



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

2025 Member Informational Meeting

May 20th, 2025

William Lyons, Chairman

Daniel Sovocool, Outside General Counsel

Grant Heinitz, Director, Member Credit Risk

Jill Dulich, Director, Claims and Operations

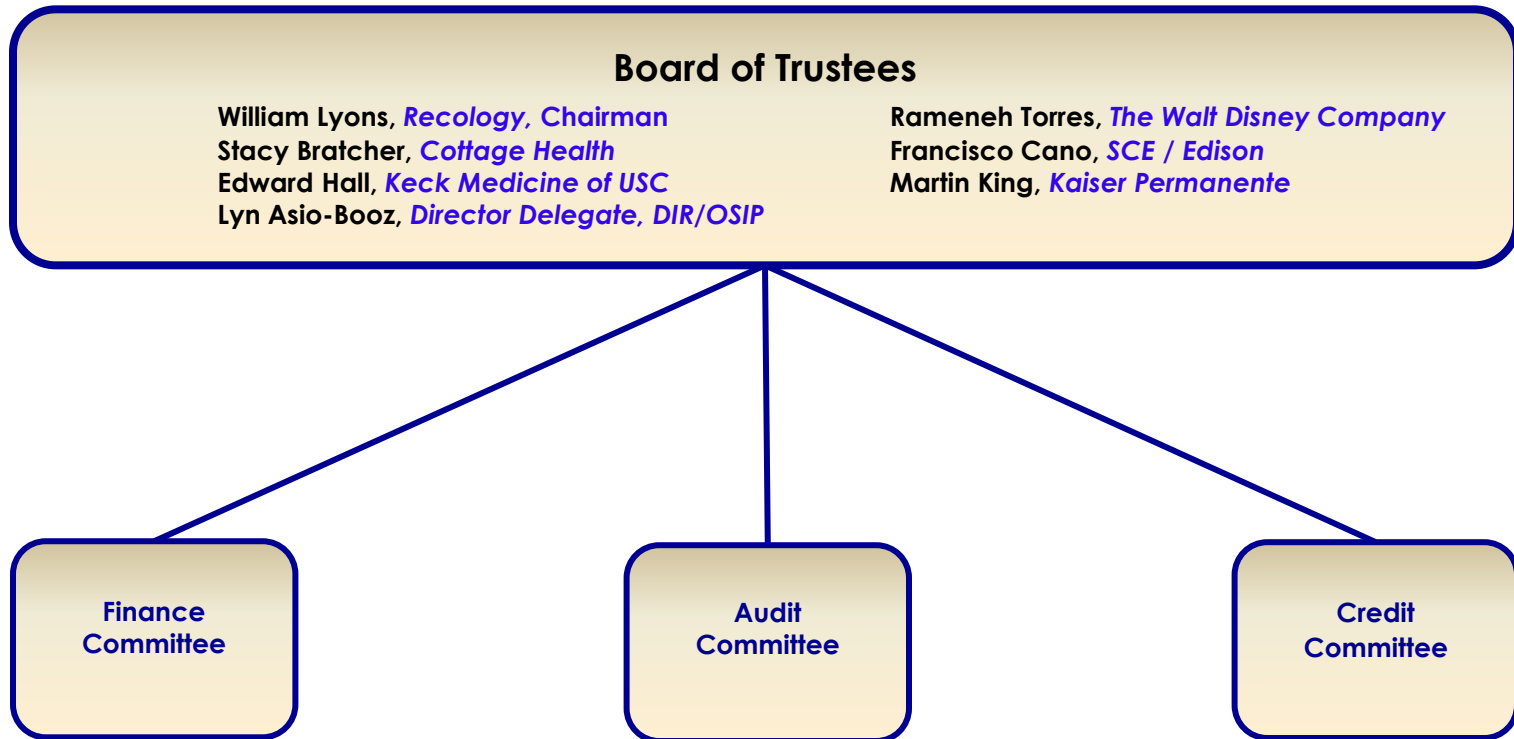


CALIFORNIA
SELF-INSURERS'
SECURITY FUND

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."

Board and Committees



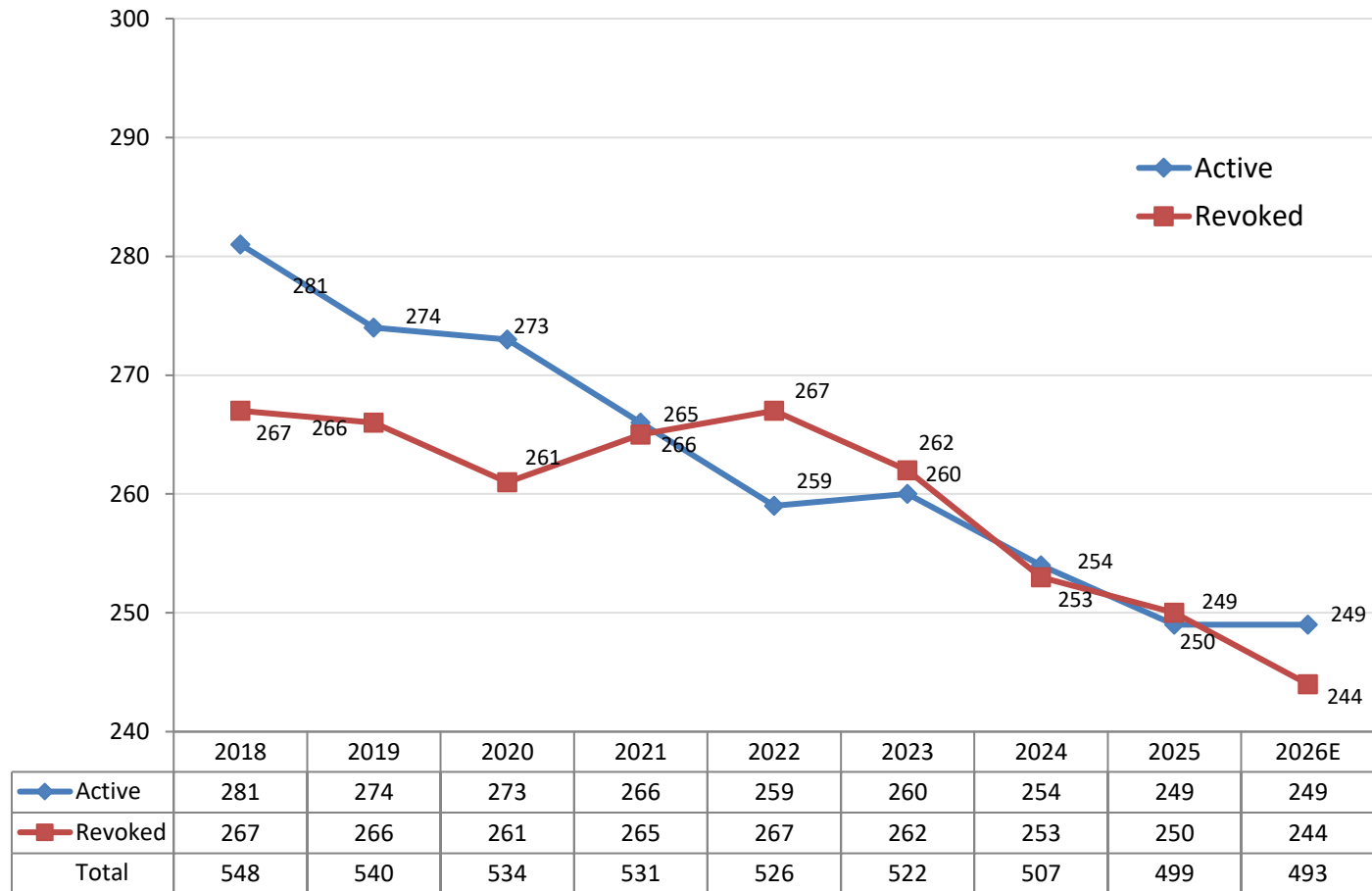
Estates and Workers' Compensation Claims

		<u>FY2025</u>	<u>FY2024</u>	<u>Δ</u>
Estates	Total	92	91	1
	Active	42	42	0
Claims	Open	1,168	984	184
(as of 3/31/25 and 6/30/24)				
Claim Liability				
	Paid (gross)	\$18,358,050 ¹	\$5,755,044	\$12,603,006
	Open Case Reserves (EFL) (net)	\$40,611,098	\$29,639,579	\$10,698,545
	IBNR (net) + ULAE	\$54,620,195	\$41,612,418	\$13,007,777
		\$95,231,293	\$71,524,971	\$23,706,322
SISF total net assets				
(as of 6/30)		\$768,489,468 ¹	\$761,322,618 ²	\$7,166,850
Projected annual claims costs				
	- claims (net of excess)	\$12,825,159	\$2,197,581 ²	\$10,627,578
	- claims admin	\$3,100,338	\$1,045,703 ²	\$2,054,635
	- Total	\$15,925,497	\$3,243,284	\$12,682,213

