



CALIFORNIA
SELF-INSURERS'
SECURITY FUND

2021 Member Informational Meeting

May 12th, 2021

Tim East, Chairman

Daniel Sovocool, Outside General Counsel

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."

CA Self-Insurance Overview

Entities	531 (including 26 SIG' s)
Payroll	\$122 billion
Employees	2.3 million

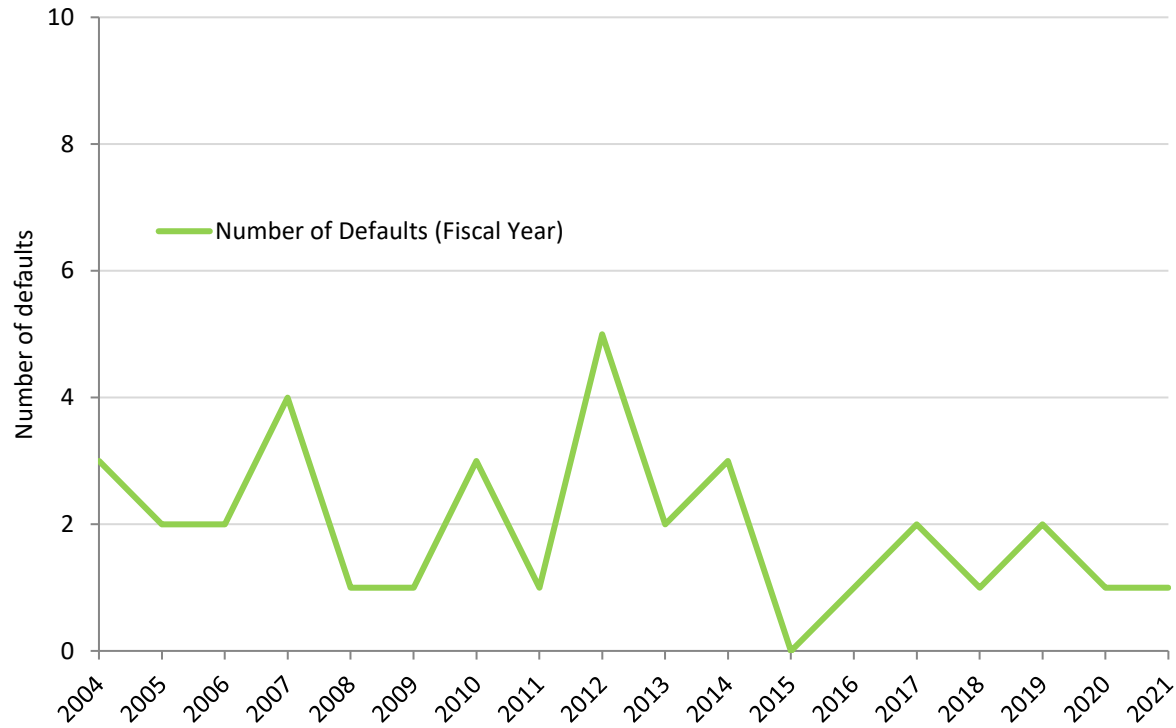
Estates and Workers' Compensation Claims

		<u>FY2021</u>	<u>FY2020</u>	<u>Δ</u>
Estates	Total	88	87	
	Active	43	44	
Claims	Open	568	651	-83
	(as of 3/31/21 and 6/30/20)			
Claim Liability (net)	Paid	\$7,255,427¹	\$8,730,830	-\$1,475,403
	Open Case Reserves (EFL)	\$29,894,365	\$30,834,289	-\$939,924
	IBNR + ULAE	<u>\$25,352,105</u>	<u>\$22,938,436</u>	<u>\$2,413,669</u>
		\$55,246,470	\$53,772,725	\$1,473,745
SISF total net assets				
	(as of 6/30)	\$645,049,152 ¹	\$543,119,762 ²	\$101,929,390
Projected annual costs	- claims (net of excess)	\$5,609,000	\$6,854,424 ²	-\$1,245,424
	- claims admin	<u>\$1,441,000</u>	<u>\$1,881,462²</u>	<u>-\$440,462</u>
	- Total	<u>\$7,050,000</u>	<u>\$8,735,886</u>	<u>-\$1,685,886</u>

