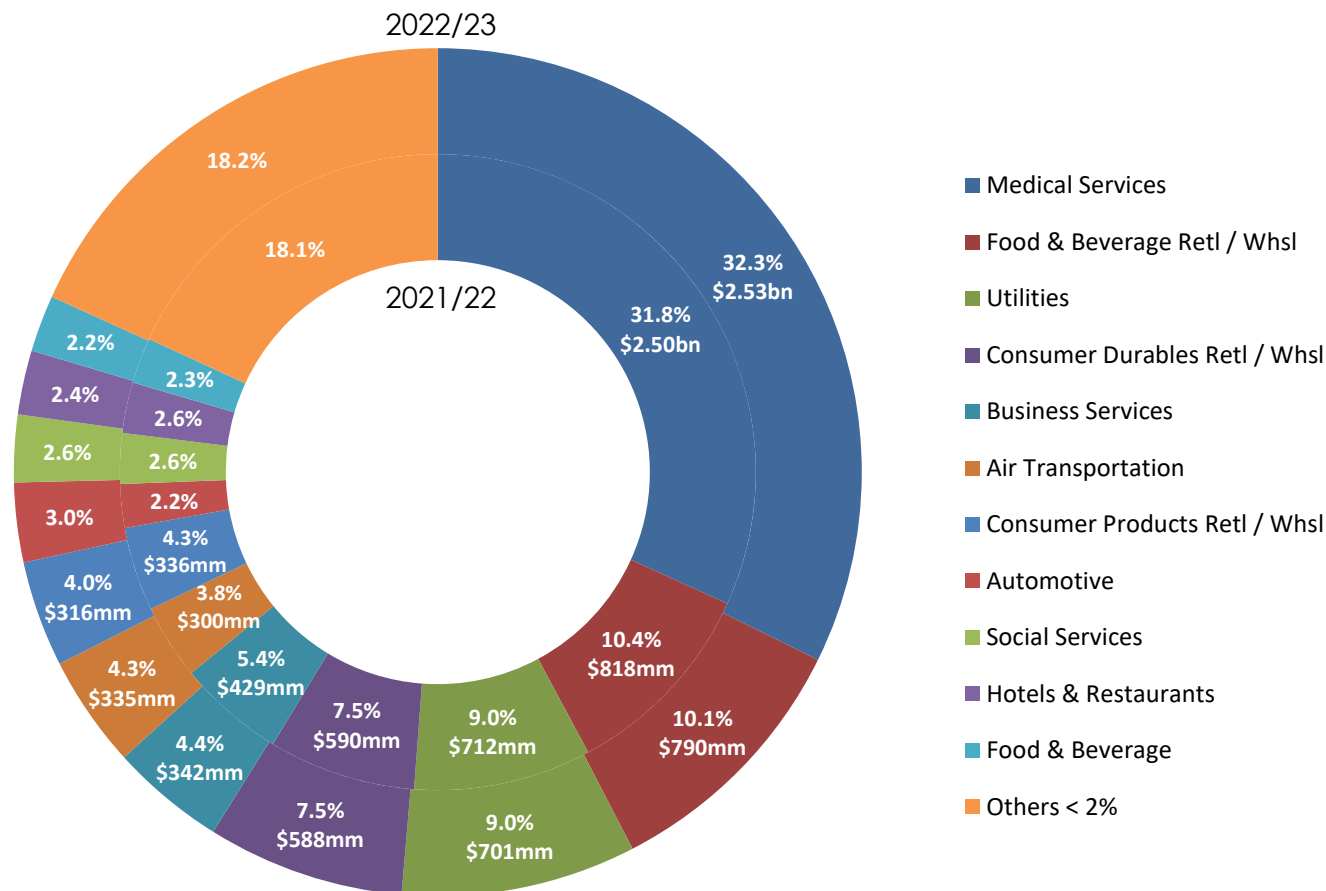


In the beginning of the pandemic (2020), liabilities and payroll decreased considerably for the following industries: Air Transportation, Hotels & Restaurants, Food & Beverage, and Consumer Products / Durables (Retail).