¹ 6/30/25 Projected

² Actual

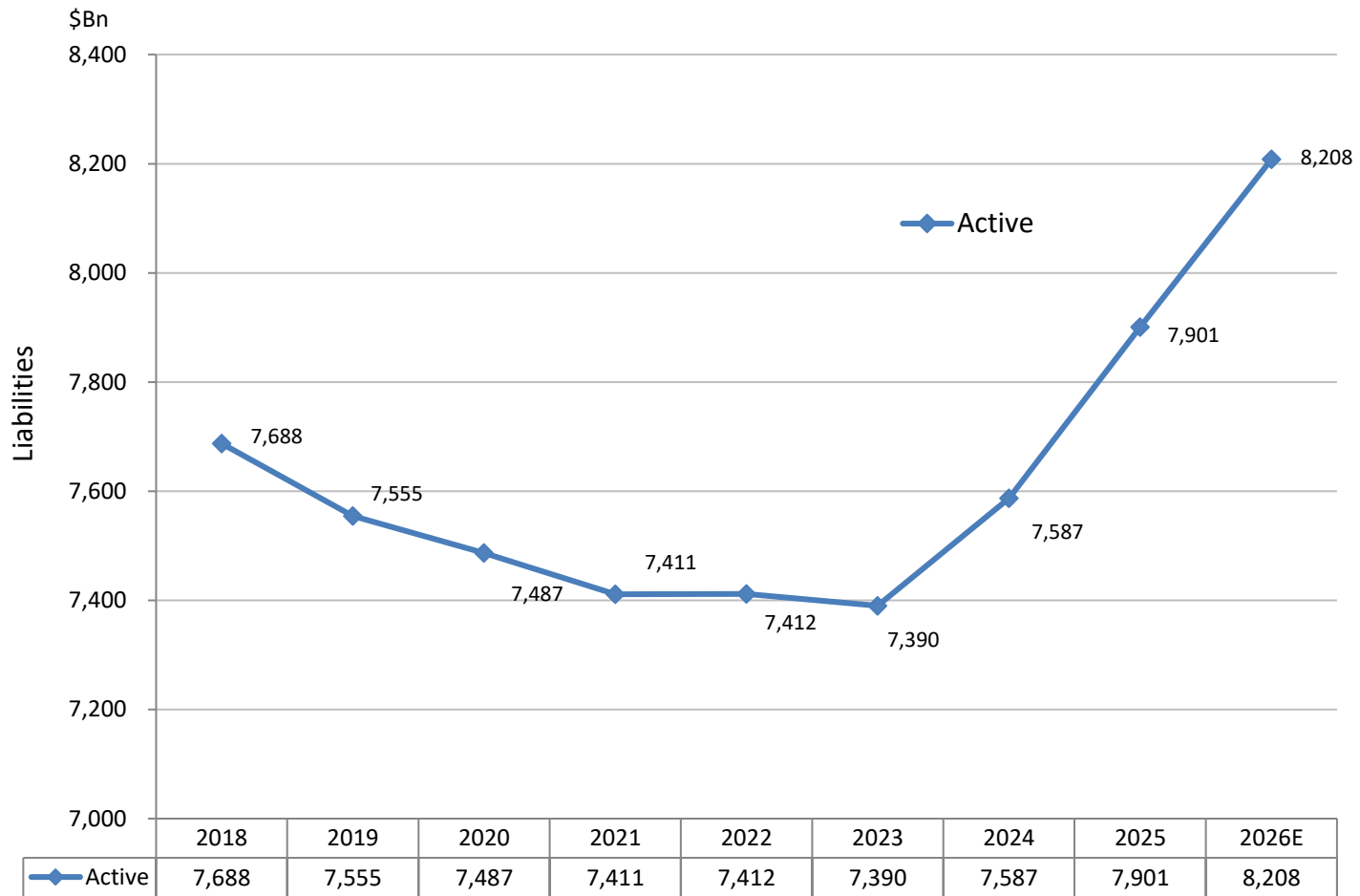
Members by Status



Last eight fiscal years and estimated 2025/26 ASP Plan

6 revoked members had
tail liabilities zeroed out

Active Member Exposure

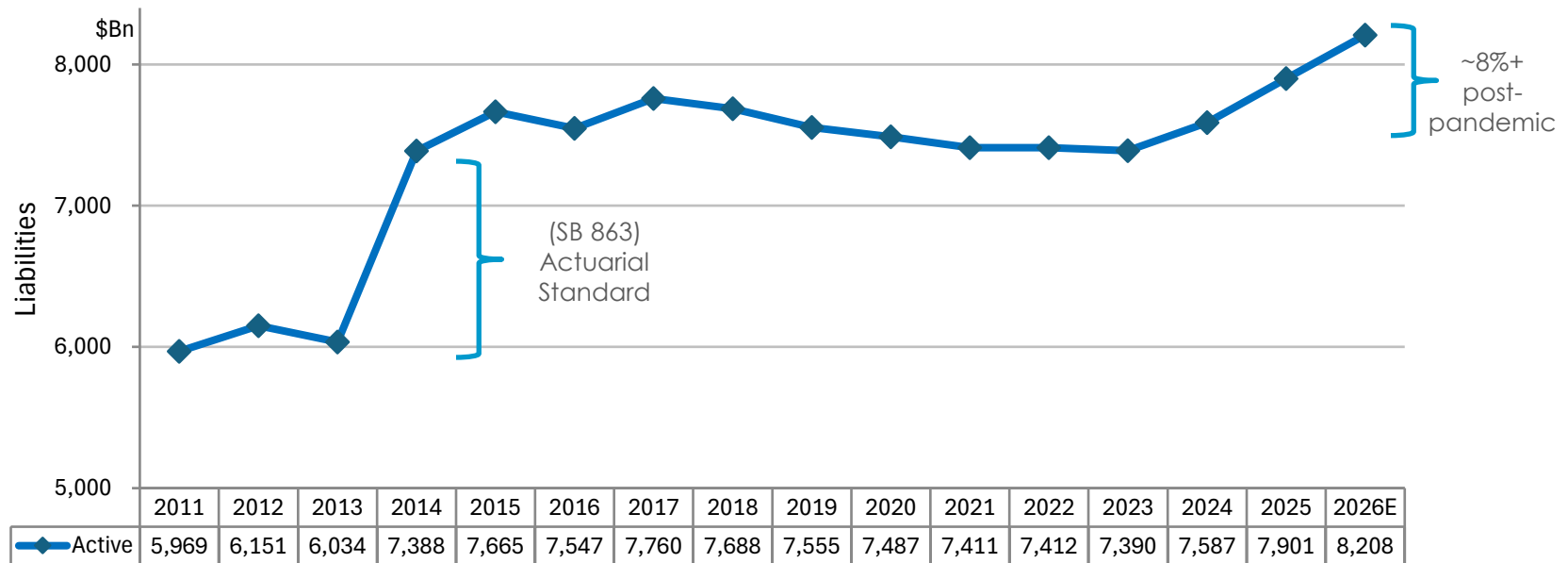


Last eight fiscal years and estimated 2025/26 ASP Plan

Active Member Exposure (cont'd)

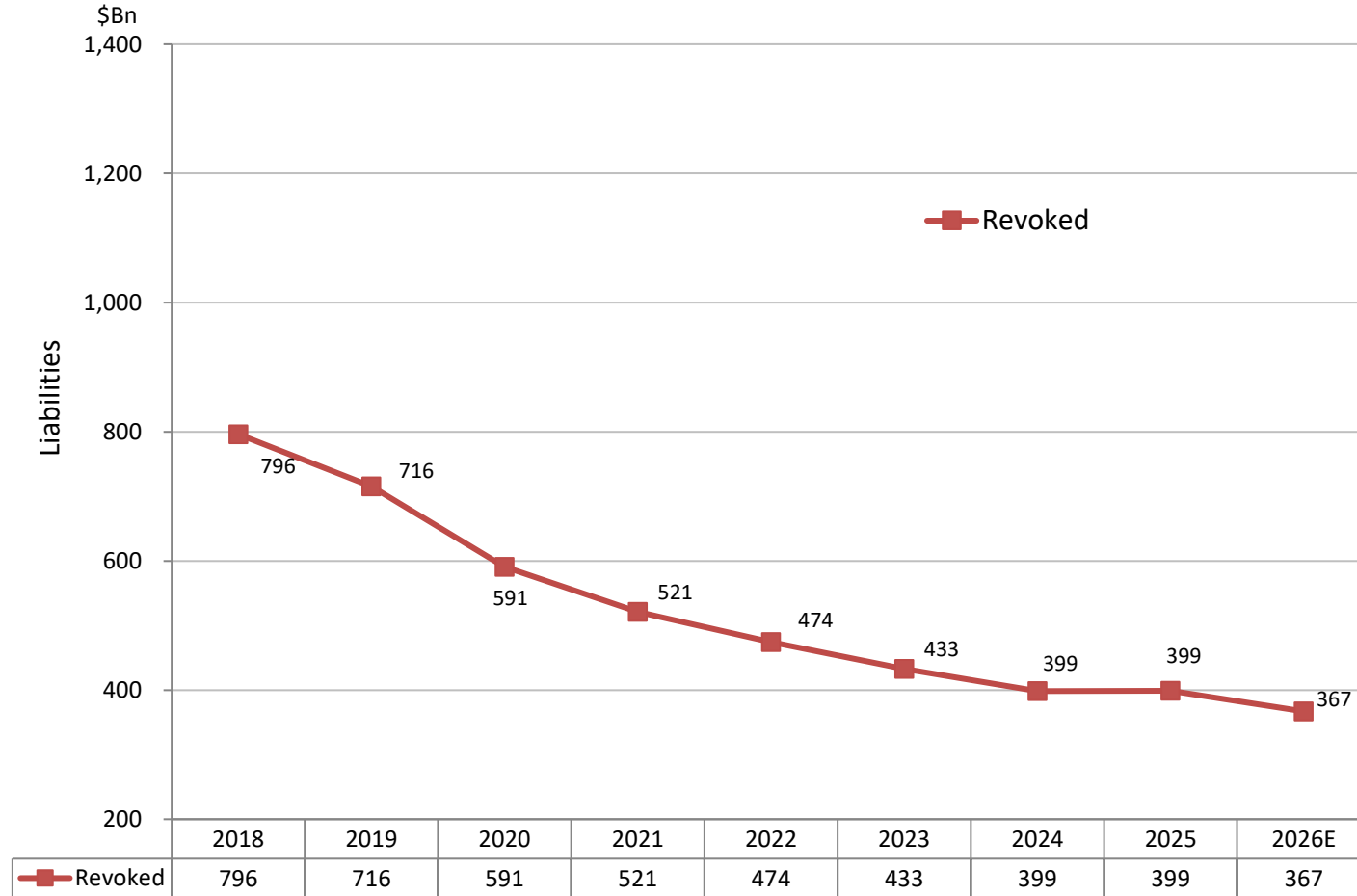
Main driver(s) of liability increase

- Payroll increase post-pandemic
- Inflation
- Excess insurance (employers increasing retention)
- Adverse loss development



64 members have experienced an actuarial-determined increase of 10%+ YoY.

Revoked Member Exposure



Last eight fiscal years and estimated 2025/26 ASP Plan

Self-Insured Groups (SIGs)

SISF currently has 26 self-insured groups (SIGs) that are excluded from the Alternative Security Program (ASP), and post combined collateral of \$395 million with OSIP.

- 23 Active / 3 Revoked
- \$7.7 billion total self-insured payroll
- 224,991 CA workers covered by group self-insurance
- 1,863 CA group members are active self-insurers
- \$214 million estimated claims reserves (EFL)
- 5,226 open workers' compensation cases

26 Self-Insured Groups

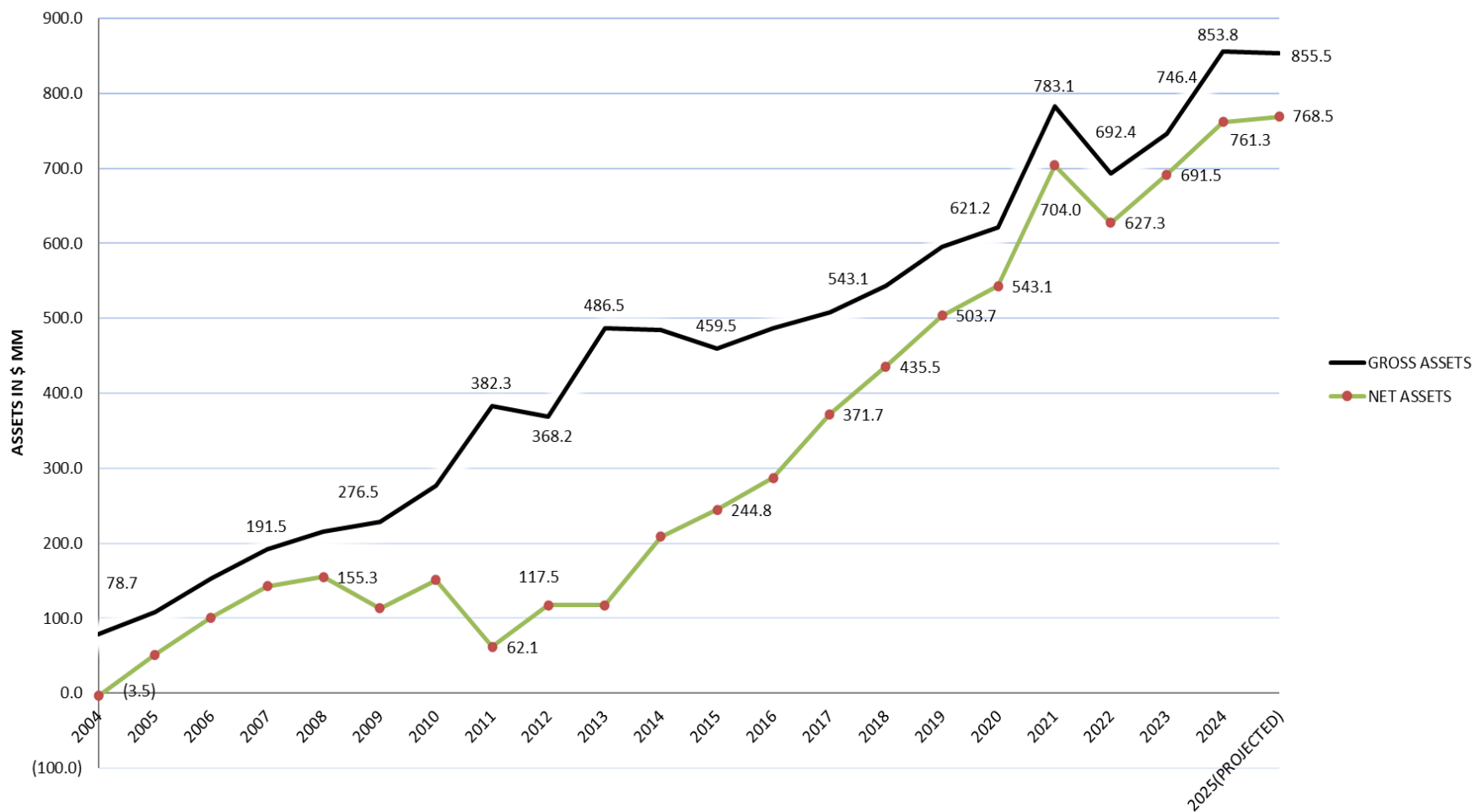
1,863 individual self-insurers
\$395 million