¹ 6/30/21 Projected

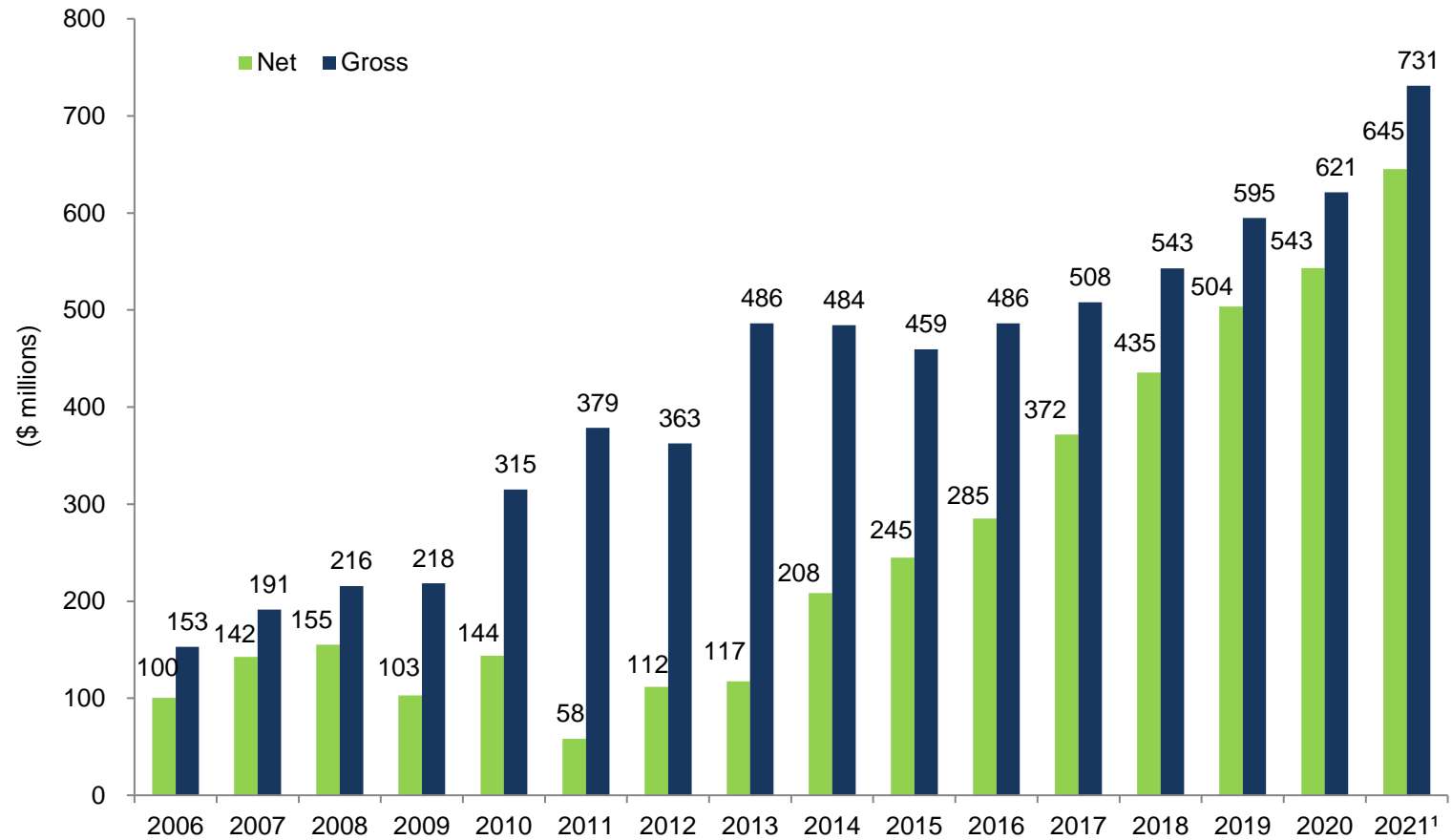
² Actual

Default History



Defaults as of 5/3/21

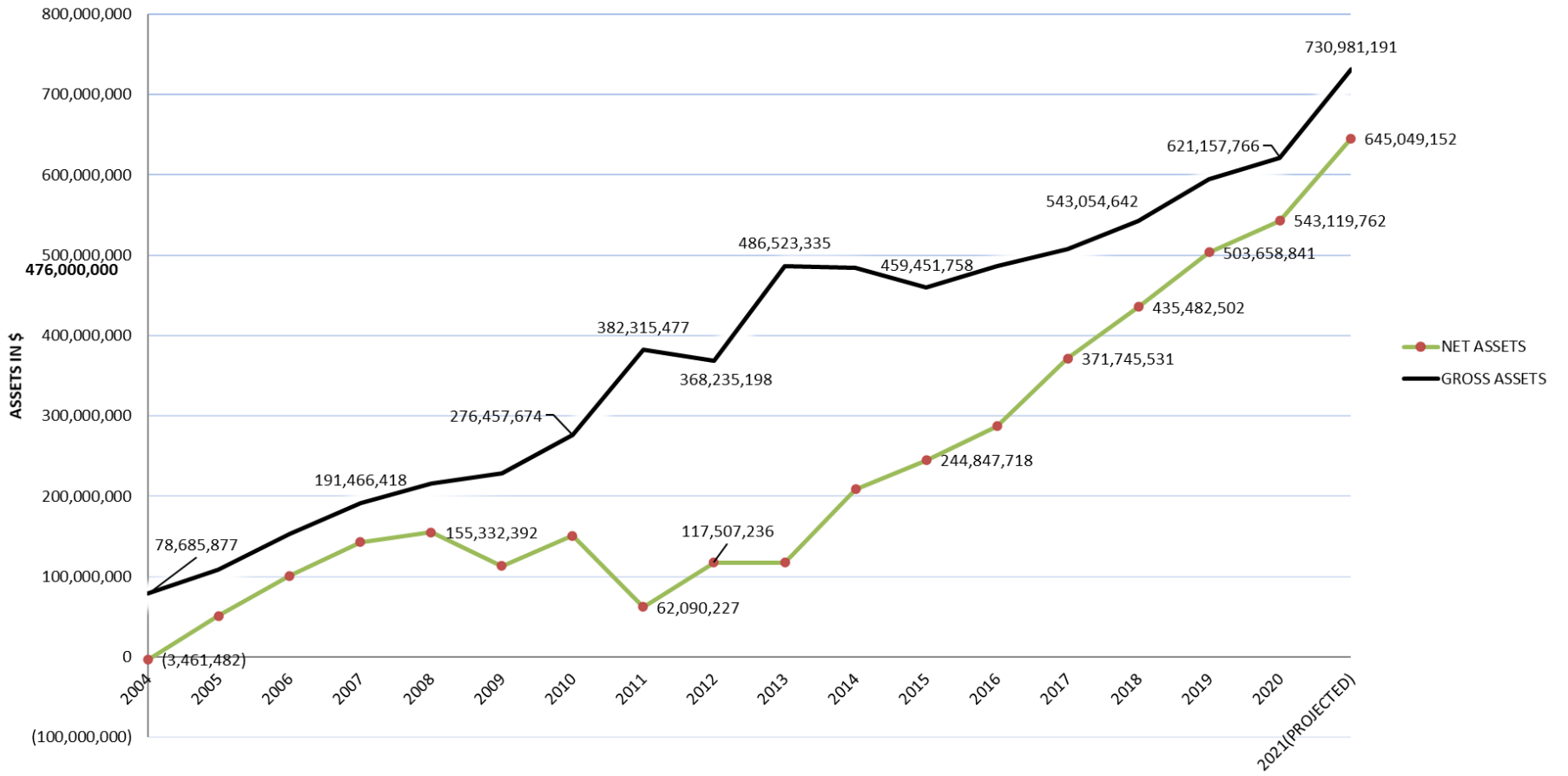
ASP – Financial Strength