Source: Actuarial data as of 12-30-2022 for upcoming 2023-24 ASP plan year

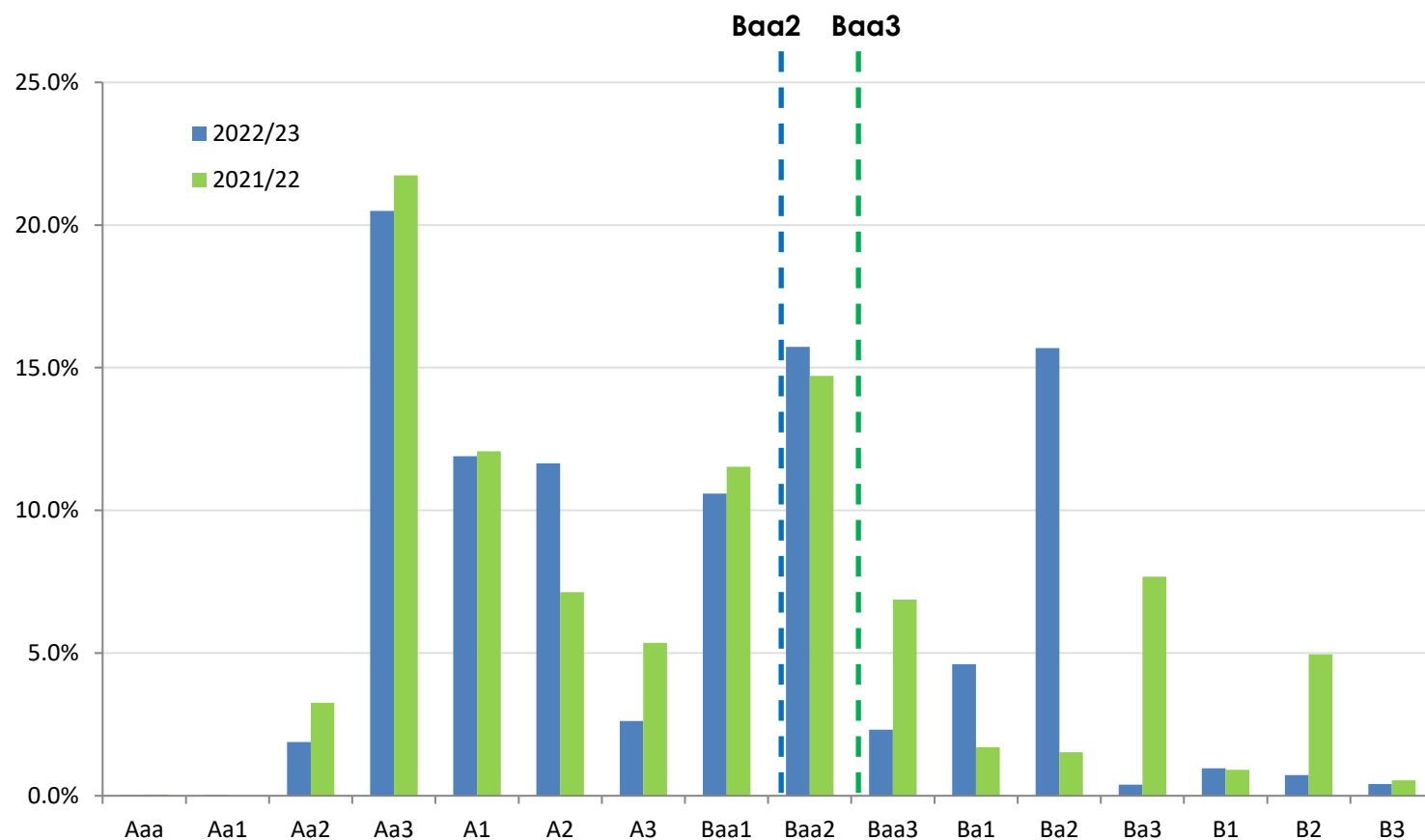
# Total ASP – Industry Distribution

Total liabilities have decreased year-over-year, but industry exposure is relatively unchanged across all groups.



# ASP – Rating Distribution

The overall portfolio credit rating improved to Baa2 as the global economy reopens and the pandemic winds down.



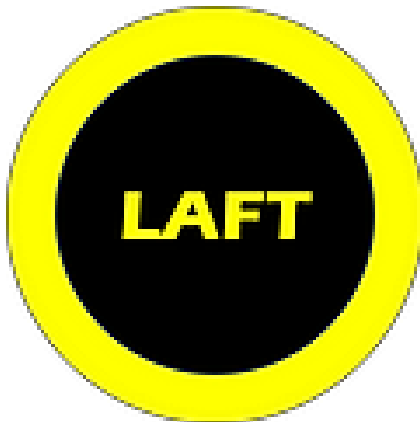
Source: Moody's, S&P, Fitch Ratings, Moody's RiskCalc and CreditEdge

## Five New Self-Insurers

**Southwest**<sup>®</sup> 

 **Lineage**<sup>®</sup>

  
**WEBCOR**



# ASP – Assessment Components

The total assessment comprised of two elements.