VS

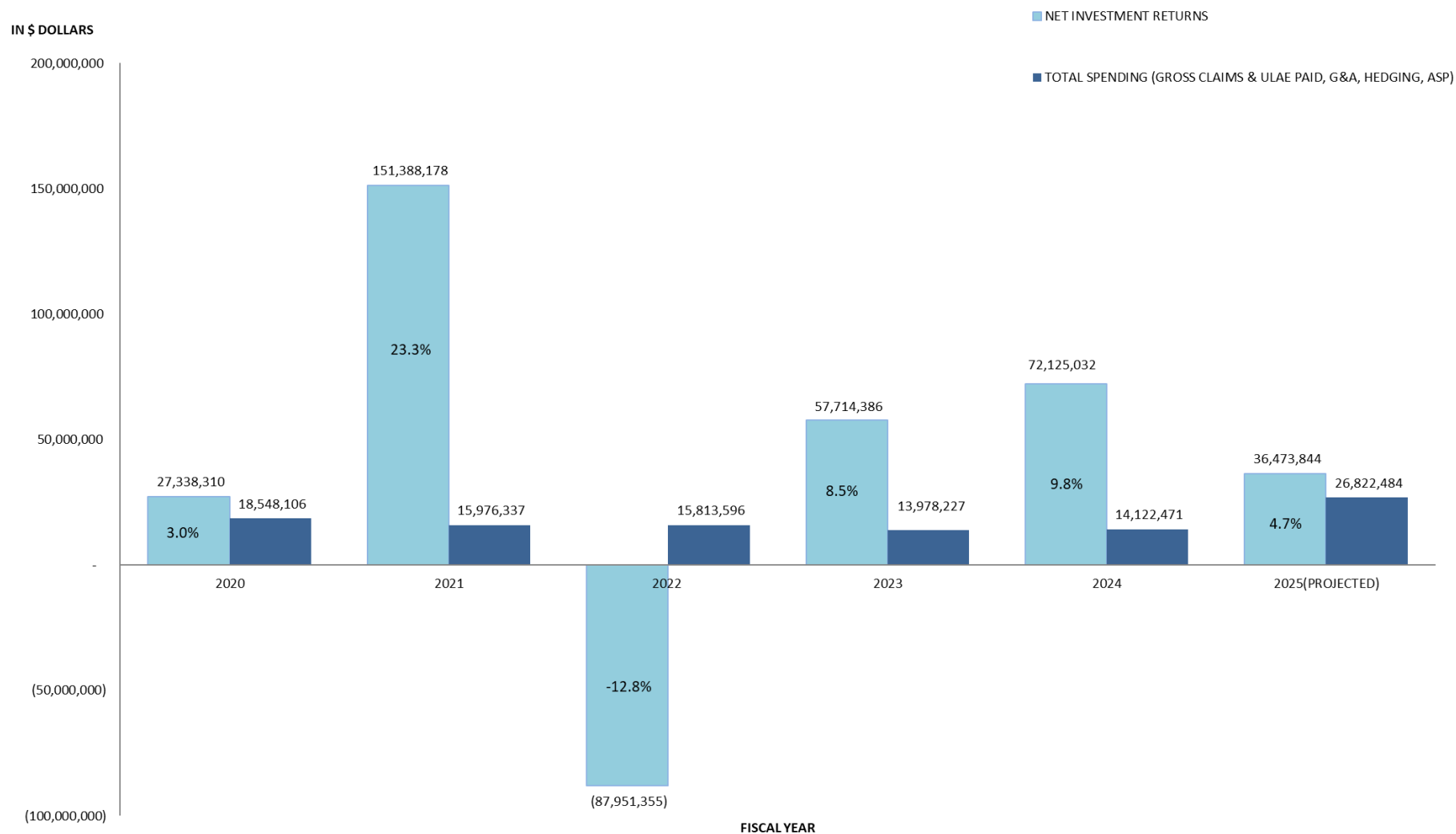
ASP

321 individual self-insurers
\$7.4 billion

Gross and Net Assets (ASP inception)



Total Spending and Investment Returns



Last six fiscal years

Investments

Reserve Portfolio

The Reserve 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	100%	100%	Custom Liability-based Benchmark
Total	100%		

Surplus Portfolio

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

Portfolio Overview

Period Ending: March 31, 2025

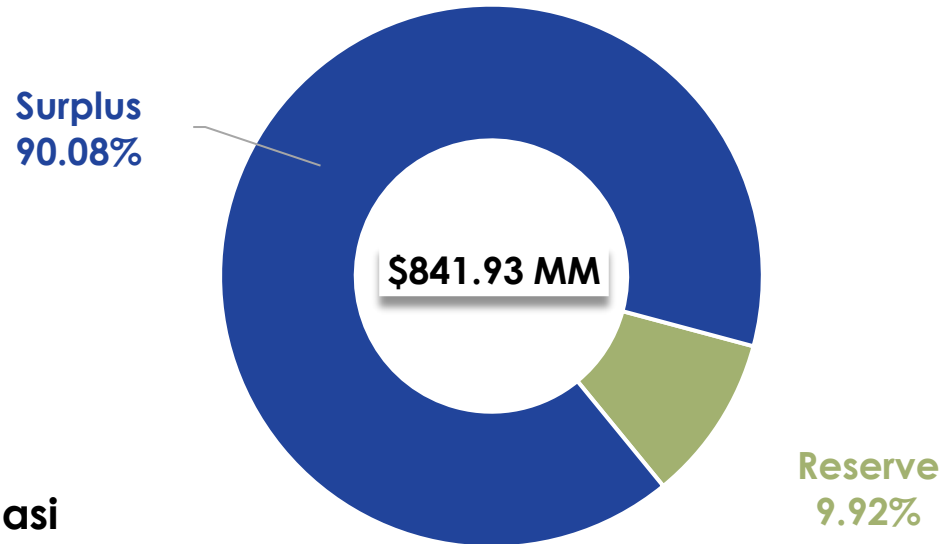
Total Value: \$841.93 MM

Two portfolios

- Reserve Portfolio \$83.49 MM
- Surplus Portfolio \$758.44 MM

Board Oversight

Graystone Consulting Managed with Quasi Discretion



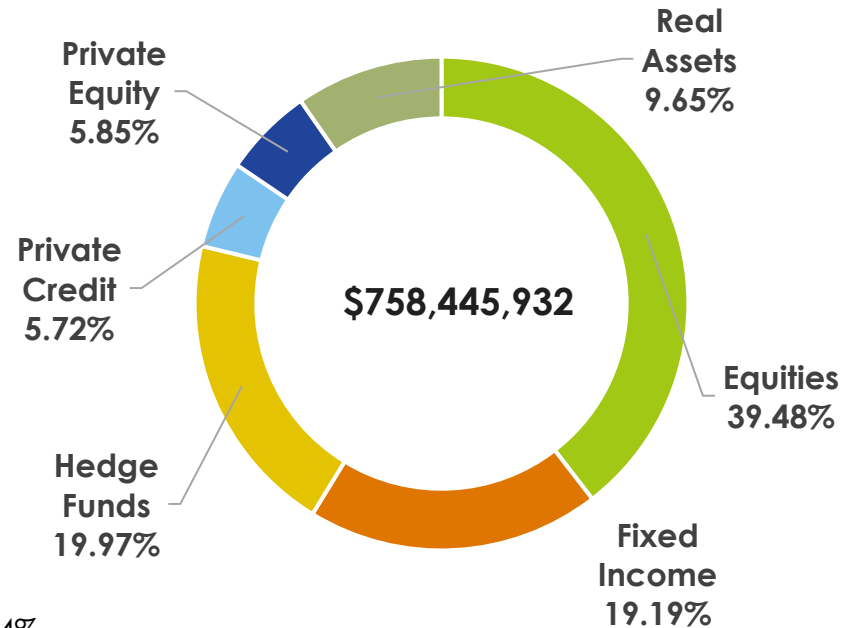
	1 Year	3 Year	5 Year	7 Year	10 Year
Reserve Portfolio	5.19	2.74	1.38	1.72	1.45
Surplus Portfolio	4.61	3.99	10.33	7.00	6.76

SISF Surplus Portfolio

Period Ending: March 31, 2025

Surplus Portfolio

- \$758.44 Million
 - Board Directed
 - Manager Selection
 - Graystone Consulting Oversight
 - Manager Recommendation, Asset Allocation within Investment Policy Guidelines
 - 6 asset classes, endowment style portfolio
 - Designed to achieve a real rate of return above 4%



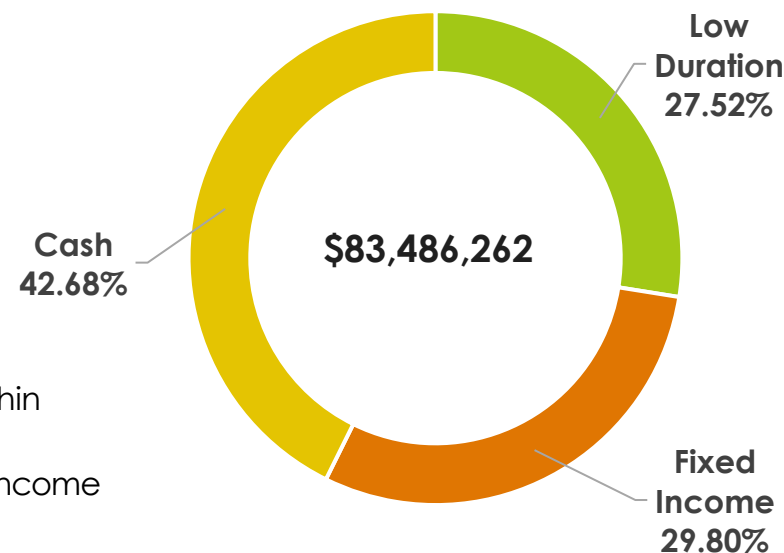
	1 Year	3 Year	5 Year	7 Year	10 Year
Annualized TWR	4.61	3.99	10.33	7.00	6.76
Risk BM	5.68	3.99	9.58	6.07	6.30

SISF Reserve Portfolio

Period Ending: March 31, 2025

Reserve Portfolio

- \$83.49 Million
 - Board Directed
 - Manager Selection
 - Graystone Consulting Oversight
 - Manager Recommendation, Asset Allocation within Investment Policy Guidelines
 - Portfolio Consists of Low & Intermediate Duration Fixed Income and Cash
 - \$91,000,000 Target
 - Designed to generate long-term total return consistent with meeting liquidity requirements



	1 Year	3 Year	5 Year	7 Year	10 Year
Annualized TWR	5.19	2.74	1.38	1.72	1.45
Risk BM	5.47	2.91	1.45	2.23	1.78

SISF Performance Highlights

Positive results in calendar year 2024. The total portfolio gained 7.87%, driven primary by gains in public equities and hedge funds.

In the first quarter of 2025, the total portfolio gained 0.28%.

For the trailing one-year period ending 3/31/25, the SISF portfolio generated a positive return of 4.67%.