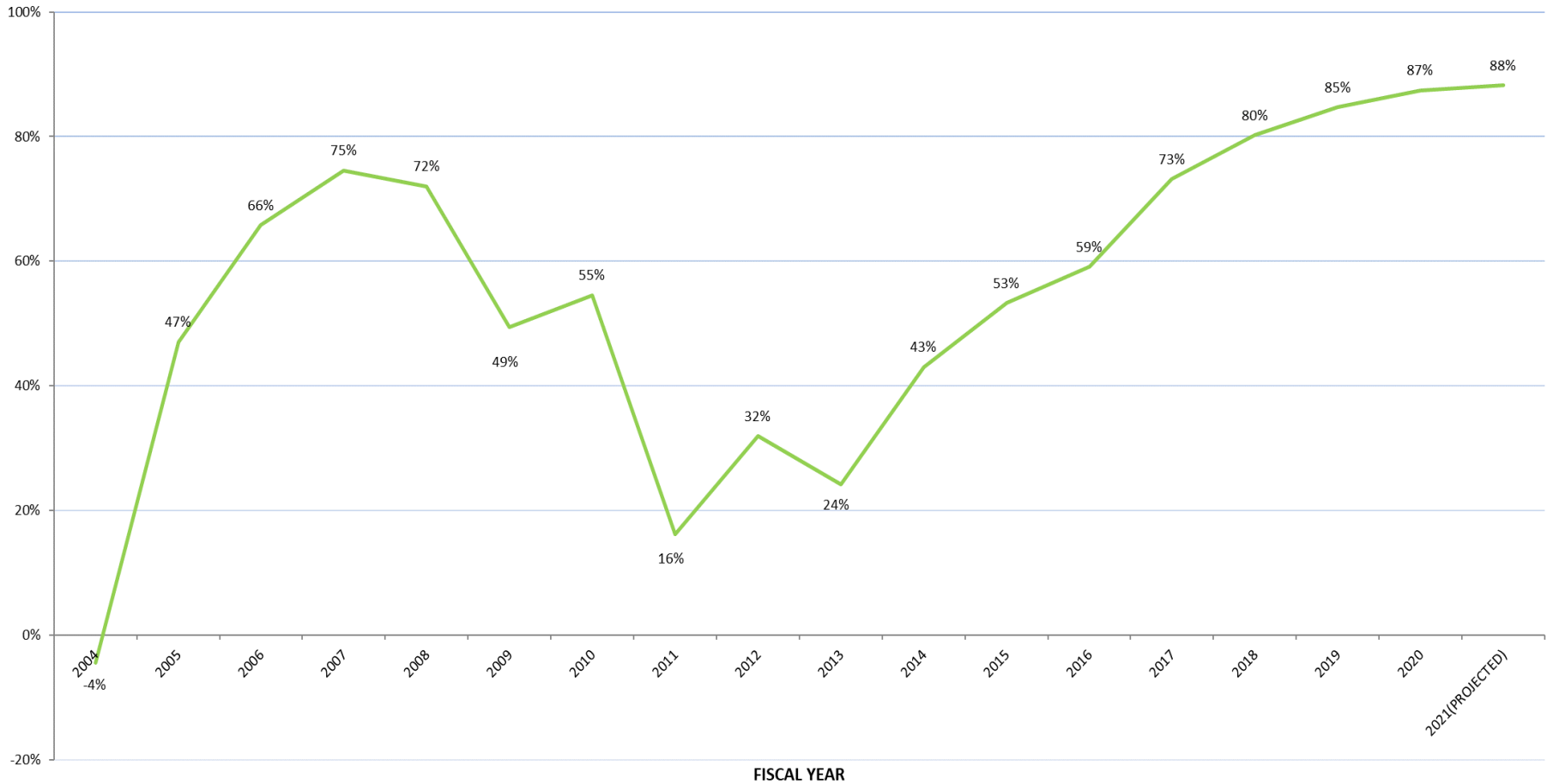
¹ 6/30/21 Projection

Source: Audited SISF Financial Statements Jun 30, 2006-2020

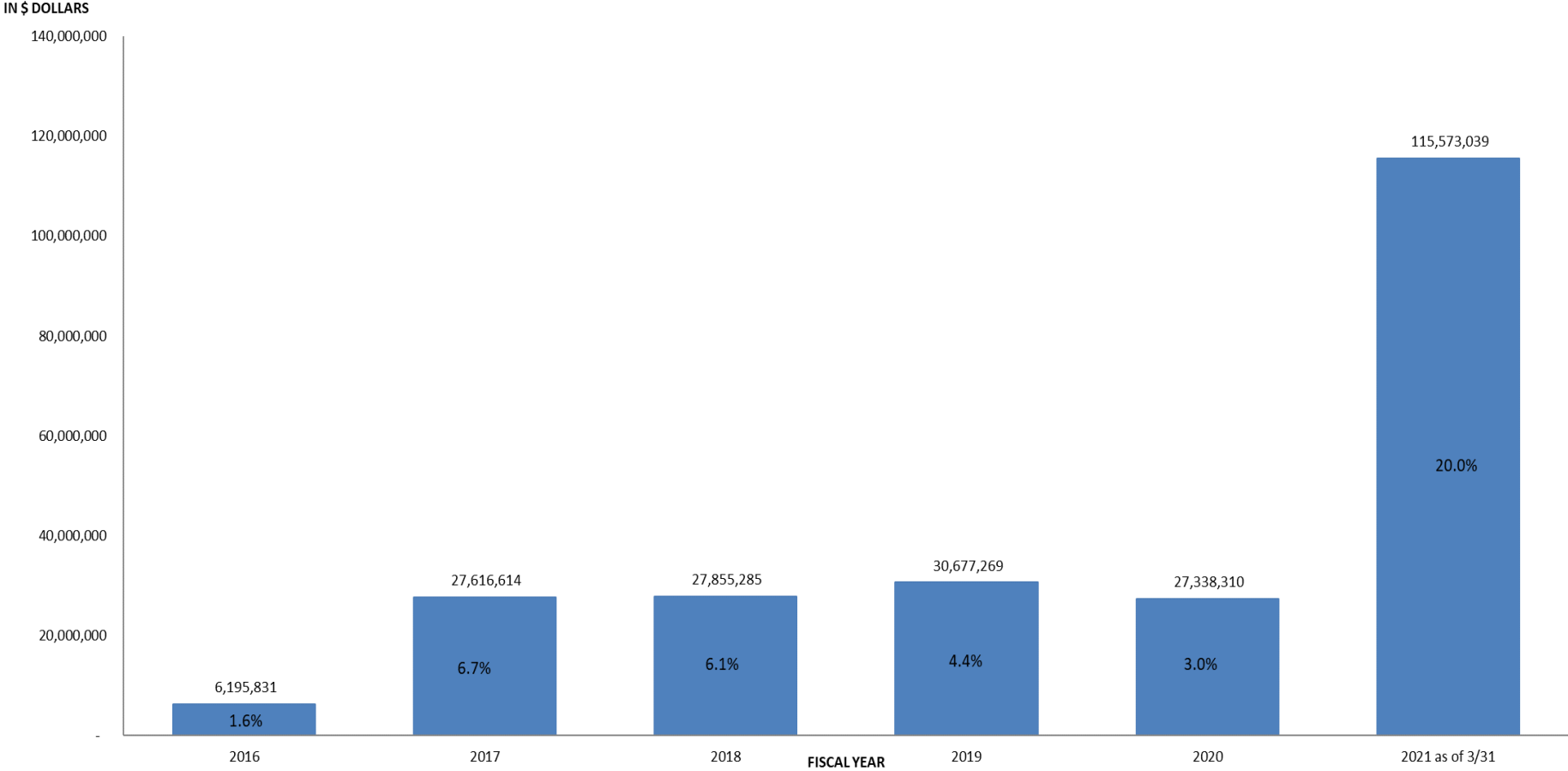
Net and Gross Assets (ASP inception)