**ELP** (Excess Liability Protection) fee

- covers risk transfer expenses and partial admin costs

**DLF** (Default Loss Fund) fee

- builds capital, covers partial admin costs, and pays current claims

## ELP

Risk transfer

Placement

General administrative

## DLF

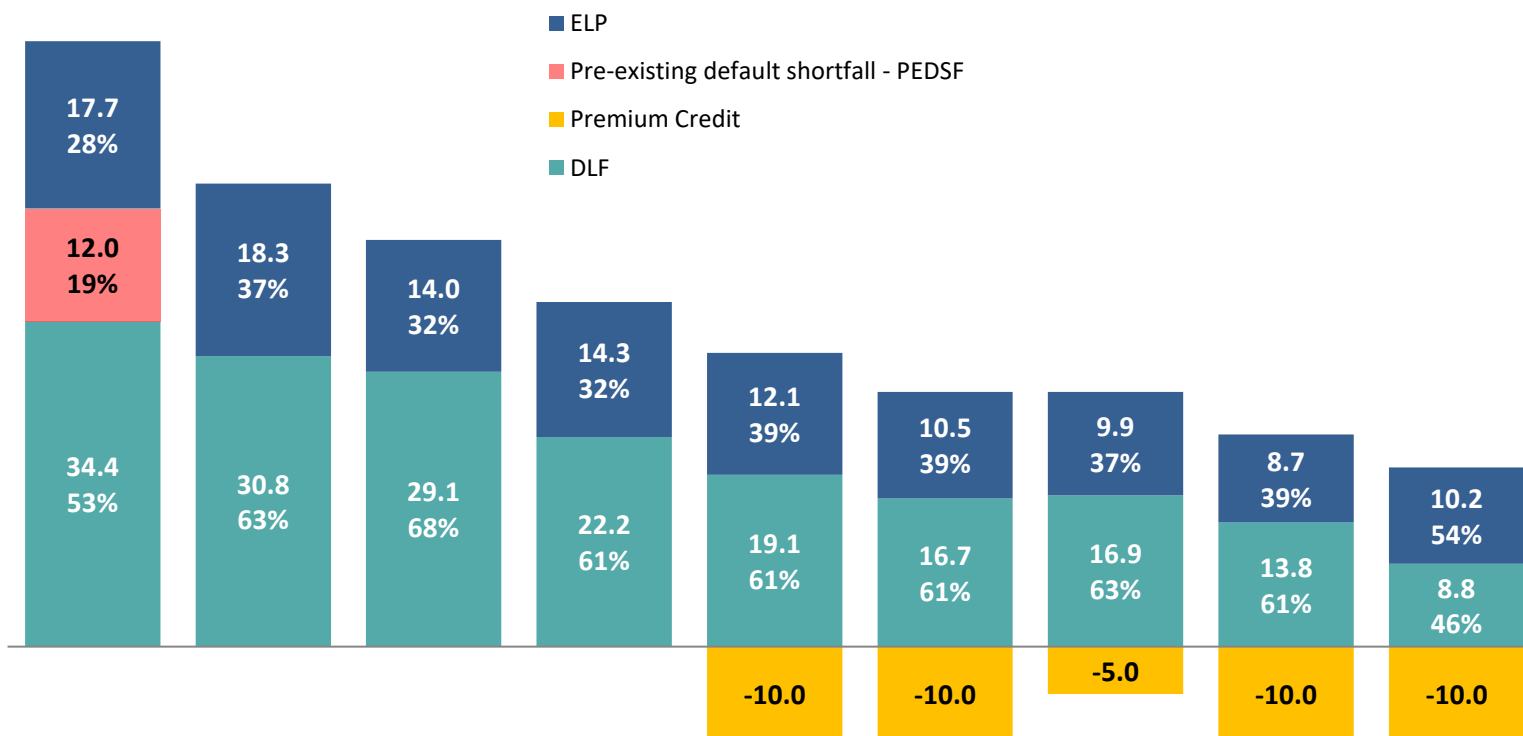
Capital

Claims

General administrative

# ASP – Total Assessment

The total assessment has decreased gradually since the inception of the ASP in 2003/04.