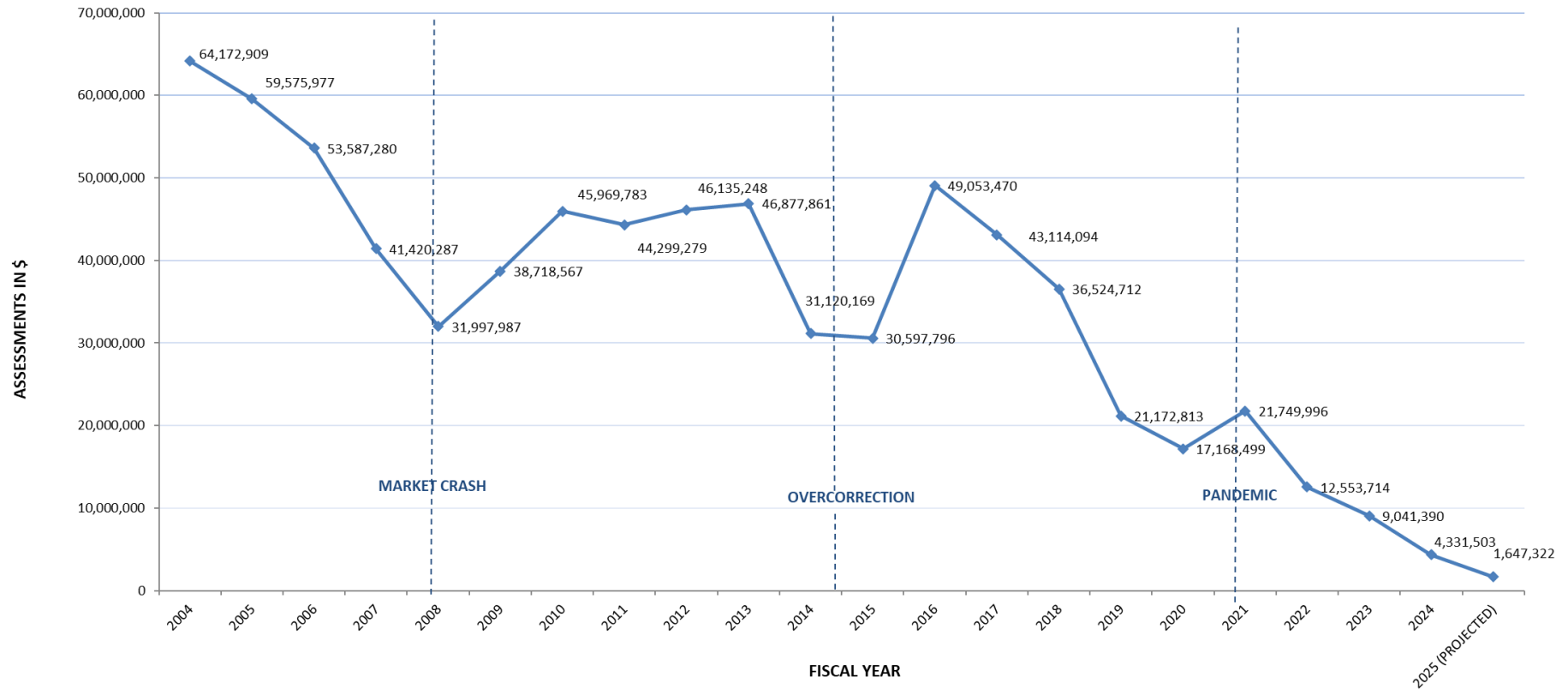
The SISF Reserve portfolio gained 5.19% over the one-year period, compared to a benchmark of 5.47%.

The SISF Surplus portfolio gained 4.61% over the one-year period, compared to a benchmark of 5.68%.

One Year Performance Drivers:

- Hedge funds +5.5%
 - Private Equity +10.95%
 - Private Credit +9.76%
 - Fixed Income +4.74%
 - Public Equity + 3.12%
- Public Equity lagged benchmarks, but was a contributor to positive results

Assessments (ASP inception)



Grant Heinitz
Director, Member Credit Risk



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Economics and Credit

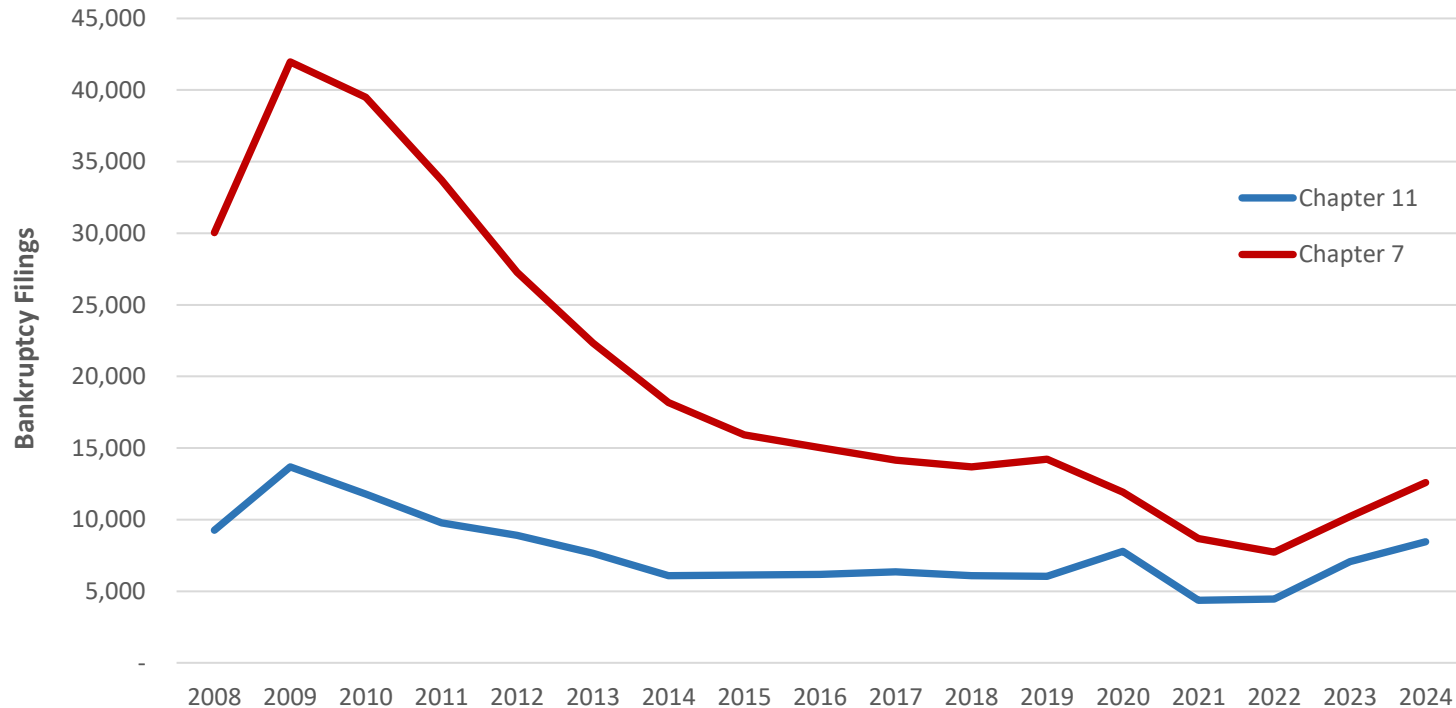
Credit spreads have tightened to their pre-Liberation Day levels on resilient economic data and solid corporate earnings, but economic growth remains uncertain due to trade policy.



Source: J.P. Morgan U.S. High-Yield Default Rate (includes Distressed Exchanges)

Economics and Credit (cont'd)

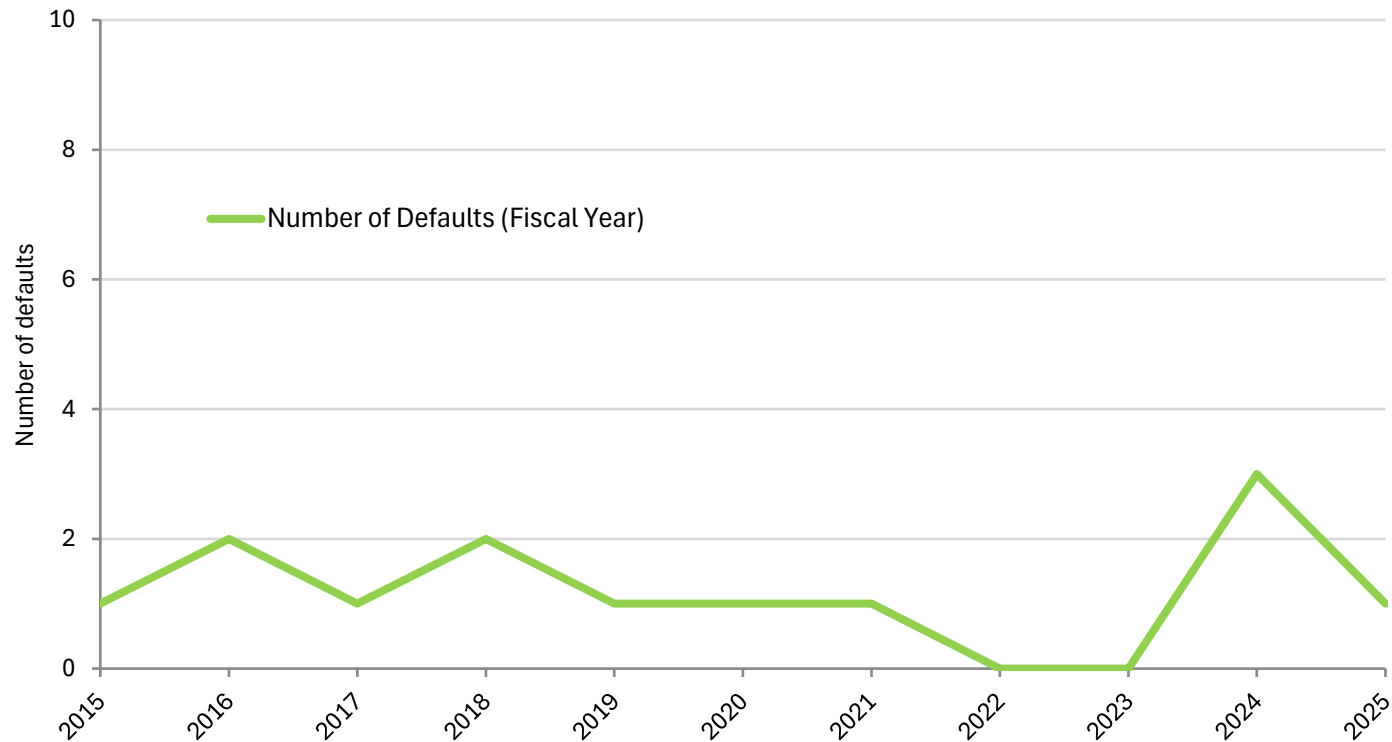
2024 Chapter 11 and 7 bankruptcy activity increased at 20% and 23% respectively from multi-year lows in 2021 and 2022.



YTD March 2025 filings are tracking at 27% vs. full-year 2024 filings with nine months of data remaining.

Default History

SISF has experienced very little defaults considering the profile of the portfolio and recent economic shocks.



Defaults as of 5/19/2025

SISF Resolutions

The below summarizes recent resolutions that have been approved by the Board of SISF.

Resolution No. 24-01 (Good Standing Policy)

Members that are considered in “good standing” may receive Fair Share Credit (“Premium Credit”) if the member meets the following requirements: (i) annual assessment has been paid, (ii) has posted the full amount of collateral (if any) demanded by OSIP, within the time limits imposed by OSIP, and (iii) has provided OSIP its annual actuarial report (if required) within the time limitations set forth in applicable regulations.

Resolution No. 25-01 (Discretionary adjustments to member participation)

This resolution memorializes the policy of SISF regarding adjustments to member participation levels in the Alternative Security Program (ASP) during the ASP Plan Year.

