



CALIFORNIA  
SELF-INSURERS'  
SECURITY FUND

# 2017 Member Informational Meeting

April 3<sup>rd</sup> 2017

Tim East, SISF Chair

Daniel Sovocool, Nixon Peabody

Grant Heinitz, SISF Credit Risk Manager

Jill Dulich, SISF Claims and Operations Manager



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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."



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- Purpose:** Ensure the timely payment of workers compensation claims to injured workers in the event of default by a member
- Founded:** July 6, 1984 by the State of California
- Organization:** 501(c)(6) non-profit
- Authority:** CA Labor Code Sections 3740-3747
- Governance:** Board of Trustees  
    **7** elected by member companies  
    **1** ex-officio from CA Department of Industrial Relations (“DIR”)
- Membership:** All non-public entity CA employers self-insured for WC  
    547 self-insured entities  
    \$8.8 billion exposure

# Board of Trustees



**Tim East**, *Chairperson, The Walt Disney Company*



**Janice Murphy**, *Kaiser Permanente*



**Steve Tolan**, *Nordstrom, Inc.*



**Toni Allen**, *Monterey Mushrooms, Inc.*



**John Smolk**, *Southern California Edison Company*

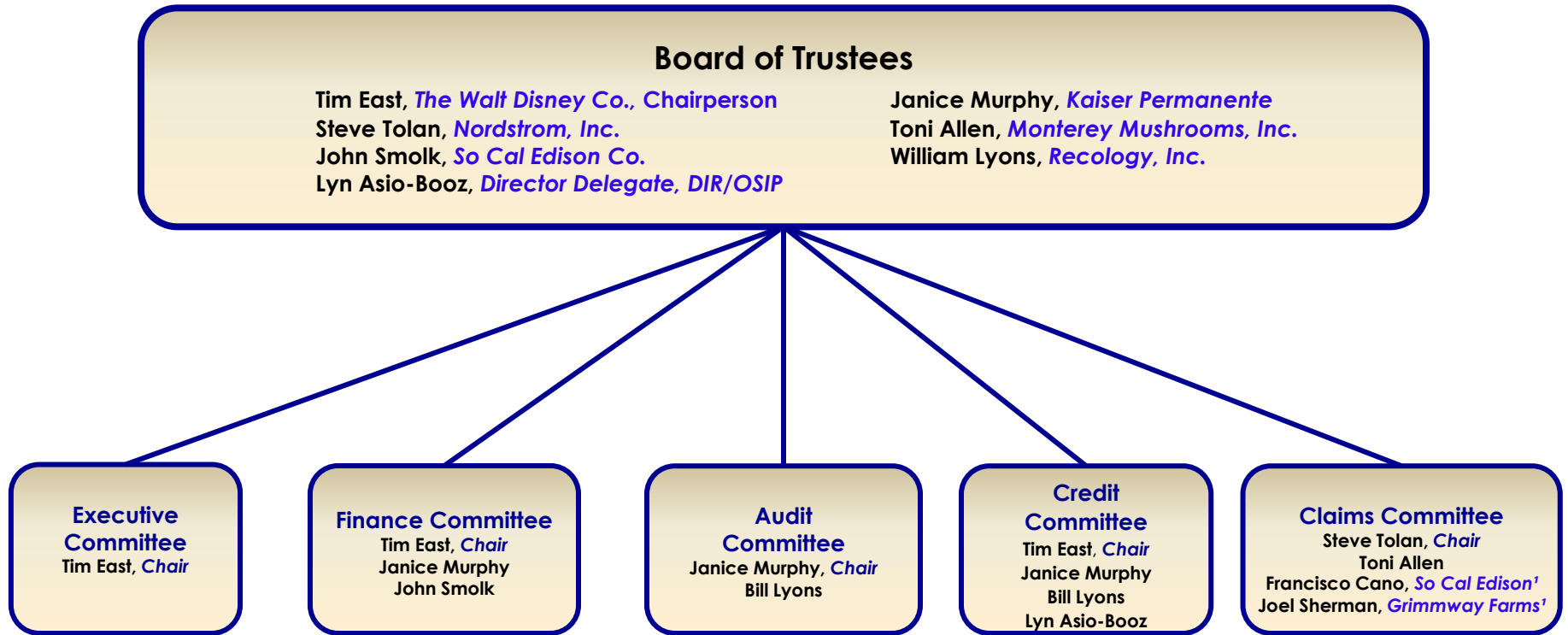


**William Lyons**, *Recology, Inc.*



**Lyn Asio-Booz**, *Chief, Self Insurance Plans (OSIP), DIR [ex officio]*

# Board and Committees

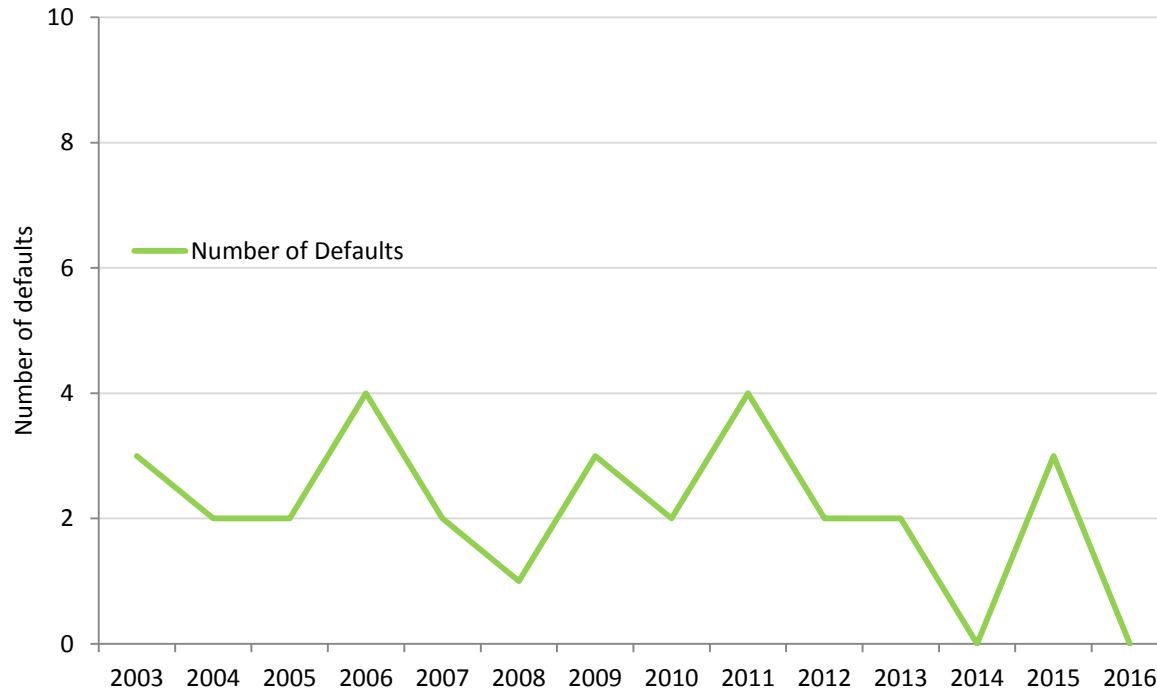


<sup>1</sup> Advisory only

# CA Self-Insurance Overview

Entities	<b>549</b> (including 25 SIG' s)
Payroll	<b>\$95 billion</b>
Employees	<b>2.3 million</b> (1 in 8 in state)