% Net Assets / Gross Assets (ASP inception)

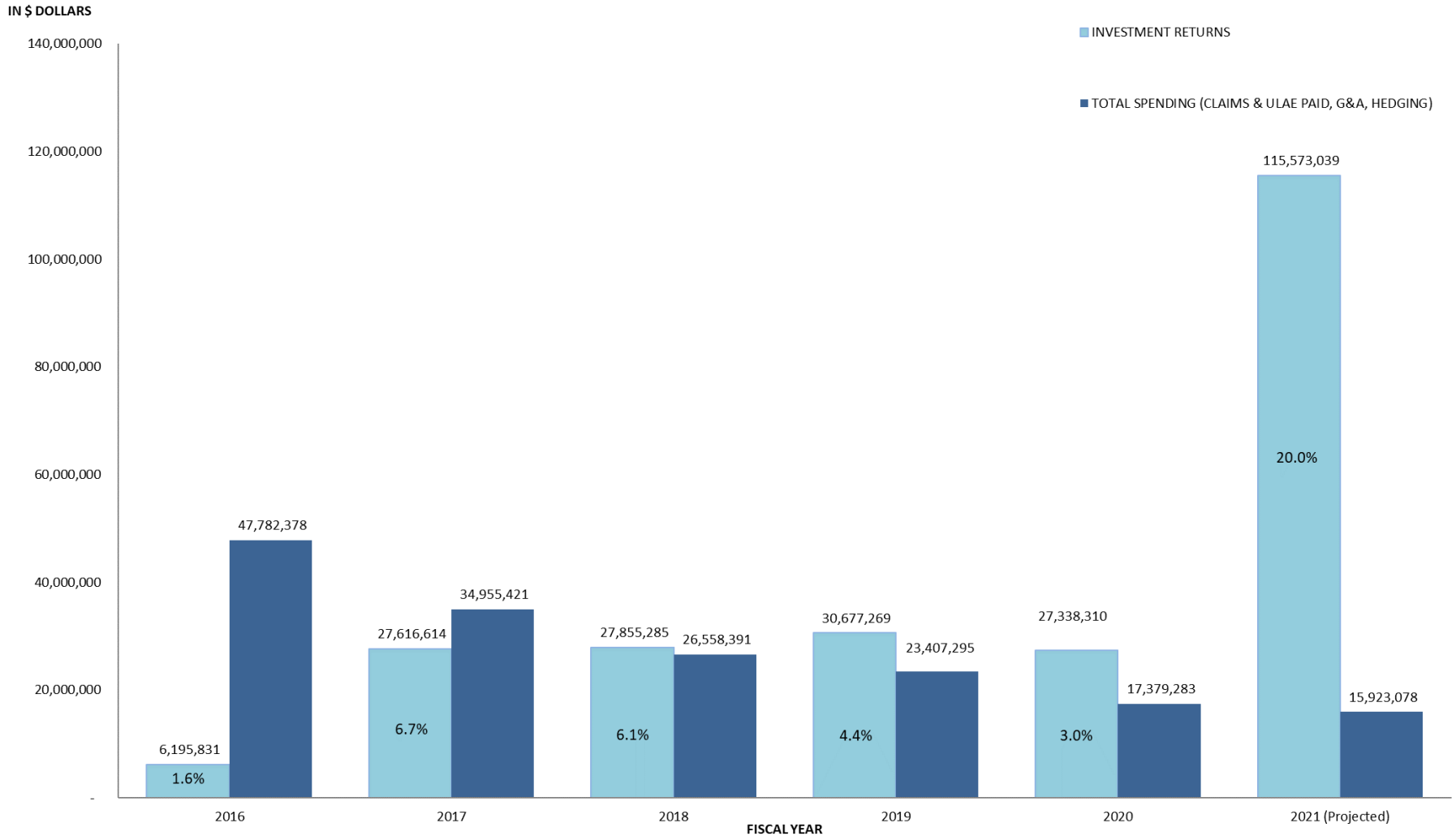


Investment Returns



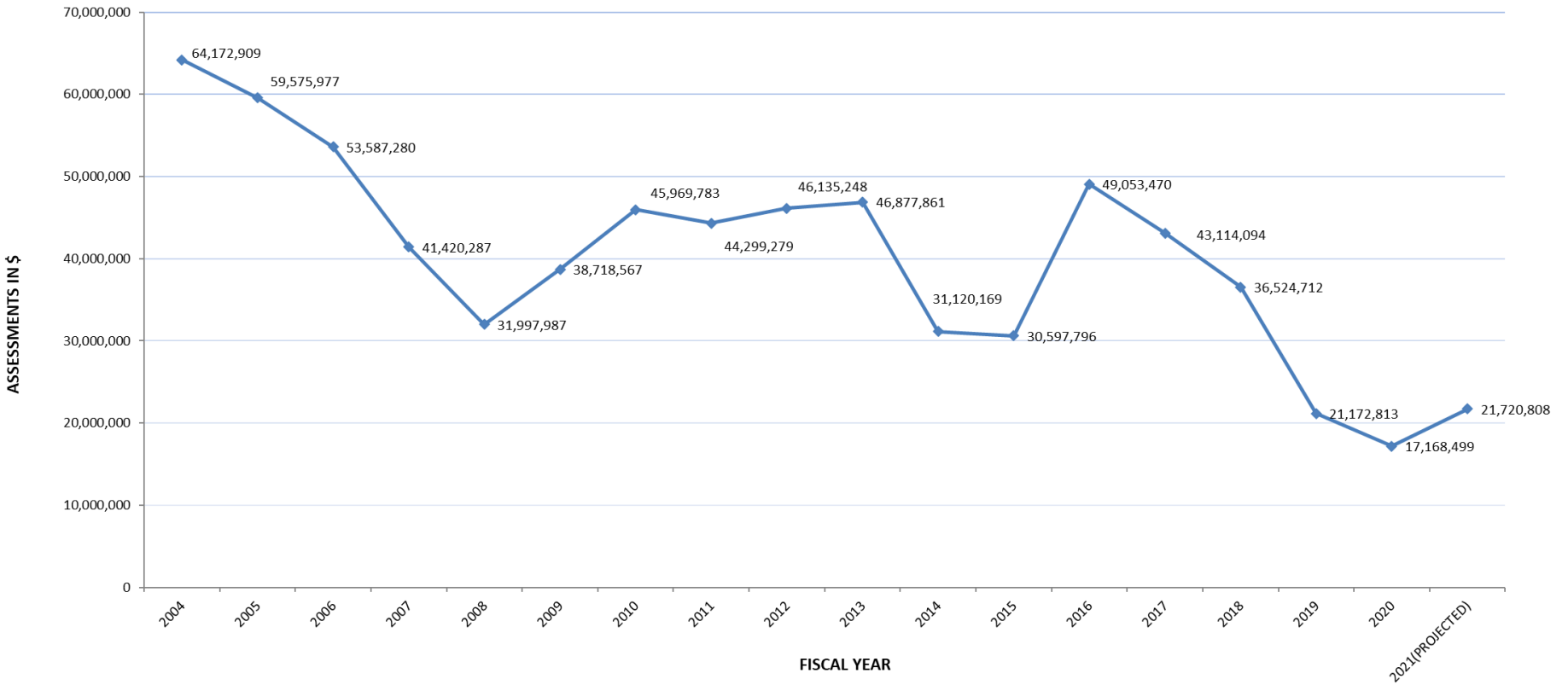