Fund policies may be found under the Knowledge Center tab on our website at

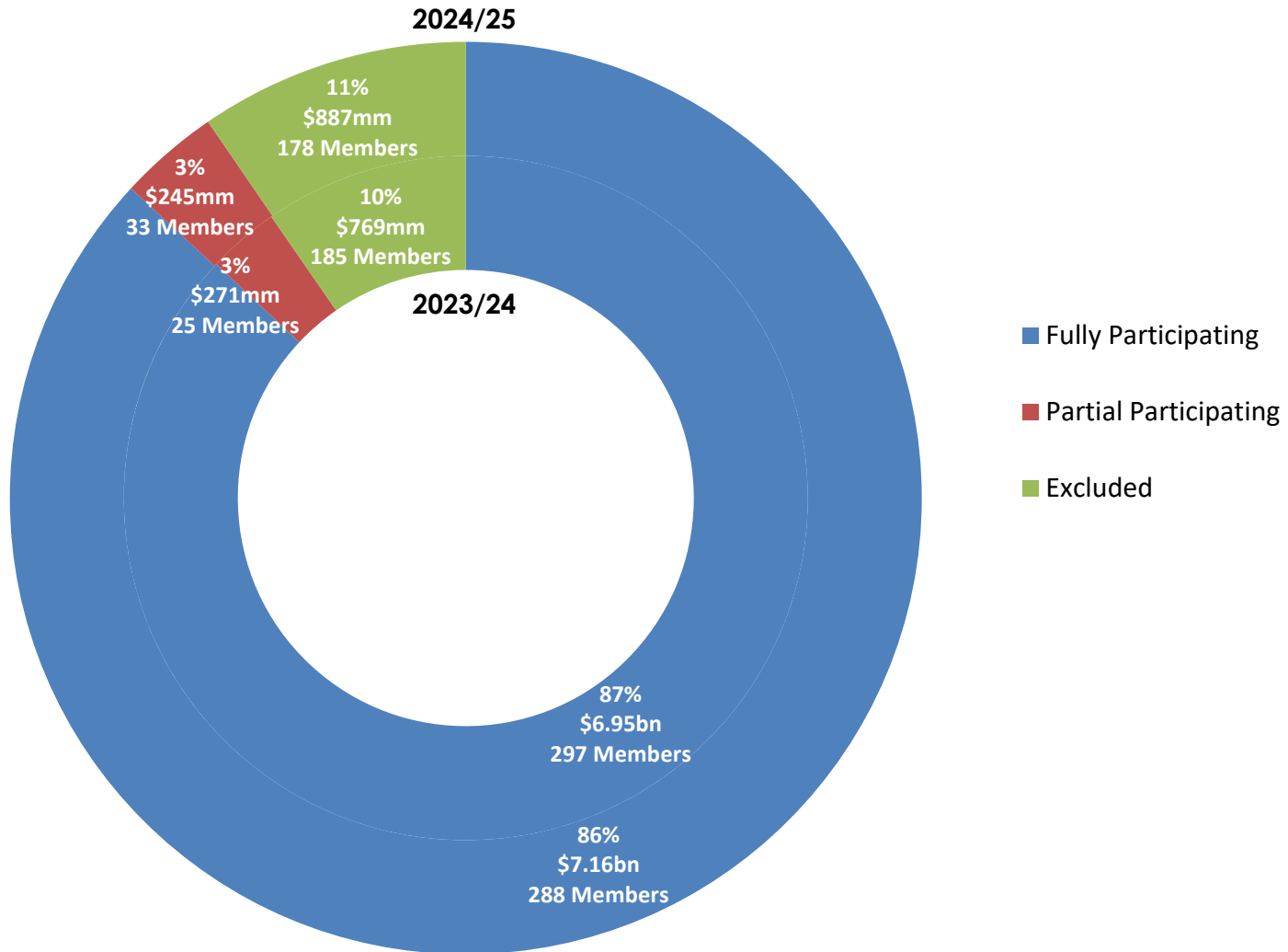
www.securityfund.org.

ASP – Overview

- Successful implementation of 2024/25 Alternative Security Program
 - 12th year post SB 863
 - ASP liabilities increased slightly (3.9%)
- Portfolio remains stable
 - 499 members – 249 active, 250 revoked certificates
 - \$8.29bn exposure spread across 50+ industries
 - Publicly-traded cos: 207
 - Privately-held cos: 292
 - Portfolio credit rating at Baa1 (investment grade)
- Assessment decreased 16.6% (\$13.6mm vs. \$16.3mm) from the prior year
 - \$12mm in Premium credit was returned to eligible members
 - Actual assessment of \$1.6mm (net of Premium Credit)

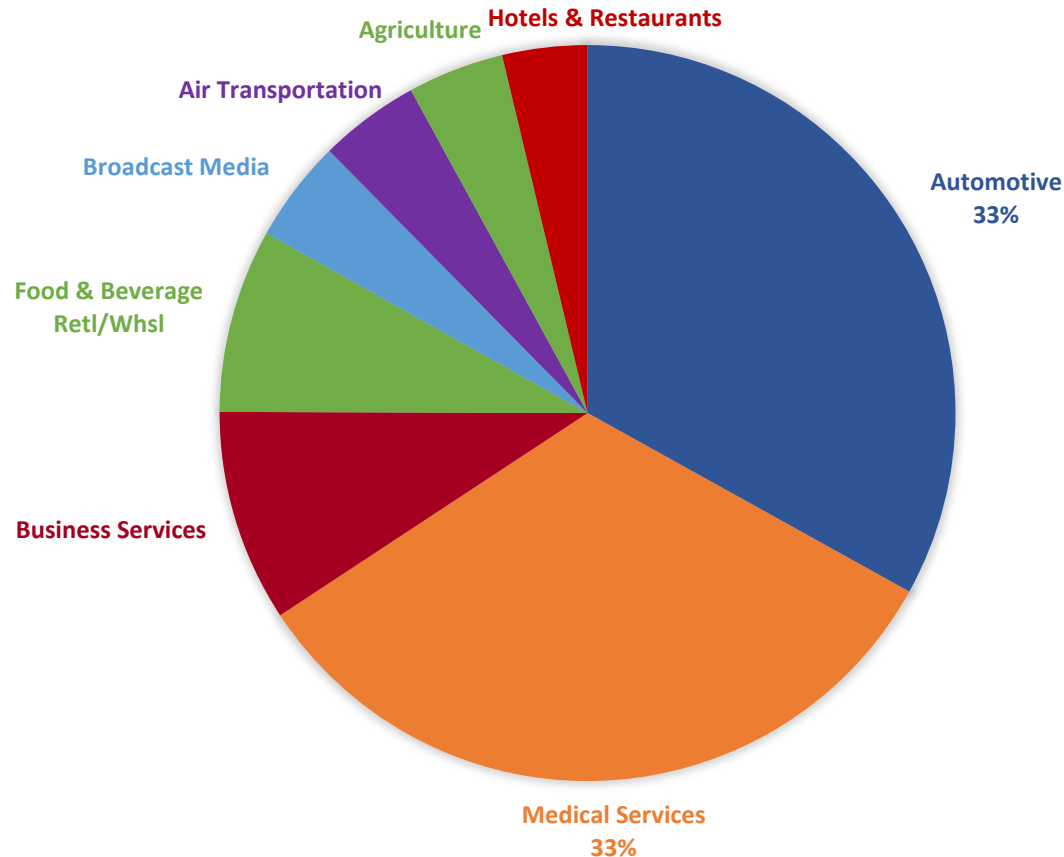
ASP – Participation Summary

ASP liabilities increased slightly by 3.9% (\$8.29bn vs. \$7.99bn).



ASP – Industries that Experienced Large Increases

Consumption for goods and services continued unabated in 2024, industries took note, increasing payrolls to provide product and services on heightened consumer demand.

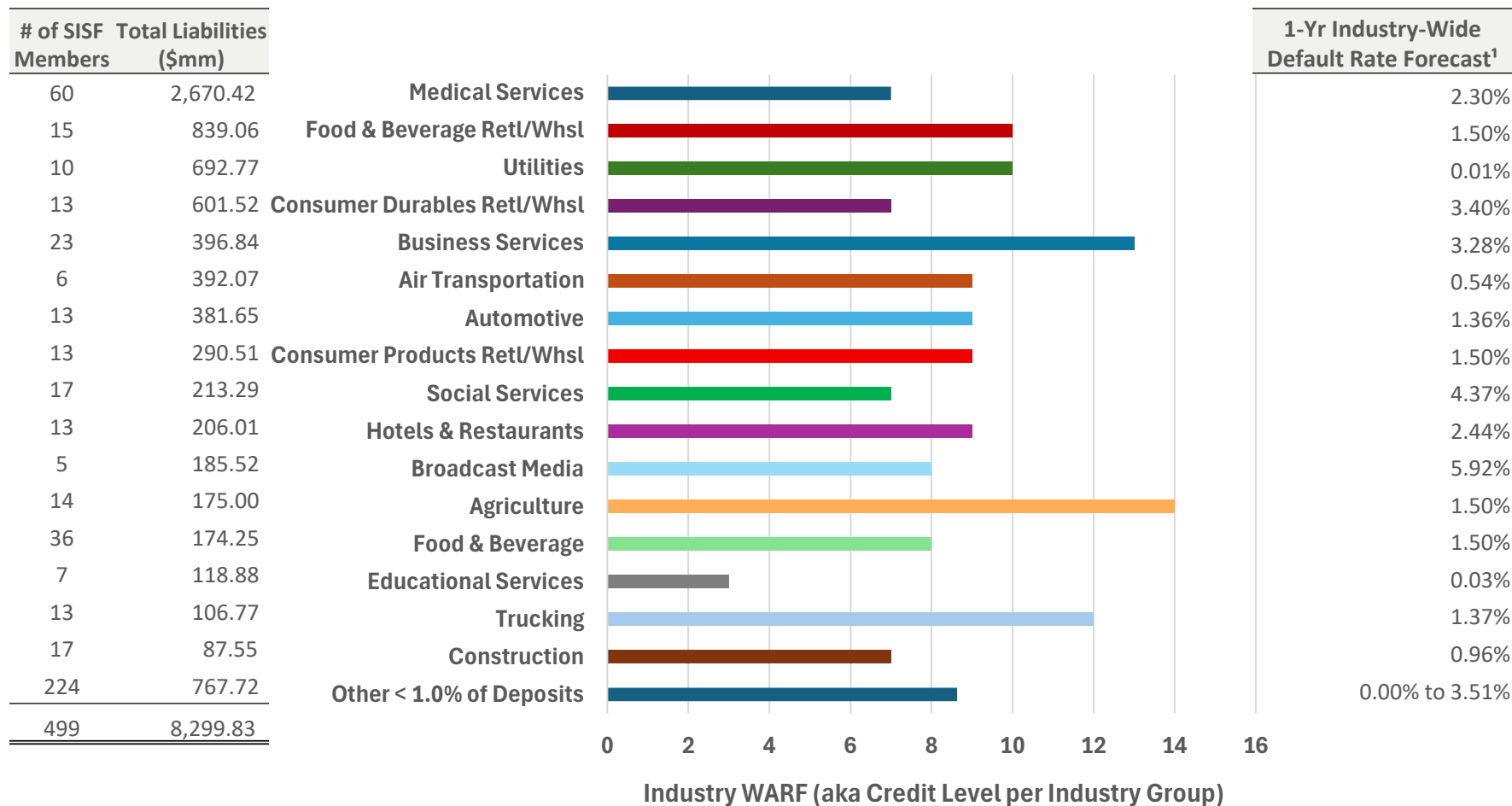


In the beginning of the pandemic (2020), liabilities and payroll decreased considerably for the following industries: Air Transportation, Hotels & Restaurants, Food & Beverage, and Consumer Products / Durables (Retail).

Source: Actuarial data 12-30-2023 for 2024-25 ASP plan year

ASP – Industry Rating Distribution

The WARF (Weighted Average Rating Factor) in the table below is a measure of the average rating of each industry within the ASP portfolio.