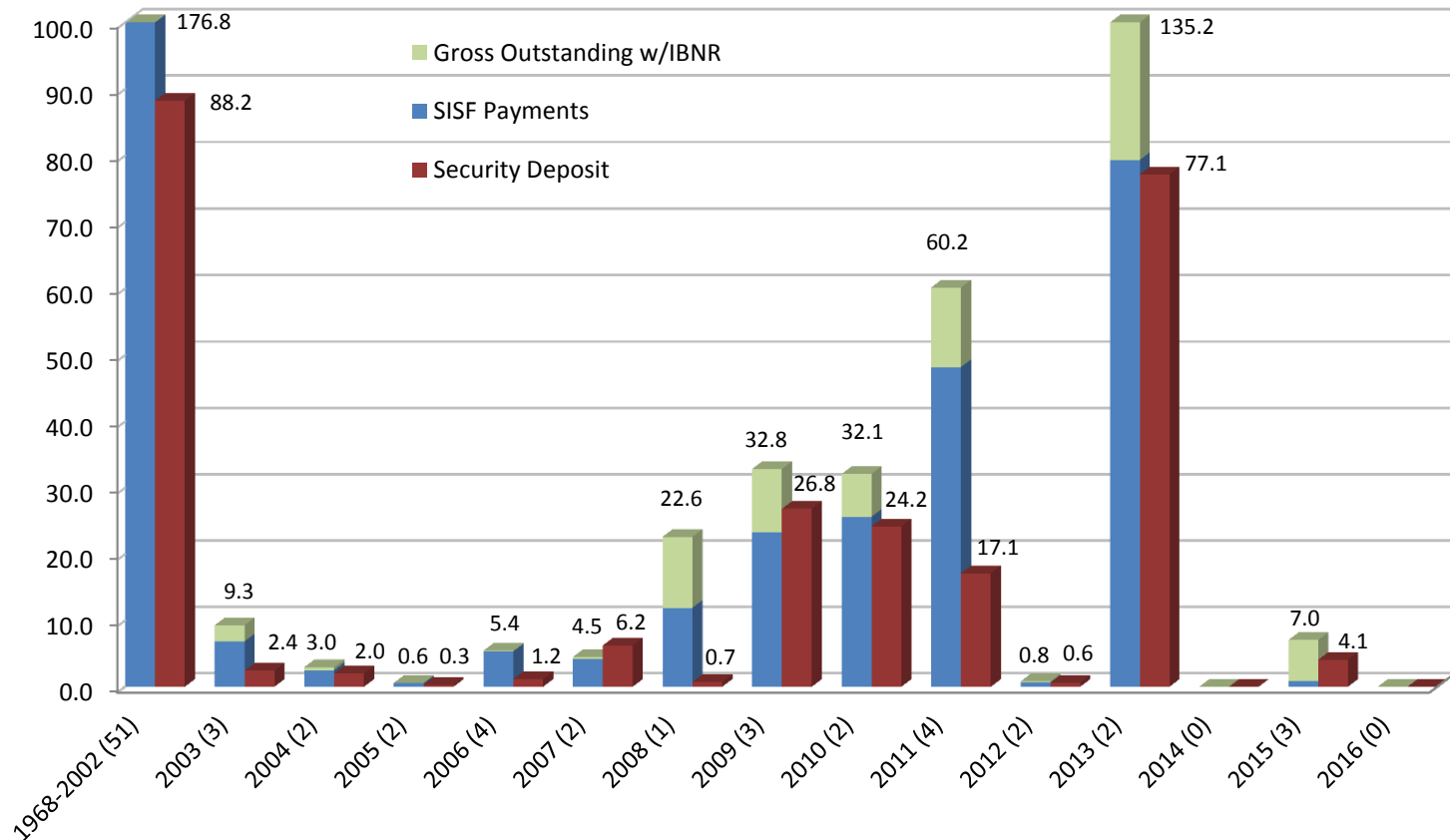
# Default History



Fiscal year data as of 3/31/17 (example: 2015 = 2015/16 ASP plan year)

# Default History (cont'd)

Defaults generally in line with economic cycles



Data as of 3/31/17

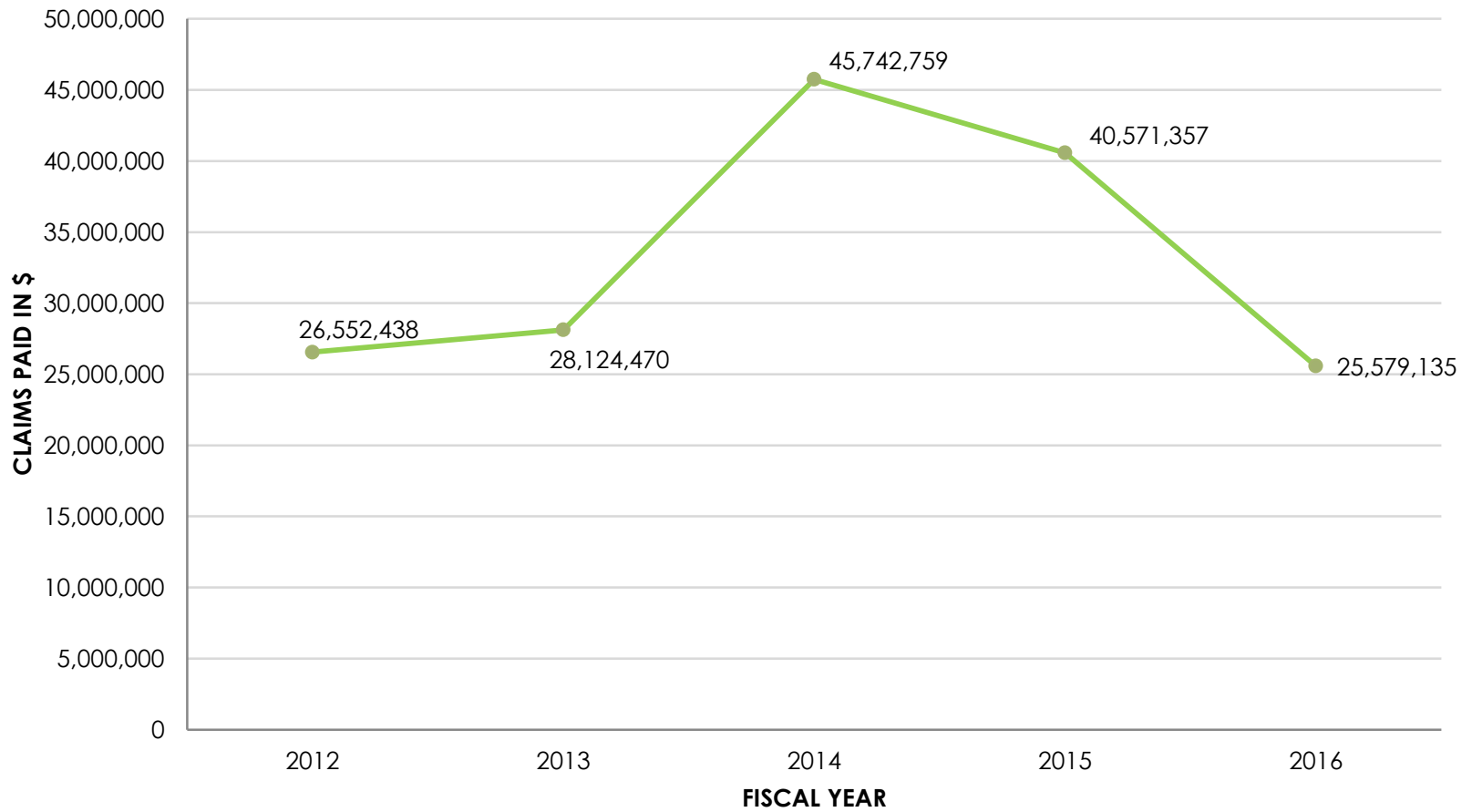
SISF Payments are from date of Default to 12/31/16 (net of recoveries)