Last six fiscal years

Total Spending and Investment Returns

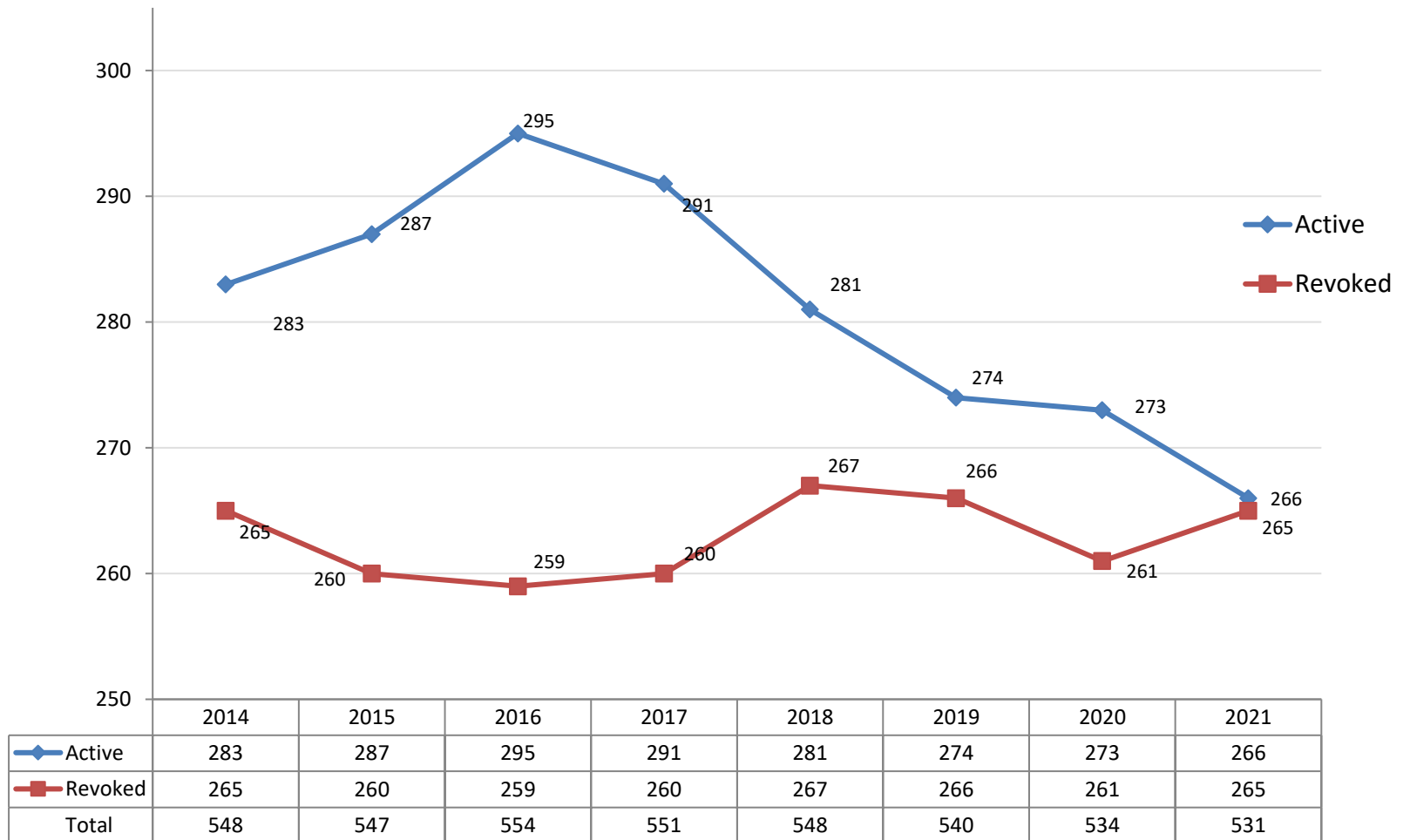


Last six fiscal years

Assessments (ASP inception)