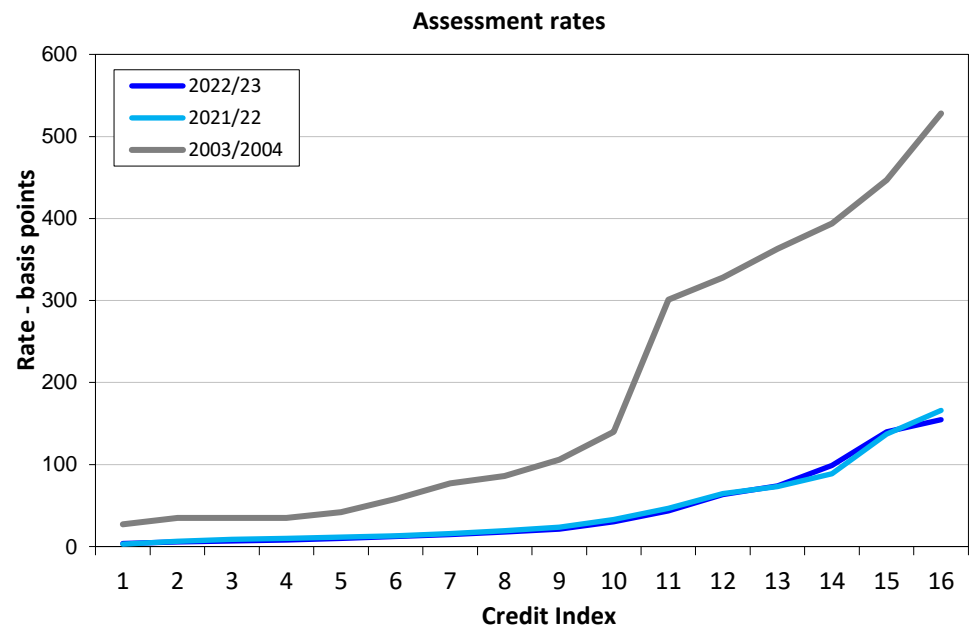
	2003/04	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b>Net fees</b>	64.2	49.1	43.1	36.5	21.2	17.2	21.8	12.5	9.0
<b>Total liabilities</b>	4,675.0	8,878.3	8,716.7	8,478.2	8,270.2	8,078.2	7,932.0	7,893.7	7,822.3
<b>%</b>	1.4	0.6	0.5	0.4	0.3	0.2	0.3	0.2	0.1

The "Fair Share" Credit has been issued the last five years and acts as a Premium Credit to eligible members who contributed to the initial development of the Default Loss Fund ("DLF") covering the first ten years of the ASP.

# ASP – Assessment Rates

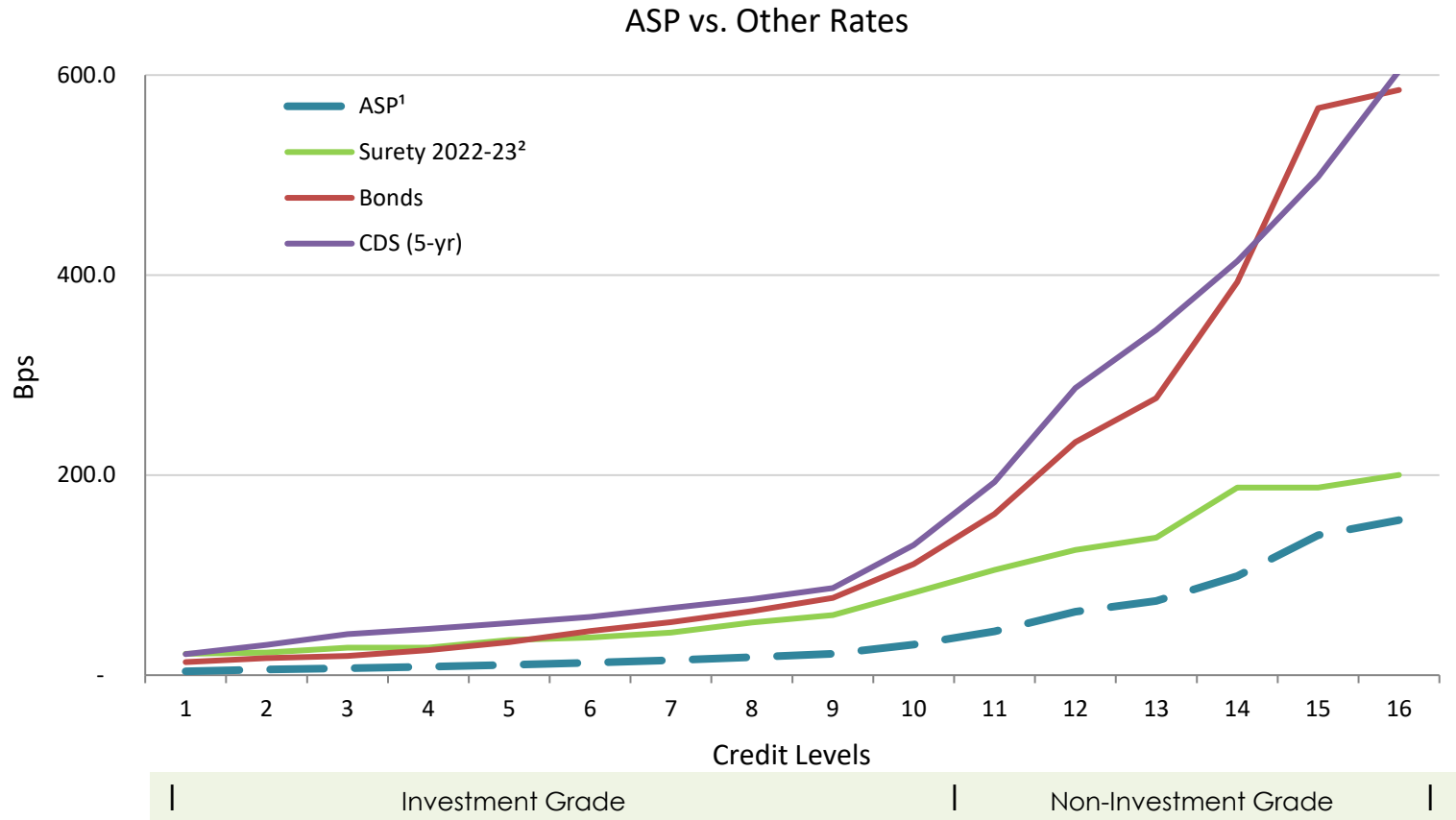
Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across most levels.