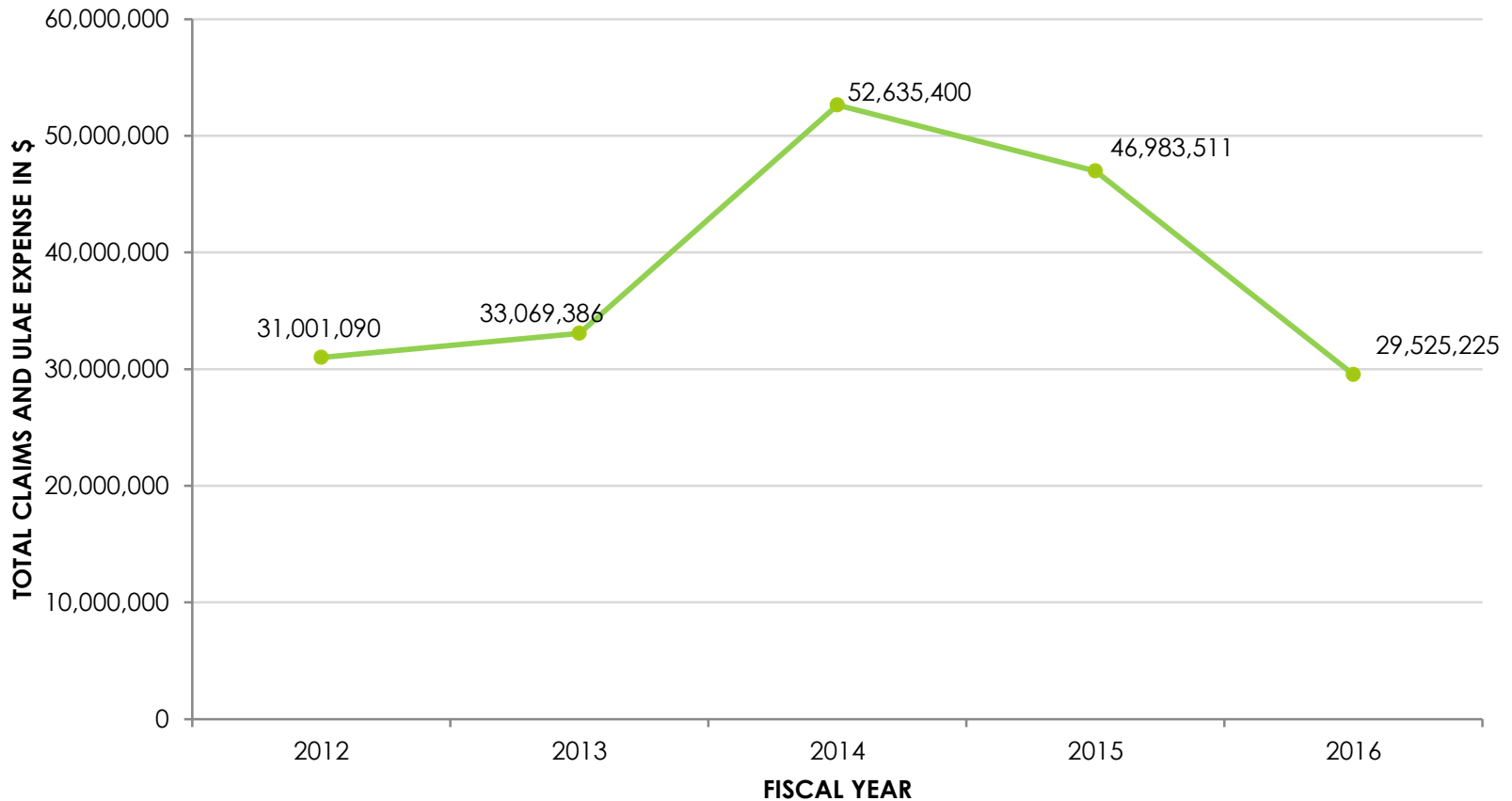
# Estates and Workers' Compensation Claims

		<u>2017</u>	<u>2016</u>	<u>Δ</u>
<b>Estates</b>	<b>Total</b> (1968 to date)	<b>82</b>	<b>81</b>	<b>1</b>
	<b>Active</b> (1984 to present)	47	48	-1
<b>Claims</b> (as of 2/28)	<b>Open</b>	1,329	1,625	-296
<b>Claim Liability (net)</b>	Paid (1984-2016)	<b>\$373,745,000</b>	<b>\$351,874,000</b>	<b>\$21,871,000</b>
	Open Case Reserves (EFL)	<b>\$58,998,000</b>	<b>\$77,453,000</b>	<b>-\$18,455,000</b>
	IBNR + ULAE (actuarial estimate as of 12/31)	\$57,559,000	\$61,910,000	<b>-\$4,351,000</b>
		<b>\$490,302,000</b>	<b>\$491,237,000</b>	<b>-\$935,000</b>
<b>OSIP Deposits turned over to Fund</b>		<u>\$251,051,000</u>	<u>\$247,365,000</u>	<u>\$3,686,000</u>
<b>SISF total net assets</b> (as of 1/31)		\$342,772,345	\$284,173,000	\$58,599,345
<b>Projected annual costs - claims</b>		\$18,000,000	\$24,274,000	-\$6,274,000
	- claims admin	\$3,570,000	\$3,980,000	-\$410,000
	- Total	<b>\$21,570,000</b>	<b>\$28,254,000</b>	<b>-\$6,684,000</b>