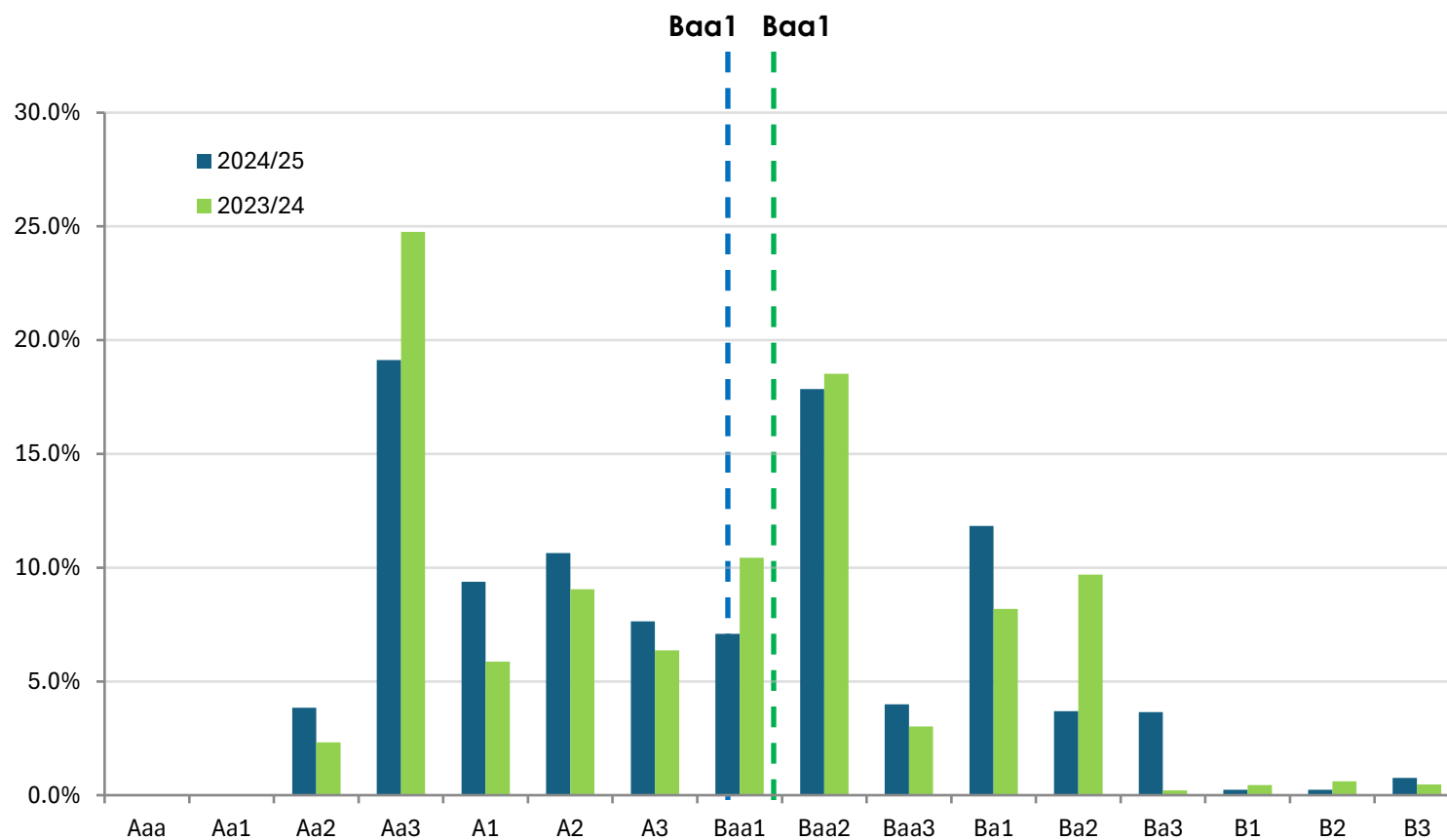


Source: Moody's Analytics Industry Groups, Moody's, S&P, Fitch Ratings, Moody's RiskCalc and CreditEdge

¹Moody's 1-yr Industry Default Rate Forecast as of May 2025

ASP – Portfolio Rating Distribution

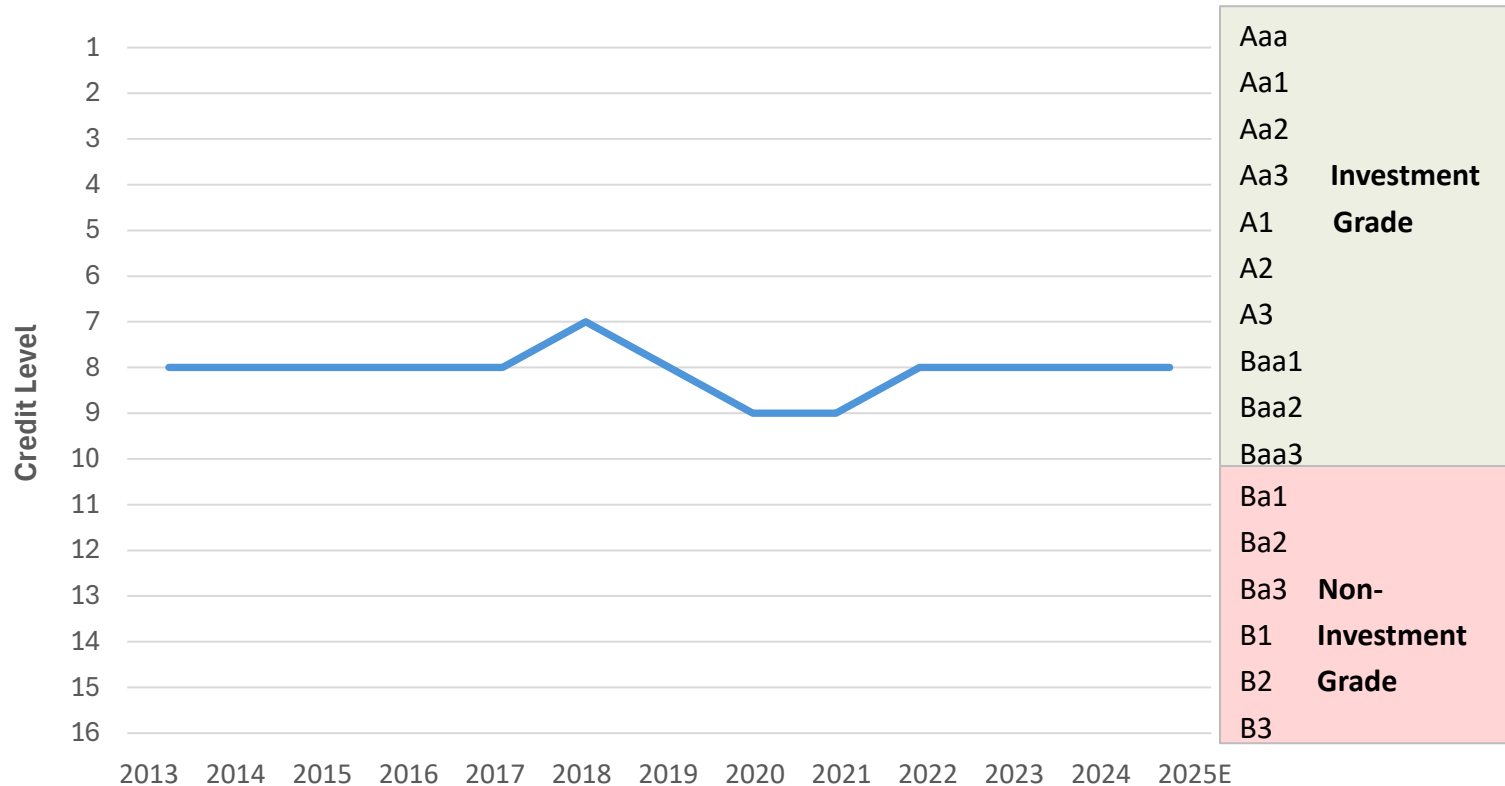
The overall portfolio credit rating remains at Baa1.



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

ASP – Portfolio Rating History

The overall portfolio credit rating has remained relatively stable considering the number of economic events.



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

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

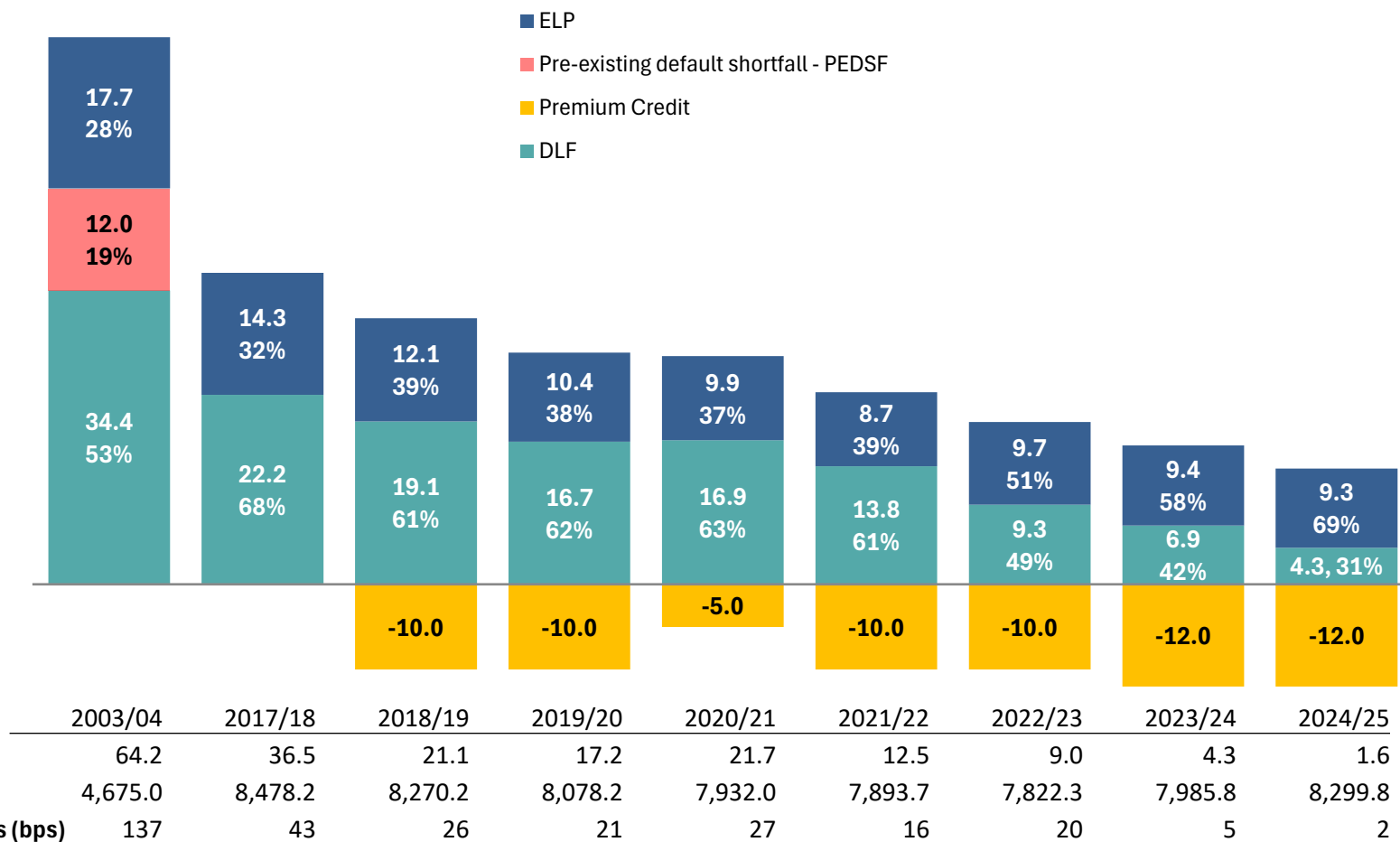
Capital

Claims

General administrative

ASP – Total Assessment

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



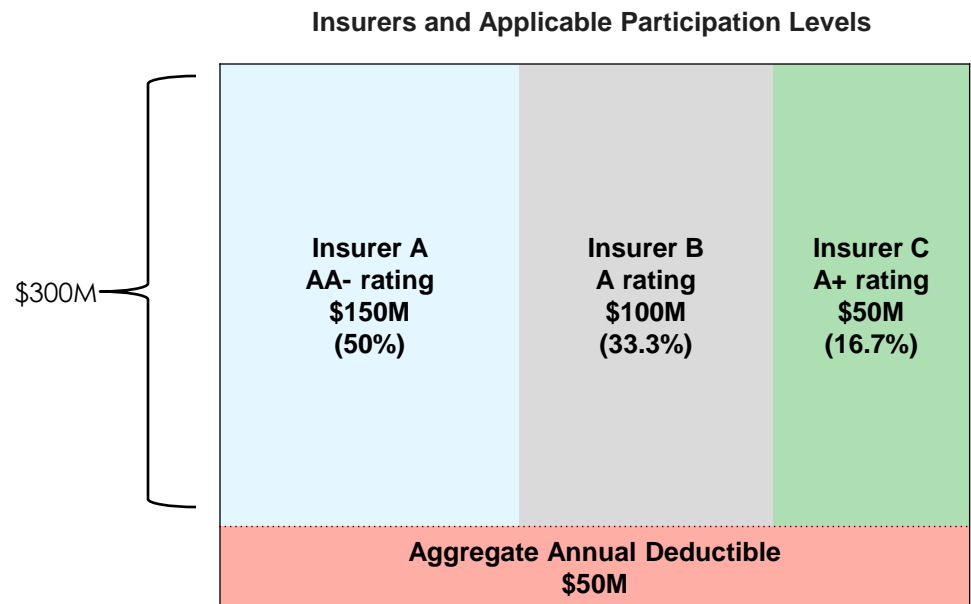
The "Fair Share" Credit has been issued the last seven years and acts as a Premium Credit to eligible members who contributed to the initial development of the Default Loss Fund ("DLF") covering the first ten years of the ASP.