Index	Rating	2022/23	2021/22	% Δ
1	Aaa / AAA+	4	3	21%
2	Aa1 / AA+	6	6	-14%
3	Aa2 / AA	7	9	-21%
4	Aa3 / AA-	8	10	-17%
5	A1 / A+	10	12	-12%
6	A2 / A	12	13	-6%
7	A3 / A-	15	16	-7%
8	Baa1 / BBB+	18	19	-9%
9	Baa2 / BBB	21	24	-10%
10	Baa3 / BBB-	30	33	-8%
11	Ba1 / BB+	44	47	-7%
12	Ba2 / BB	63	65	-2%
13	Ba3 / BB-	74	73	1%
14	B1 / B+	99	89	12%
15	B2 / B	140	137	2%
16	B3 / B-	155	166	-7%



# ASP – Current rates vs. market

ASP rates are generally below that of credit pricing sources such as bonds, CDS, and surety rates.



<sup>1</sup> SISF Assessment rates 2022/23

<sup>2</sup> Marsh Surety estimates

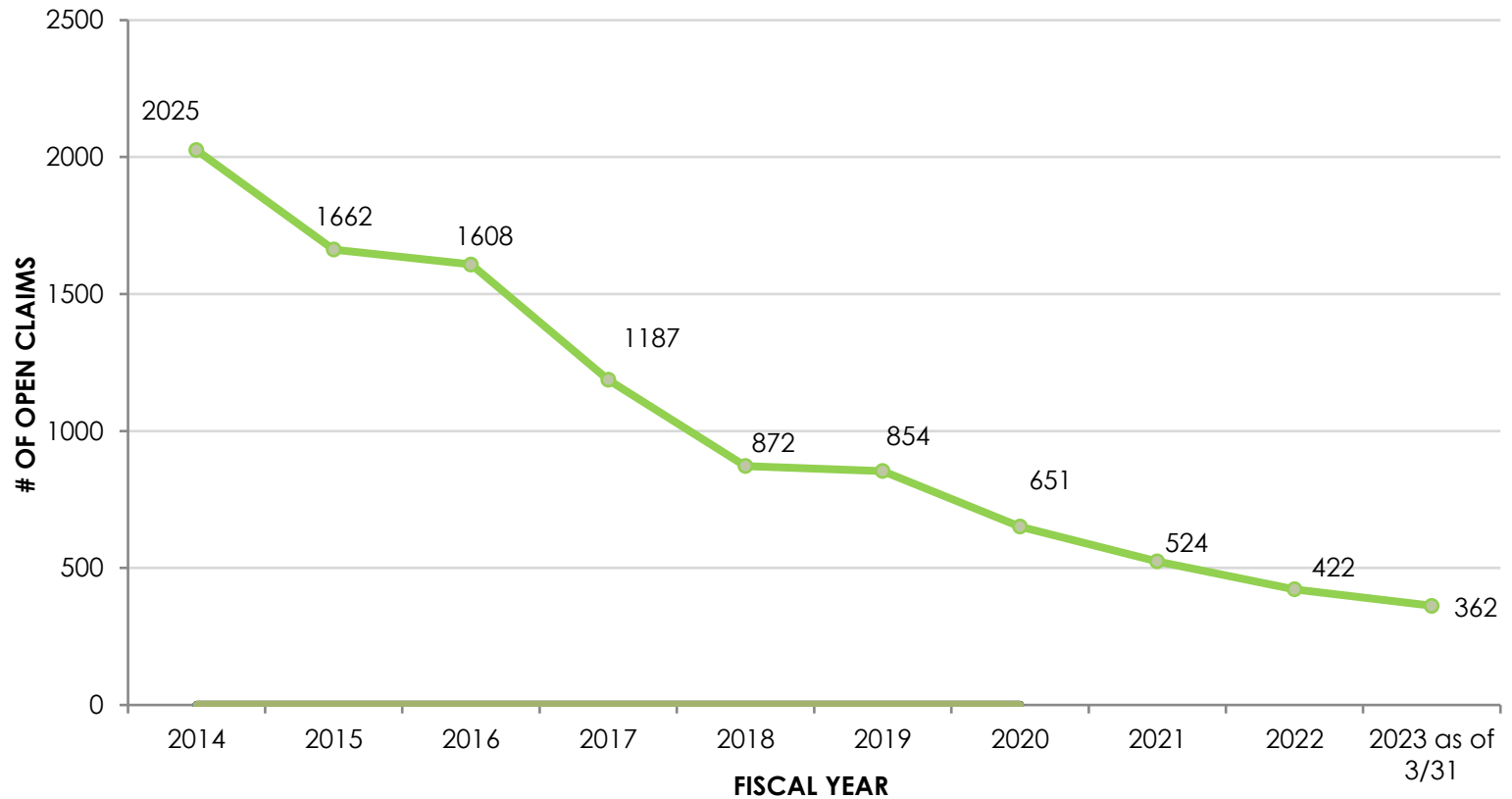
Moody's Market Implied Bond Spreads and CDS 5/17/2022