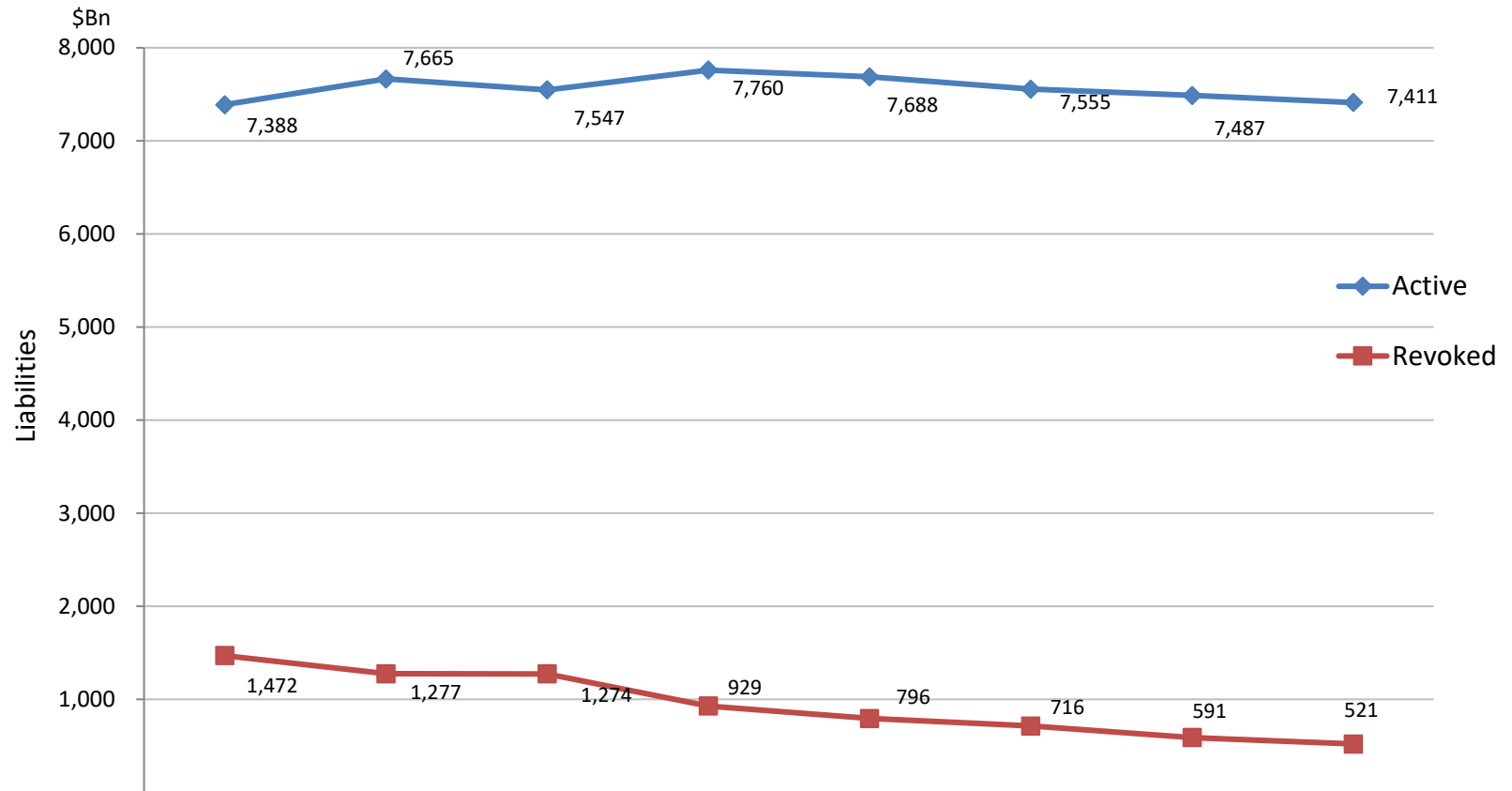


Members by Status



Last eight fiscal years

Exposure by Status



	2014	2015	2016	2017	2018	2019	2020	2021
Active	7,388	7,665	7,547	7,760	7,688	7,555	7,487	7,411
Revoked	1,472	1,277	1,274	929	796	716	591	521
Total	8,860	8,942	8,821	8,689	8,484	8,270	8,078	7,932

Last eight fiscal years

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%	

Grant Heinitz
Credit Risk Manager

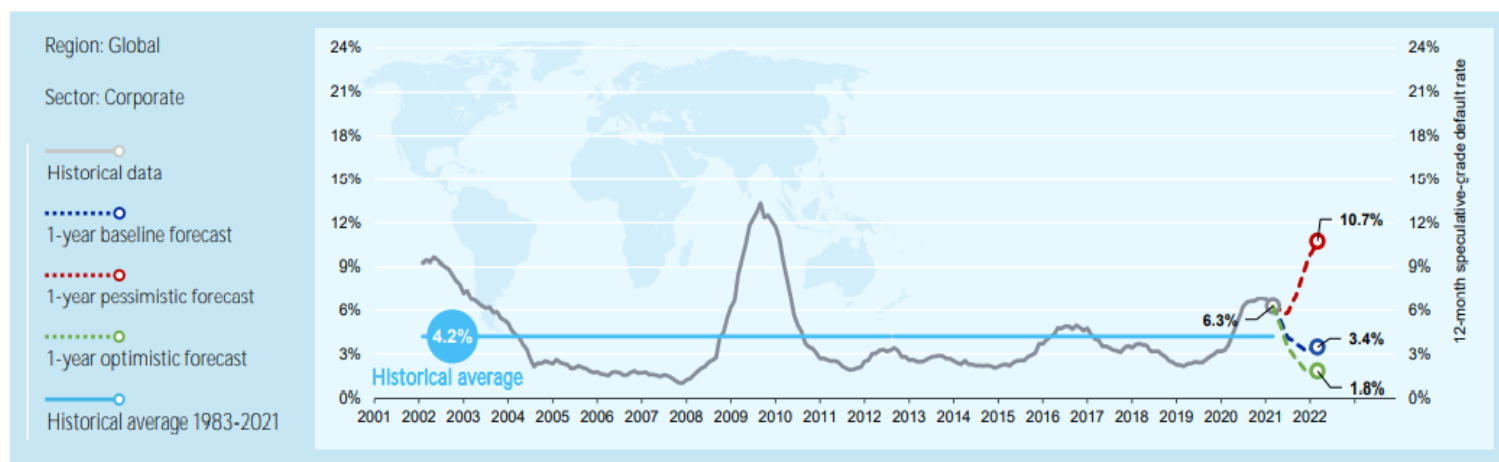


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Global Speculative-Grade Default Rates & Forecast

The global speculative-grade default rate ended March at 6.3% and is expected to end the year at ~3.2% before rising slightly to 3.4% by the end of March 2022. The default rate's peak, which likely peaked in the current cycle at 6.8% in December 2020, came in considerably lower than that of the previous three recessionary periods.