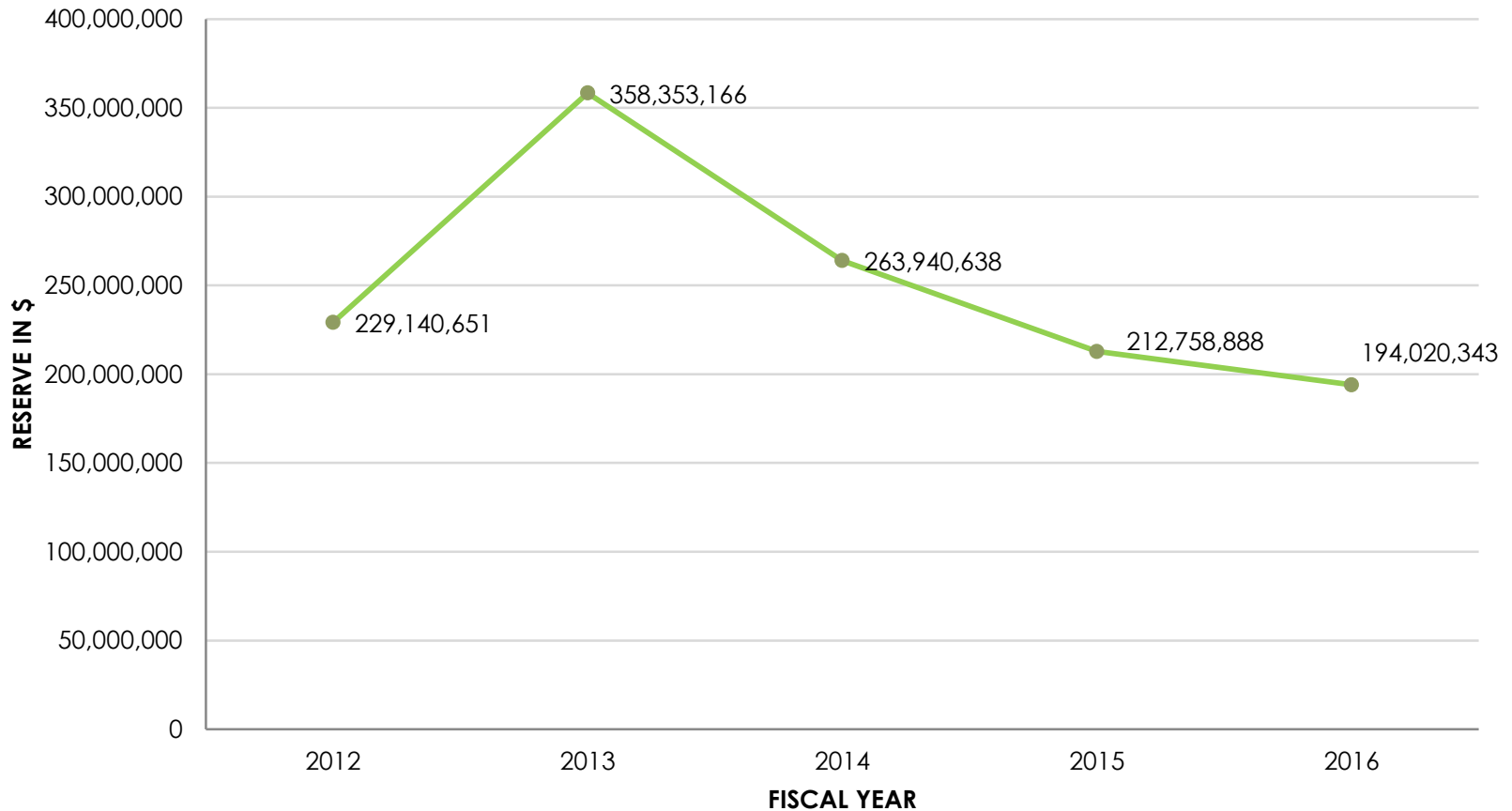
# Claims Paid (last five years)



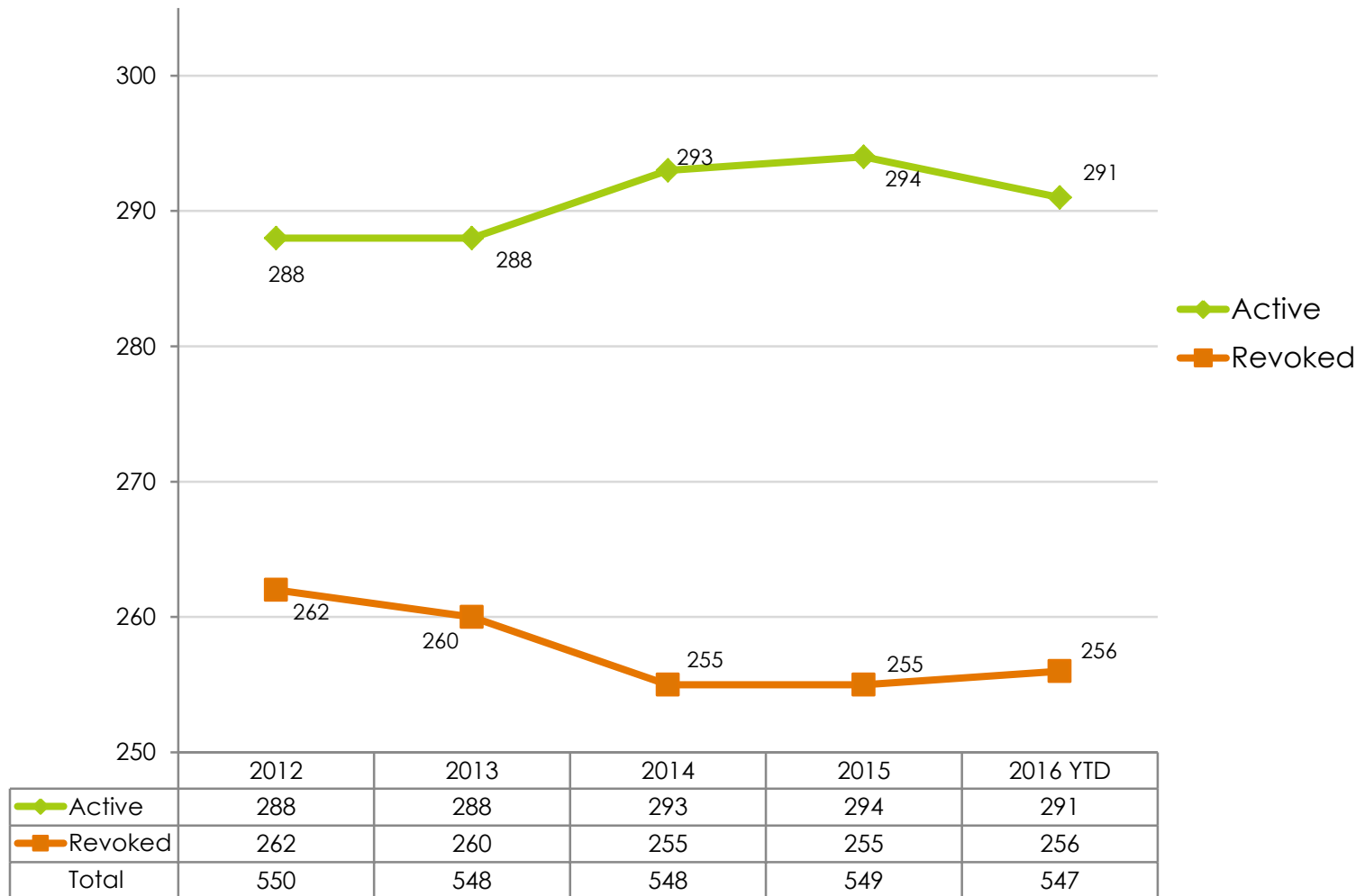
# Total Claims and ULAE Expense (last five years)