Jill Dulich  
Claims and Operations Manager

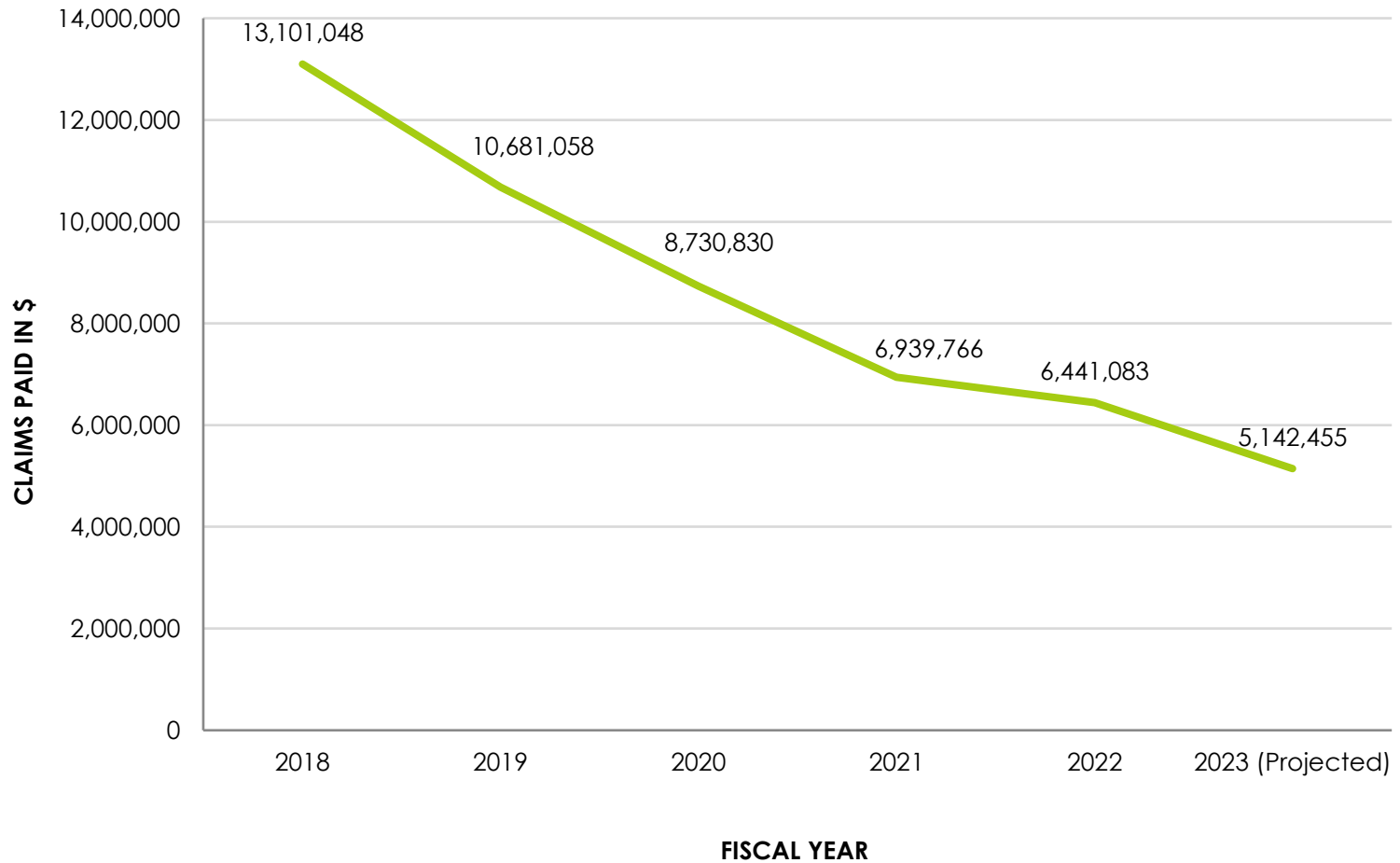


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# Open Claims Count