ASP Risk Transfer – Credit Insurance Overview

The below summarizes the current 3-year credit insurance program.

Summary Terms and Conditions

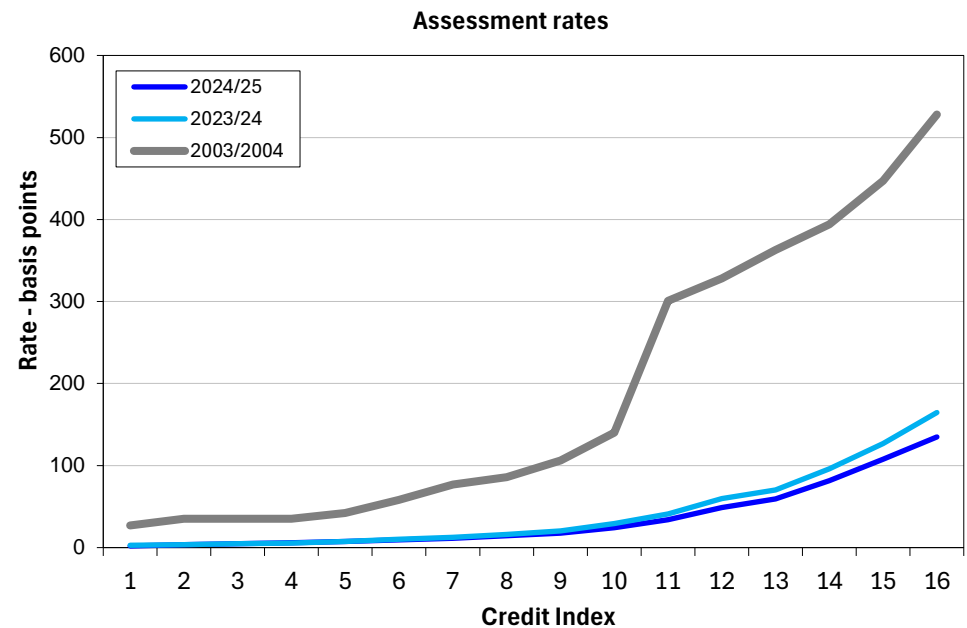
Tenor	3 years
Aggregate Limit	\$300,000,000
Deductible	\$50,000,000
Discretionary Credit Limit	\$30,000,000
No Claims Bonus	10% upfront
Covered Members	All Fully or Partially participating ASP members
<u>Other conditions</u>	
Additional Member Sub-limits:	15% “buffer”
Risk-Attachment Period:	12 months



ASP – Assessment Rates

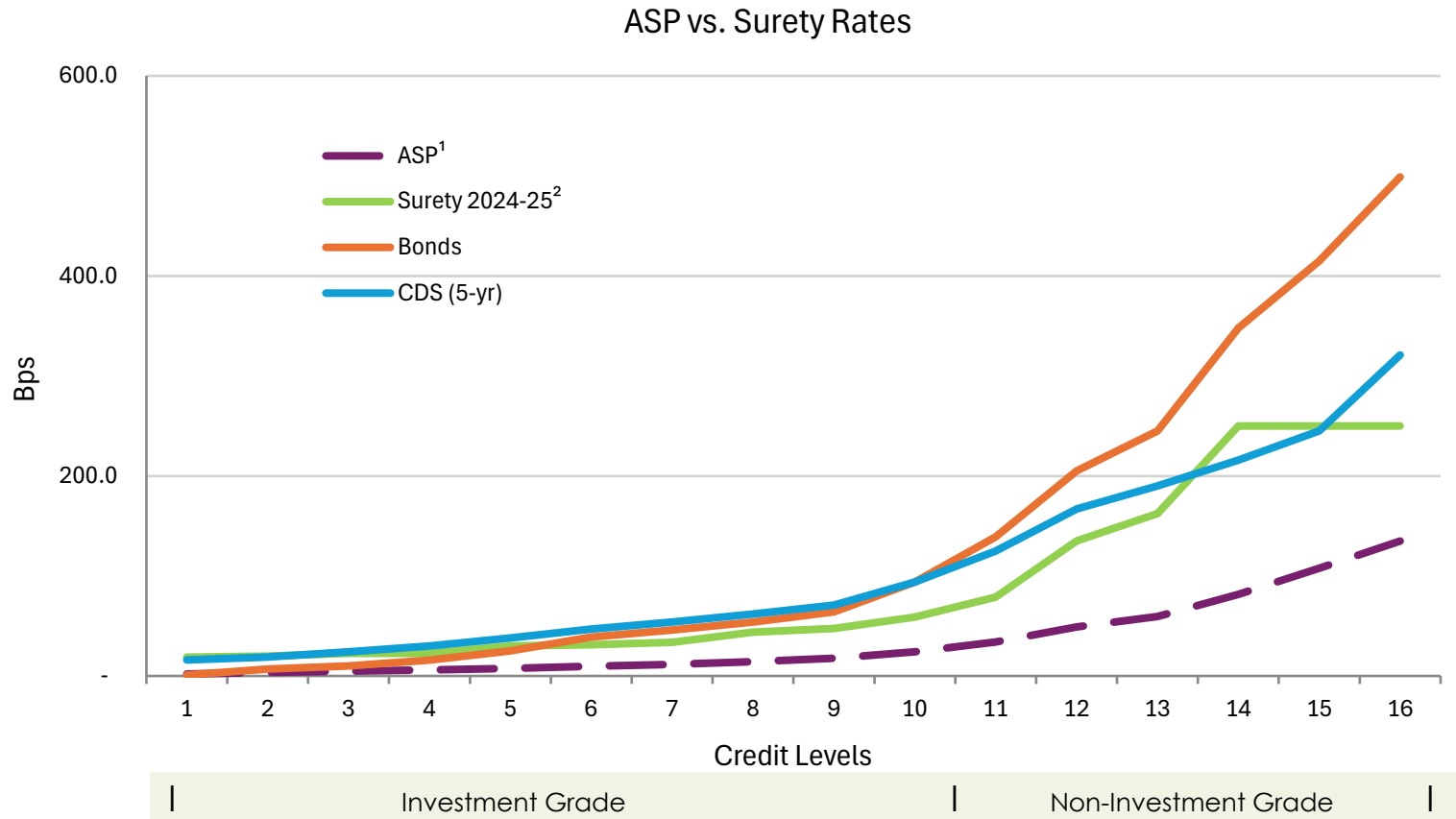
Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across most levels.

Index	Rating	2024/25	2023/24	% Δ
1	Aaa / AAA+	2	3	-31%
2	Aa1 / AA+	4	4	0%
3	Aa2 / AA	5	5	2%
4	Aa3 / AA-	6	6	4%
5	A1 / A+	8	8	0%
6	A2 / A	10	10	-6%
7	A3 / A-	12	13	-9%
8	Baa1 / BBB+	14	16	-12%
9	Baa2 / BBB	18	20	-14%
10	Baa3 / BBB-	24	29	-17%
11	Ba1 / BB+	34	41	-17%
12	Ba2 / BB	49	60	-18%
13	Ba3 / BB-	60	70	-15%
14	B1 / B+	82	96	-15%
15	B2 / B	108	127	-15%
16	B3 / B-	135	165	-18%



ASP – Current rates vs. market

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



¹ SISF Assessment rates 2024/25

² Marsh Surety estimates

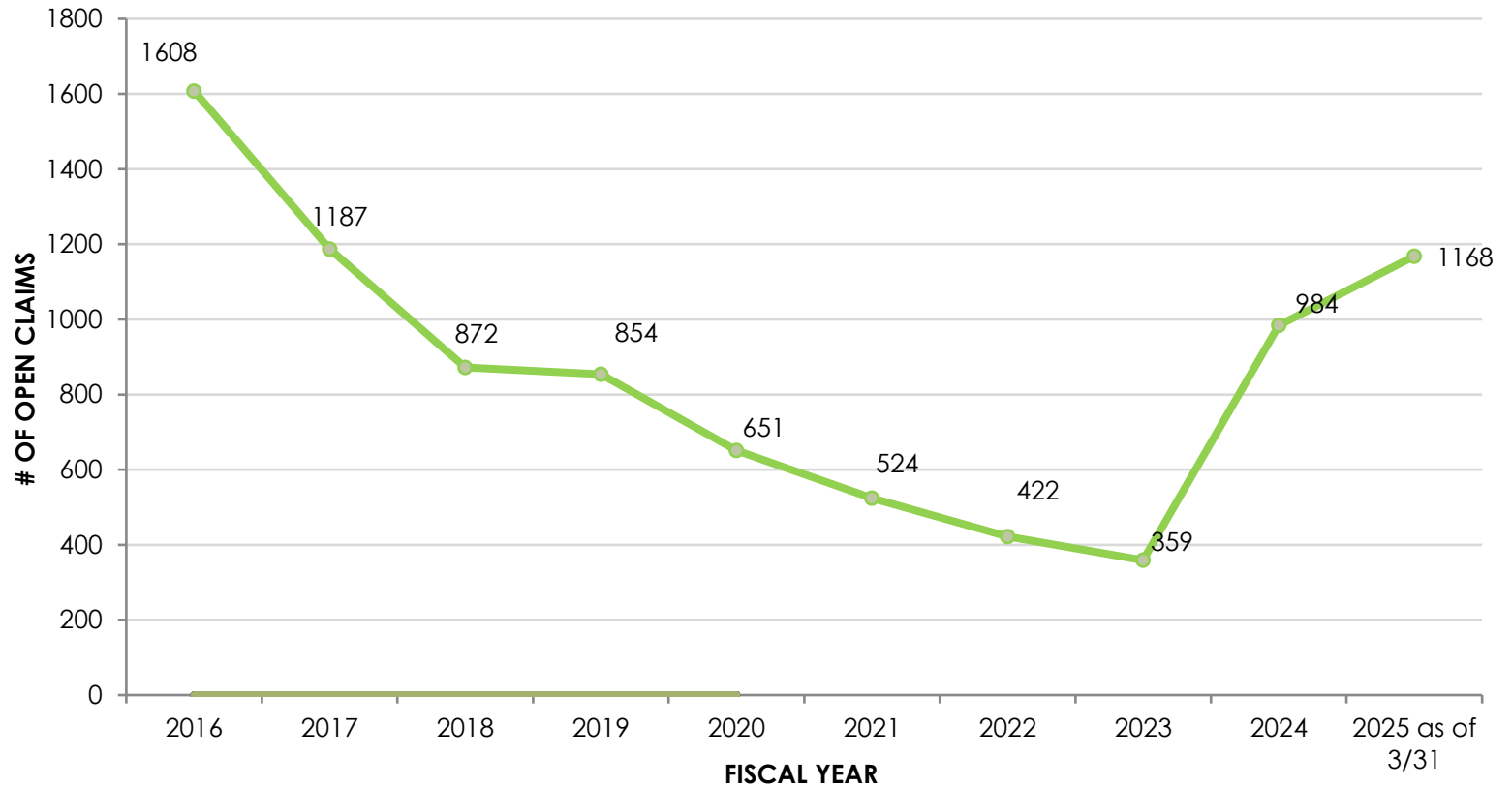
Moody's Market Implied Bond Spreads and CDS 5/15/2024