# Estimated Future Liabilities for Claims and ULAE (last five years)

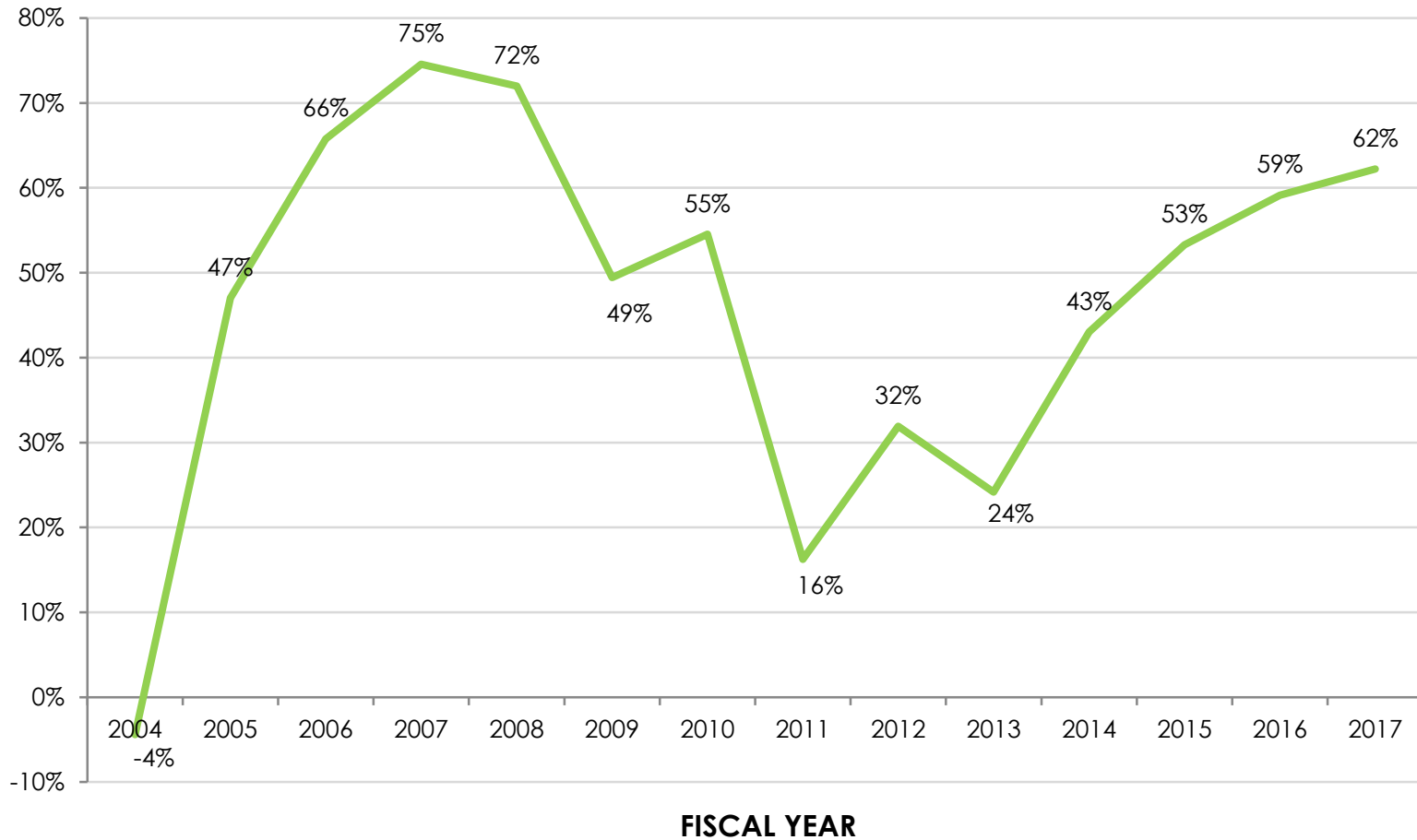


# Members by Status (last five years)

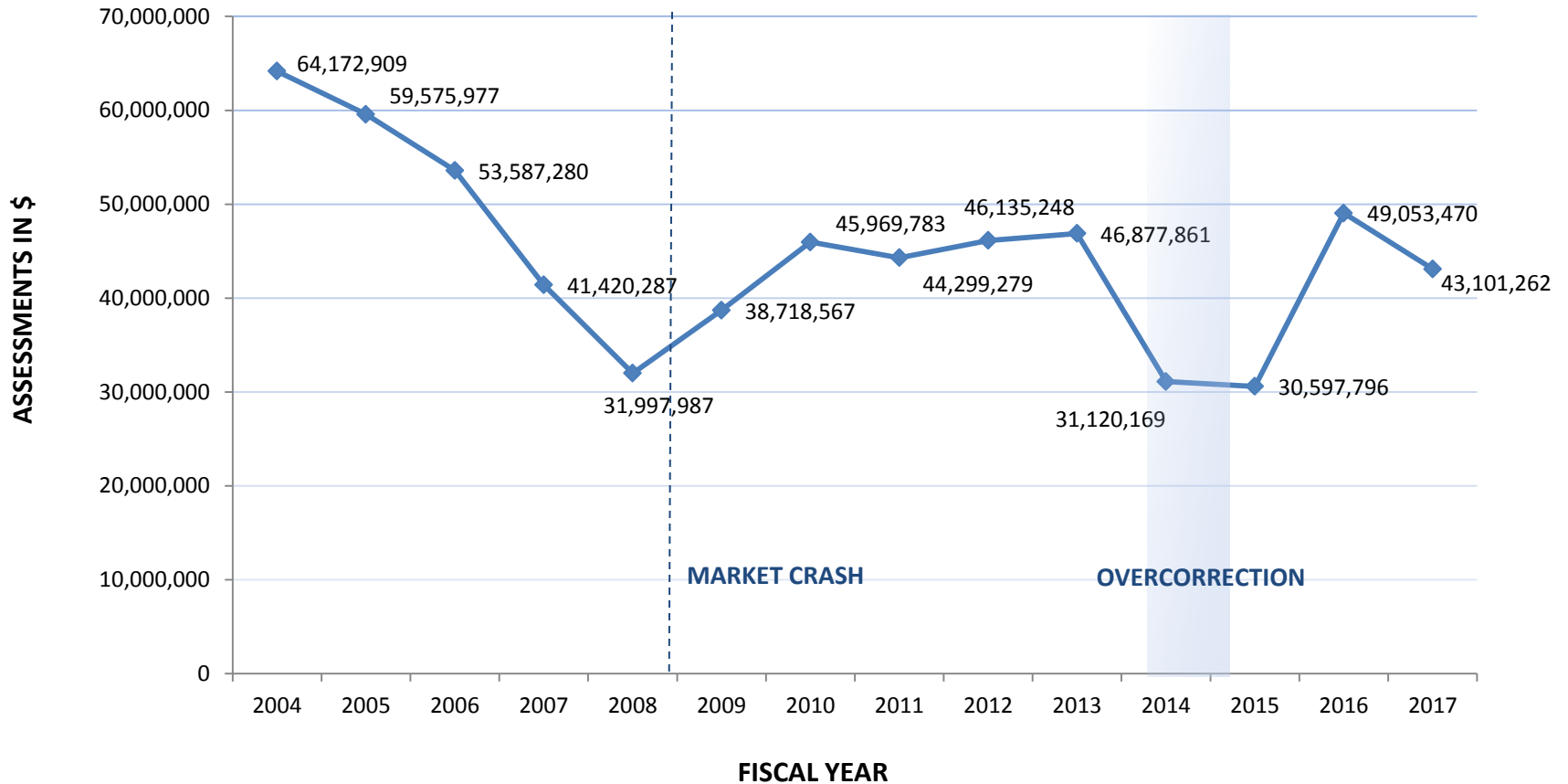


Data as of 9/22/16

# % Net Assets / Gross Assets (ASP Inception)



# Assessment History



# 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)



# New Initiatives and Projects

- Rolled out a formalized credit risk management process that syncs with economic capital requirements
- Initial exploration regarding providing better access to collateral and other benefits for members
- Modernized the assumption and guarantee forms
- Request for Proposal for Investment Advisor
- Member-only web portal