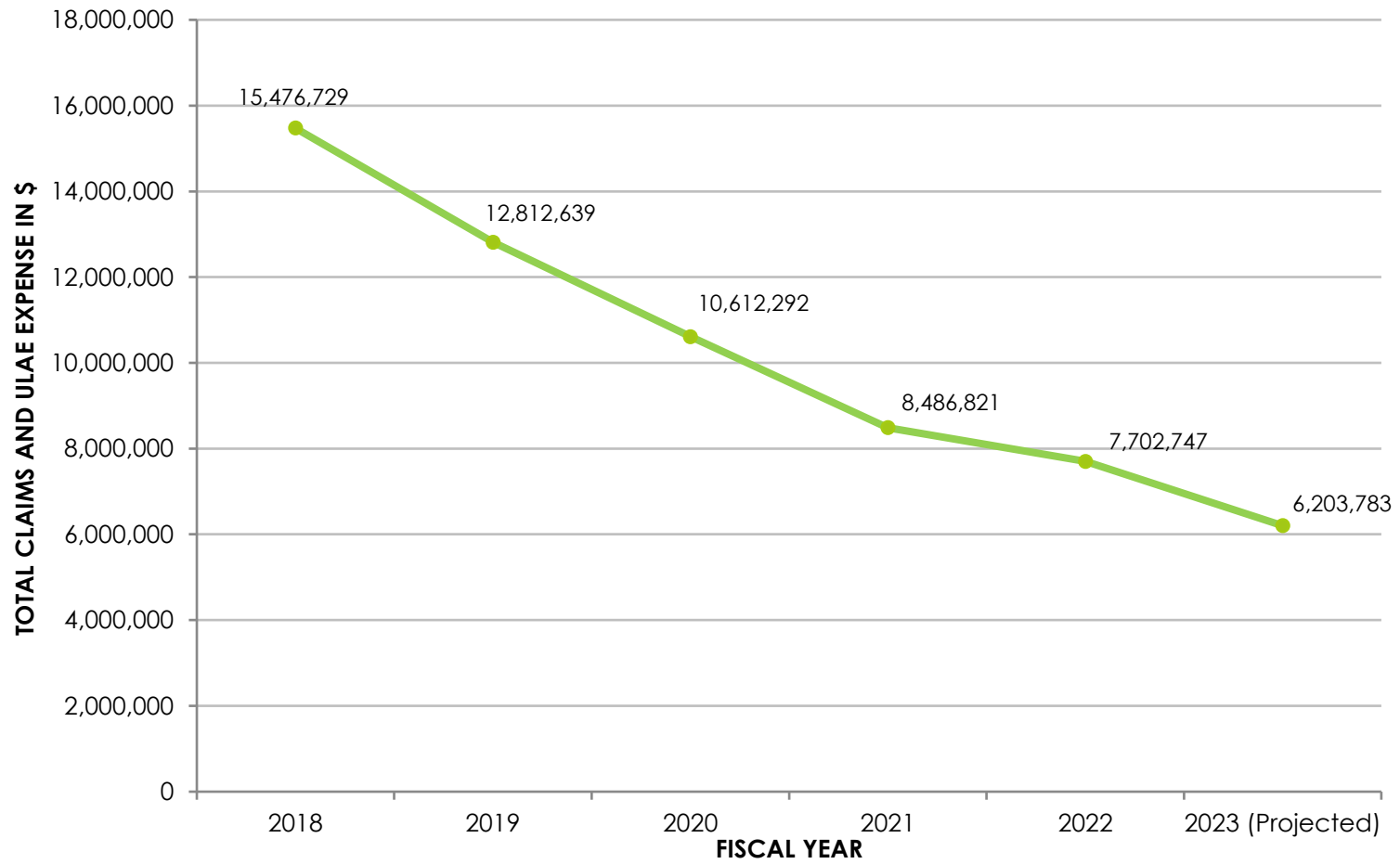


# Gross Claims Paid



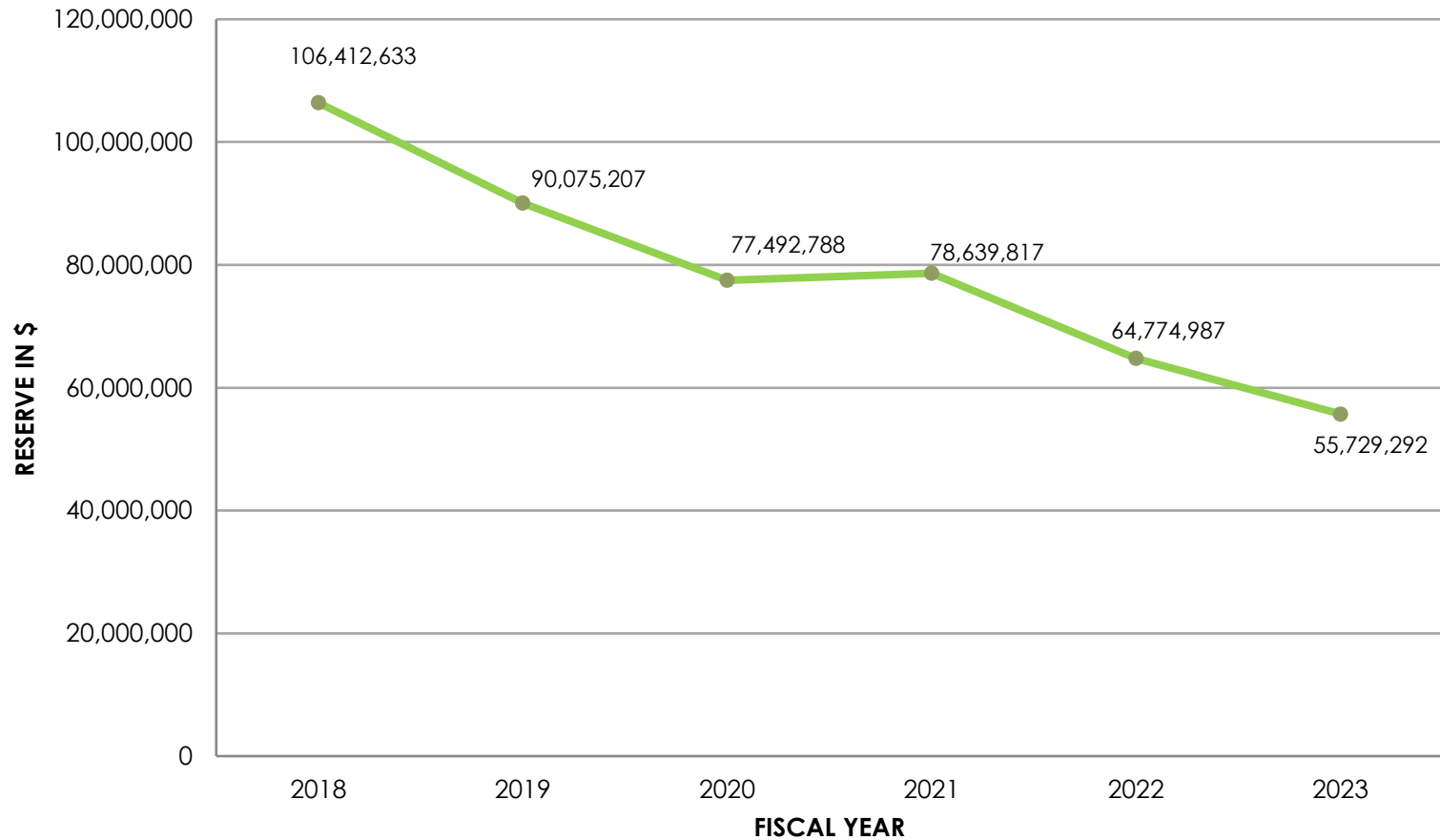
Last six fiscal years

# Gross Total Claims and ULAE Expenses



Last six fiscal years

# Gross Estimated Future Liabilities for Claims and ULAE



Last six fiscal years



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