Global Speculative-Grade Default Rates

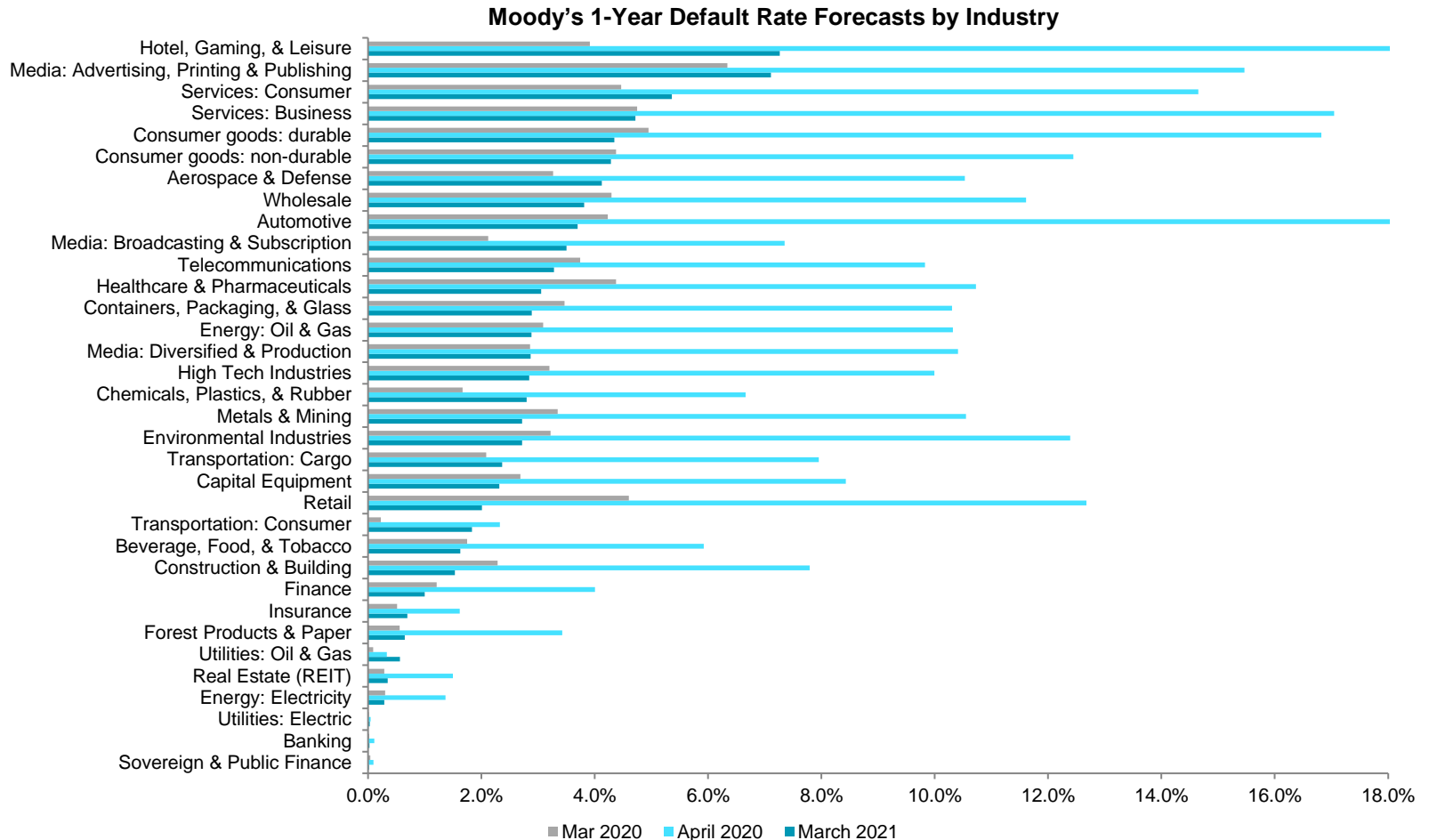


Macroeconomic assumptions	Unemployment rate* (%):				HY spread* (bps):				
	3-month period ending in:	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2021	Sep 2021	Dec 2021	Mar 2022
Baseline scenario		5.7	5.4	5.3	5.1	378	395	430	448
Pessimistic scenario		6.8	8.1	8.6	8.8	1,082	1,048	911	751
Optimistic scenario		5.5	4.6	3.5	3.2	328	314	341	372

* These US rates are three-month averages.

Industry Default Rate Forecasts

The Hotel, Gaming & Leisure sector is seen by Moody's as the riskiest industry in terms of expected default rate in the United States. Default expectations have materially fallen for most industries, back closer to pre-pandemic levels, from COVID peaks during Q2 2020.



Source: Moody's Investors Service March & April 2020, March 2021 Default Reports

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 Credit Risk Monitor)
- Quarterly unaudited financials required for private non-investment grade members
- Trade payment data
- Watchlist and internal scorecard
- Management discussions

ASP – Overview

- Successful implementation of 2020/21 Alternative Security Program
 - 8th year post SB863
 - ASP and Composite Deposit decreased slightly (-1.8%) and (-1.0%)
- Financial strength of Fund continues to improve¹
 - net \$543 mill
 - gross \$621 mill
- Overall portfolio credit rating stable – Baa2 / Baa3
- Assessment of \$27mm unchanged from the prior year
 - \$5mm in Premium credit was returned to eligible members
 - Actual assessment of \$22mm (net of Premium Credit)

¹ SISF Audited Financial Statements 6/30/2020

ASP – Participation Summary

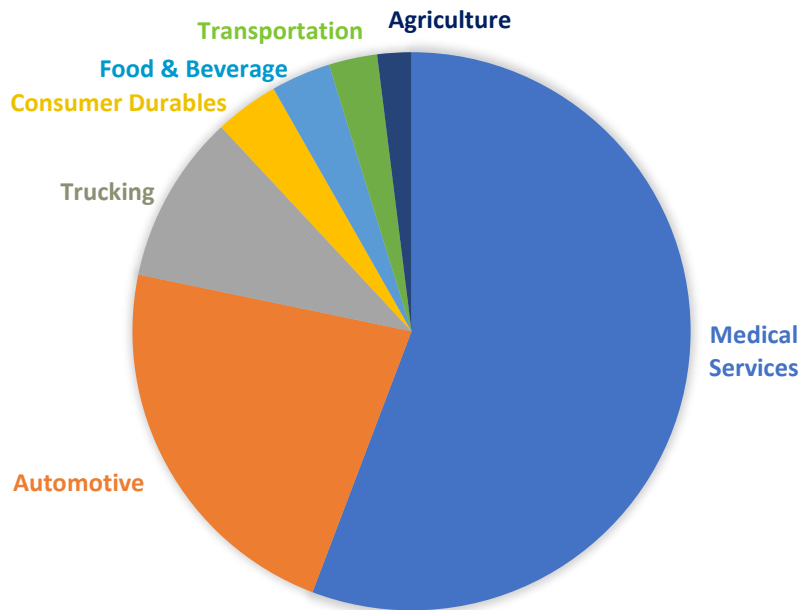
ASP liabilities have decreased consistently since the passage of SB863...