# ASP – Overview

- Successful implementation of 2016/17 Alternative Security Program
  - 4<sup>th</sup> year post SB863
  - ASP and Composite Deposit decreased slightly (-1.41%) and (-3.09%)
- Financial strength of Fund at highest level since inception<sup>1</sup>
  - net        \$340 mill
  - gross      \$500 mill
- Overall portfolio credit rating stable – Baa2
- Assessment decreased 13.8% (\$43.1mm vs. \$50.00mm) from the prior year

<sup>1</sup> SISF Monthly Financials 12/31/16 unaudited

# ASP – 2016/17 vs. 2003/04

	2016	2003	Δ	%
ASP <sup>2</sup>	8,688.45	4,699.02	3,989.43	85%
Assets <sup>1</sup>				
Gross	500.00	45.00	455.00	1011%
Net	340.19	(55.00)	395.19	
Assessments <sup>2</sup>				
\$	43.10	66.50	(32.80)	-35%

<sup>1</sup> SISF Monthly Financial 12/31/16 unaudited

<sup>2</sup> ASP liabilities and idealized assessment as of 7/1/16

# New Self-Insurers

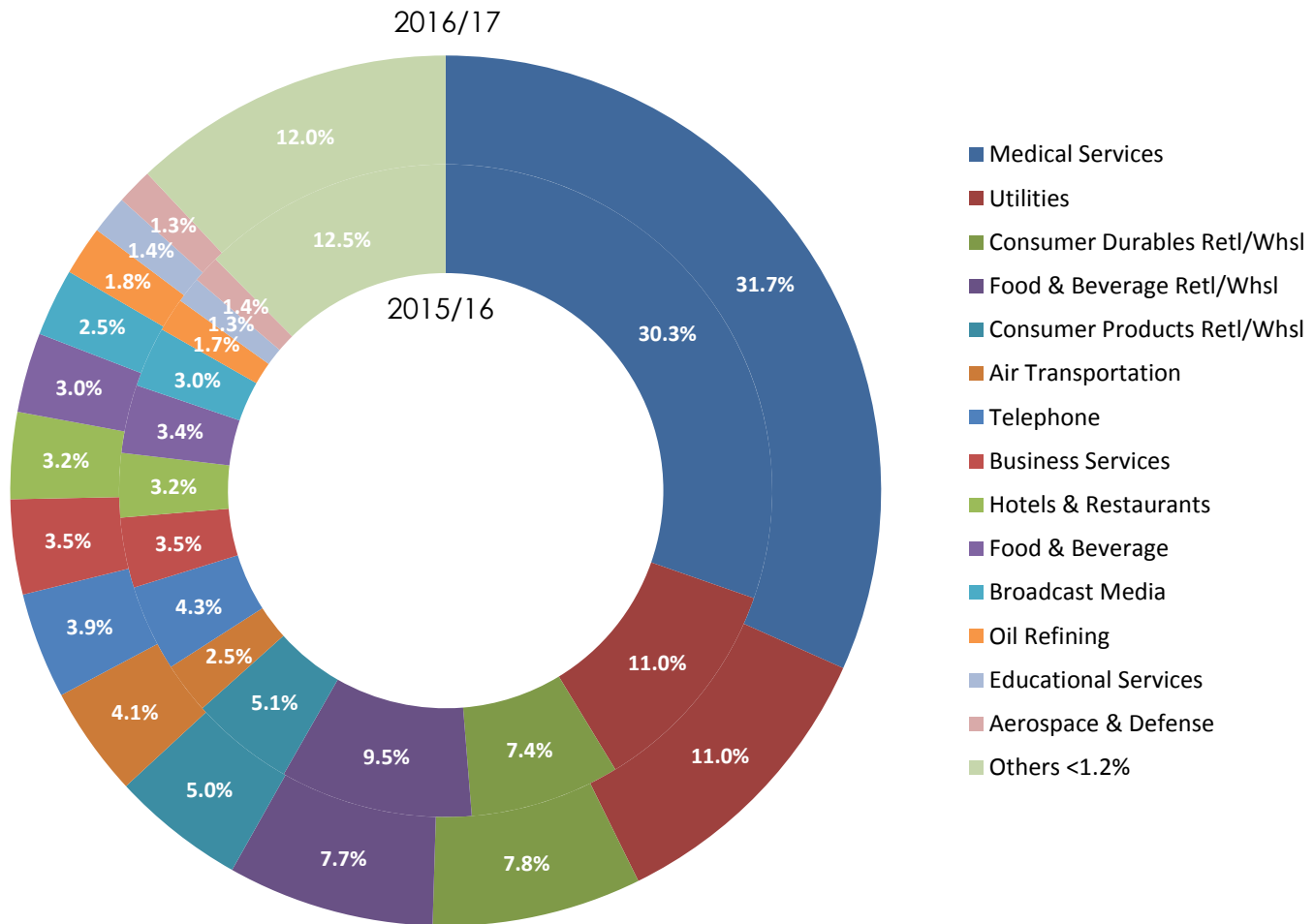


North American  
Health Care, Inc.