Jill Dulich
Director, Claims and Operations

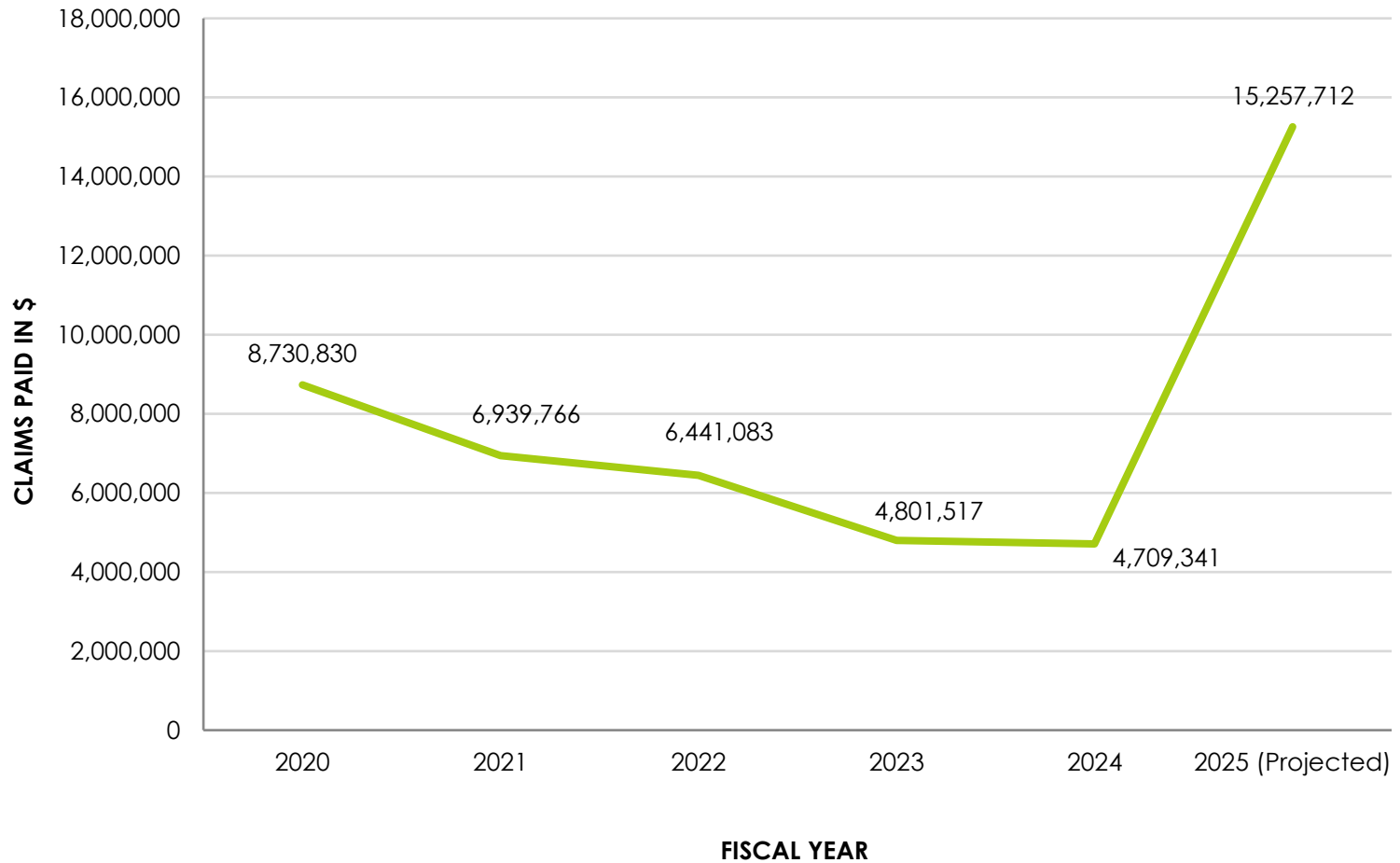


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Open Claims Count

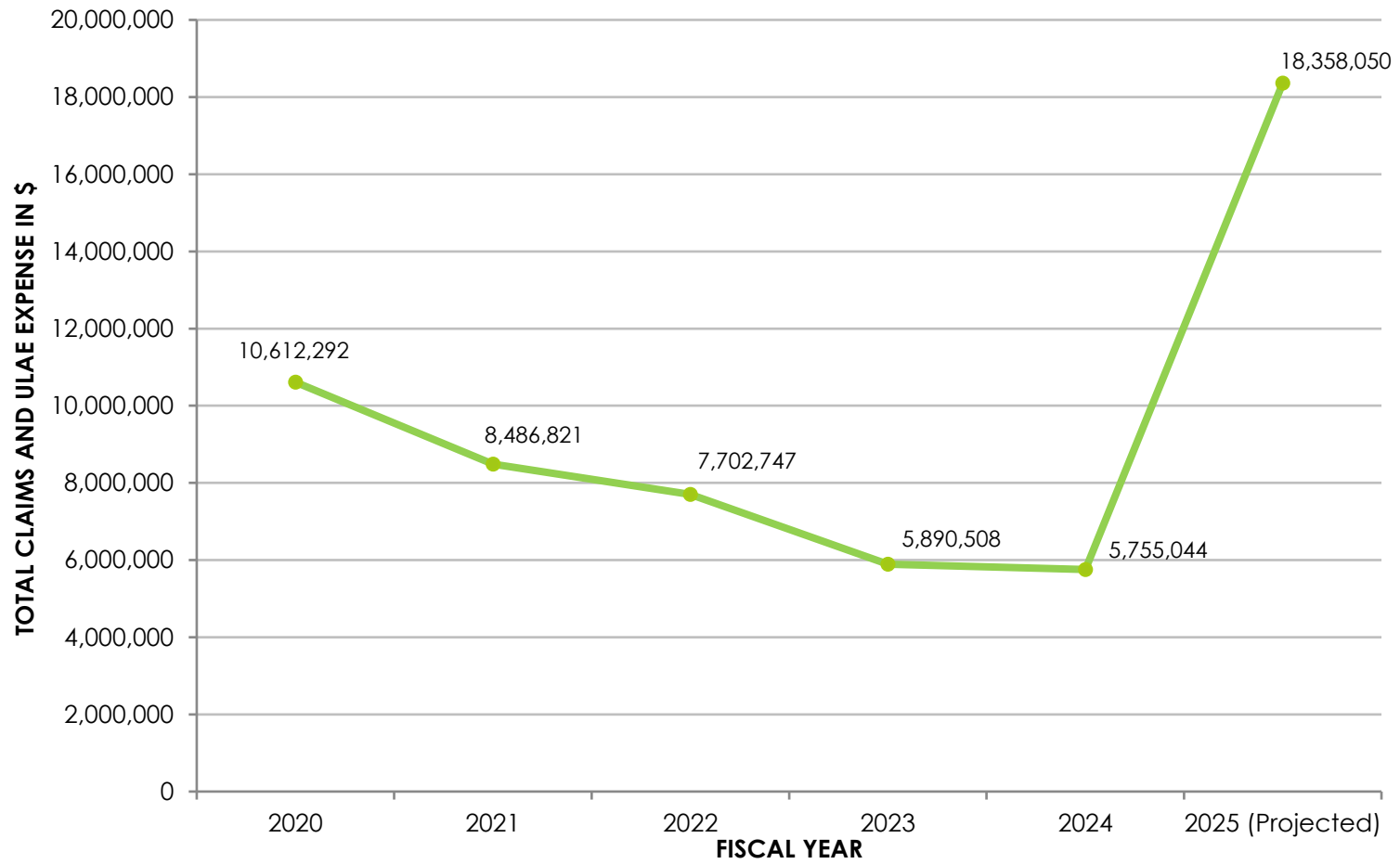


Gross Claims Paid



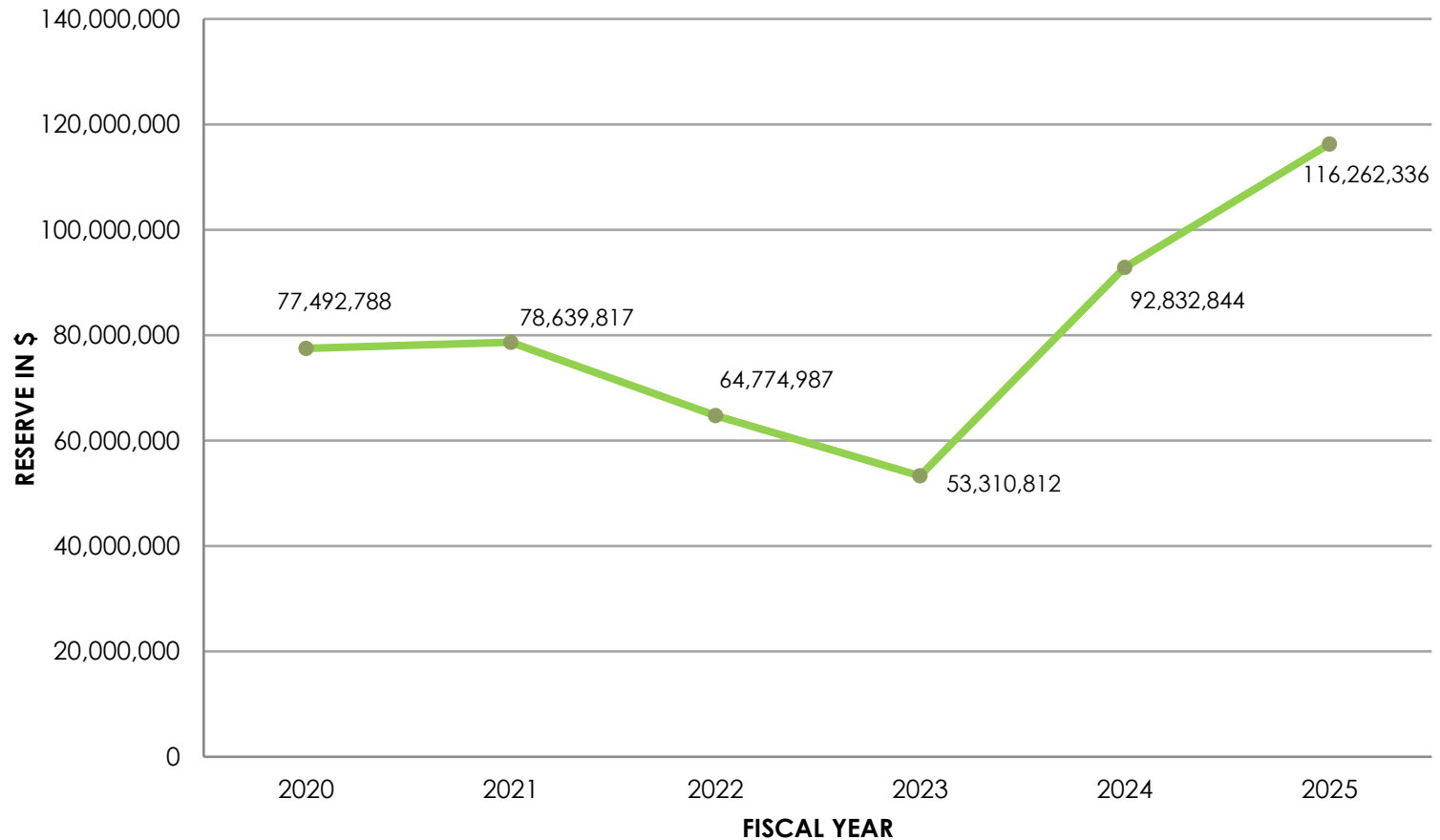
Last six fiscal years

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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