# ASP – Industry Distribution

Industry exposure is relatively unchanged across all groups



Source: Moody's Analytics Industry Groups, SEC, Company financial statements

# ASP – Assessment Components

The total assessment comprised of two elements

**ELP** (Excess Liability Protection) fee

- covers expenses and admin costs

**DLF** (Default Loss Fund) fee

- builds capital and pays current claims

## ELP

General administrative

Risk transfer

Placement

## DLF

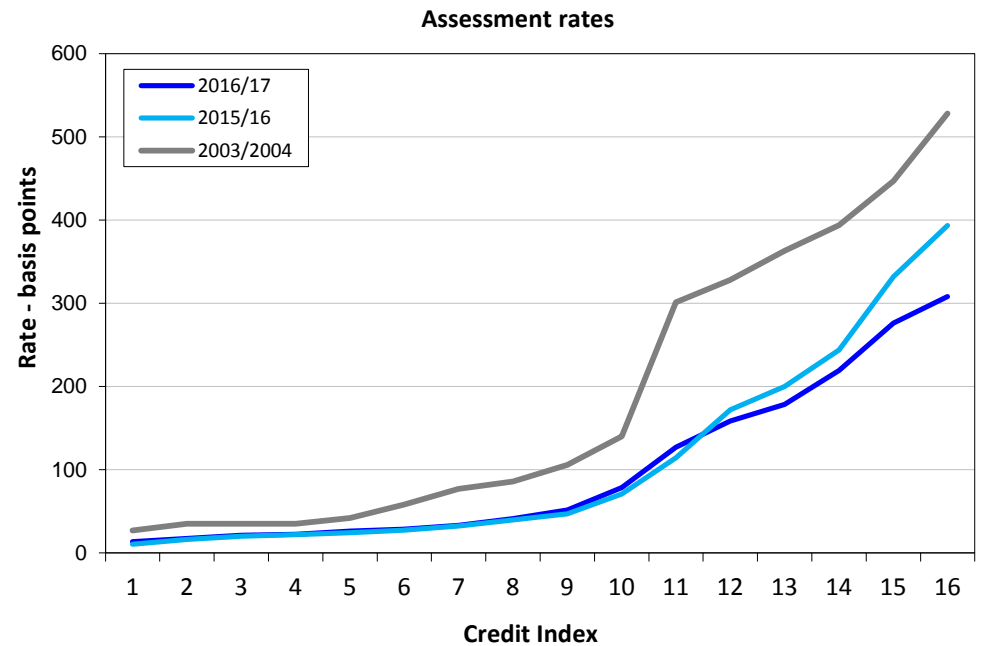
Capital

Claims

# ASP – Assessment Rates

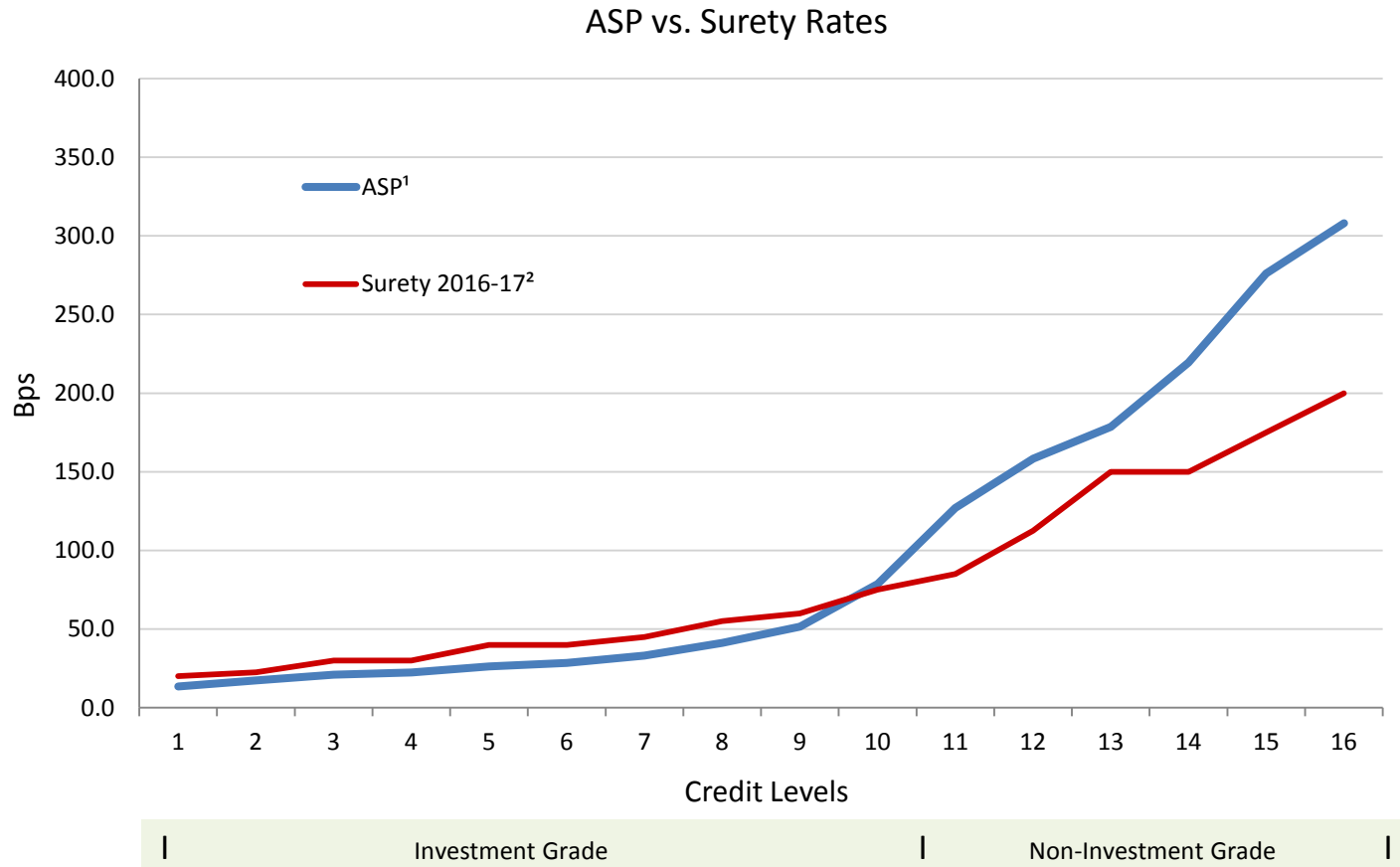
Considering the capital needs of the Fund and the current credit environment, assessment rates increased for most levels...

Index	Rating	2016/17	2015/16	% Δ
1	Aaa / AAA+	14	11	29%
2	Aa1 / AA+	17	16	7%
3	Aa2 / AA	21	20	5%
4	Aa3 / AA-	22	22	3%
5	A1 / A+	26	24	8%
6	A2 / A	28	27	4%
7	A3 / A-	33	32	3%
8	Baa1 / BBB+	41	40	4%
9	Baa2 / BBB	52	47	10%
10	Baa3 / BBB-	79	71	11%
11	Ba1 / BB+	127	114	11%
12	Ba2 / BB	158	172	-8%
13	Ba3 / BB-	179	200	-11%
14	B1 / B+	219	244	-10%
15	B2 / B	276	332	-17%
16	B3 / B-	308	393	-22%



# ASP – Assessment vs. Surety Rates

A comparison between surety and 2016/17 ASP assessment rates



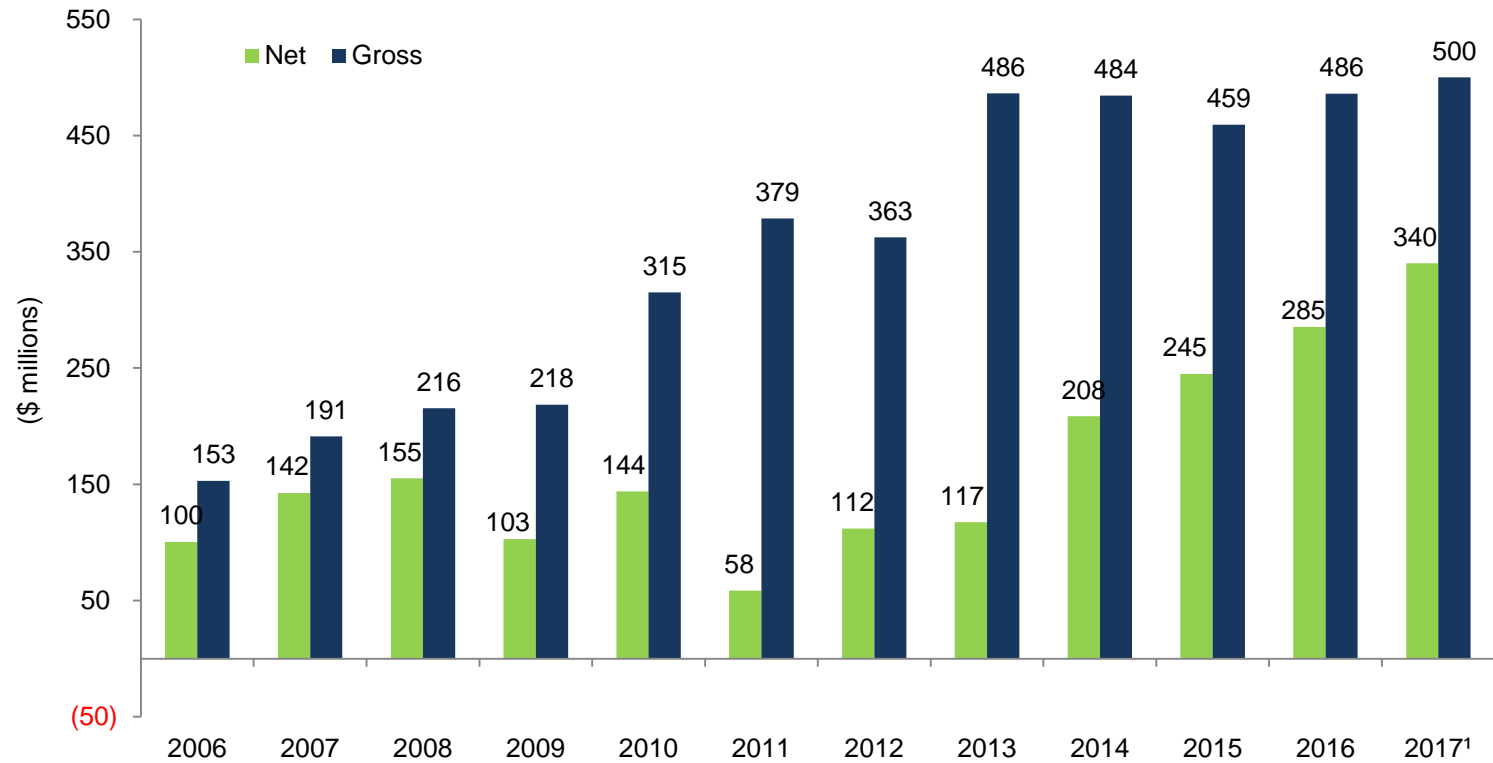
<sup>1</sup> Assessment rates 2016/17

<sup>2</sup> JLT Specialty – general market indications of available terms 2016-17



# ASP – Financial Strength (Investments)

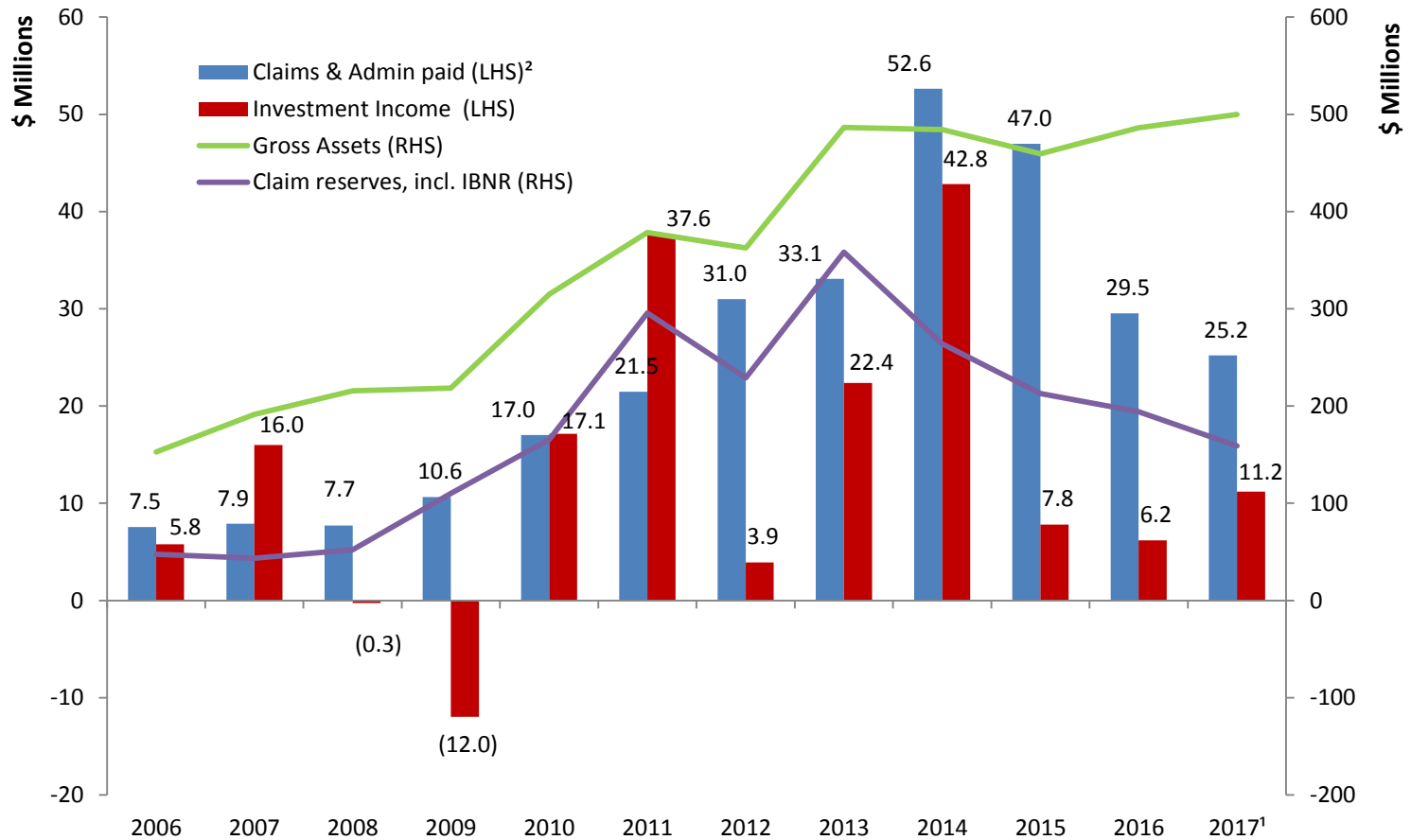
Both gross and net assets continue to grow



<sup>1</sup> SISF Monthly Financials 12/31/16 unaudited  
Source: Audited SISF Financial Statements Jun 30, 2006-2016

# ASP – Financial Strength

Claim reserves and claim costs continue to decline



<sup>1</sup> SISF Monthly Financials 12/31/16 unaudited

<sup>2</sup> Per Claims & Admin YTD + full year projected

Source: Audited SISF Financial Statements Jun 30, 2006-2016



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