	2020/21		2019/20		Δ	
	\$ (mm)	#	\$ (mm)	#	\$ (mm)	%
Fully	5,532	284	5,719	300	(187)	-3.3%
Partial	955	53	832	47	123	14.8%
Composite Deposit	6,487	337	6,551	347	(64)	-1.0%
Partial	520	53	635	47	(115)	-18.0%
Excluded	925	194	892	187	33	3.7%
3701 Security	1,446		1,527		(82)	-5.3%
Total ASP	7,932	531	8,078	534	(192)	-1.8%

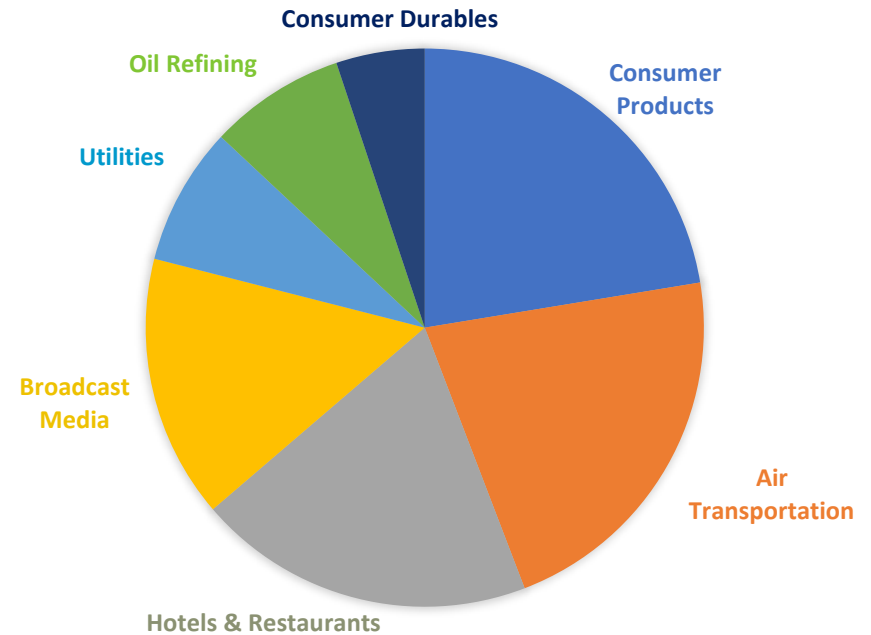
ASP – The Pandemic and its Effect on WC Liabilities

The reduction in payroll and/or adverse effects of the pandemic for many industries had an immediate impact on estimated future liabilities

INDUSTRIES THAT EXPERIENCED LARGE INCREASES



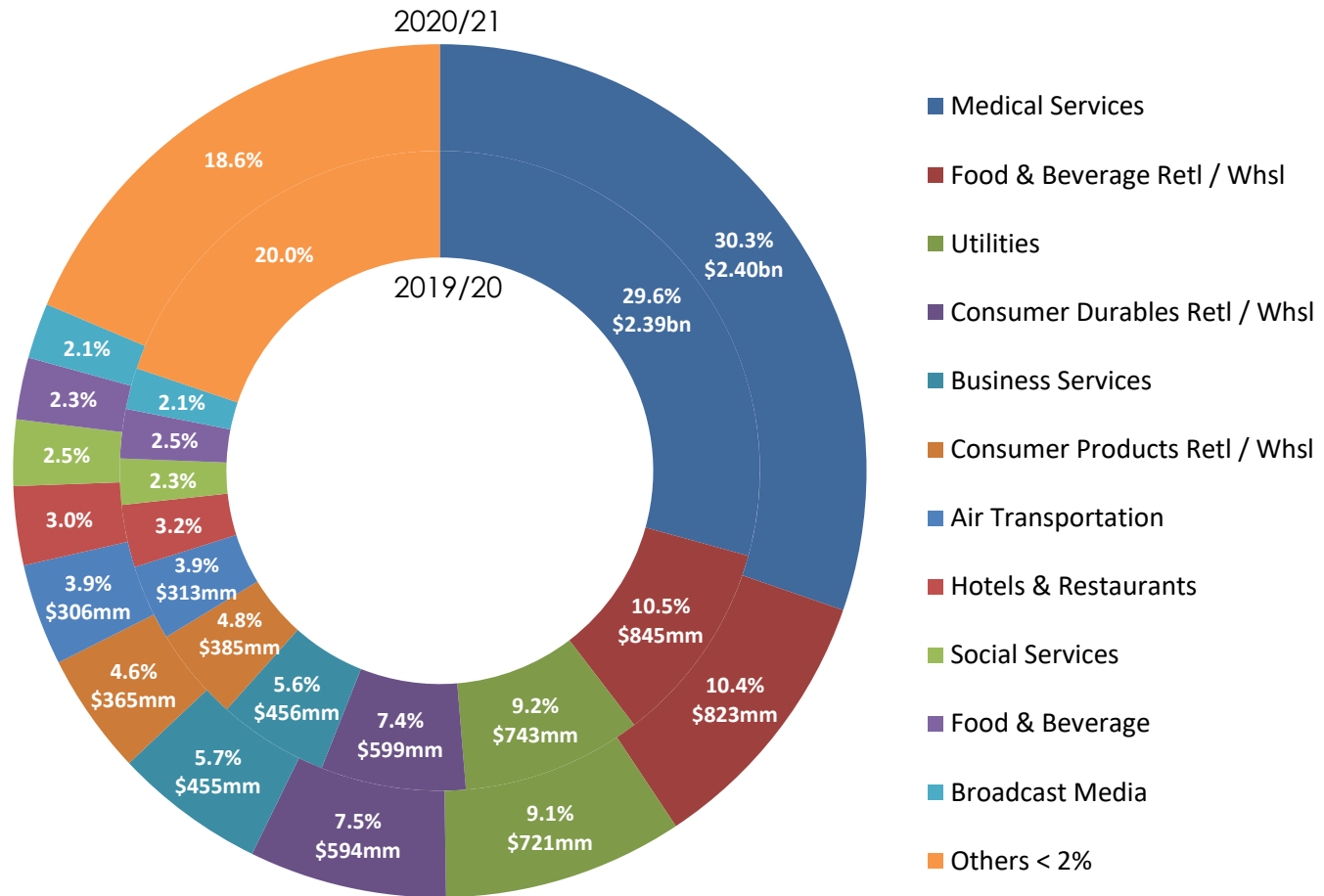
INDUSTRIES THAT EXPERIENCED LARGE DECREASES



Source: Actuarial reports data as of 12-30-2020

Total ASP – Industry Distribution

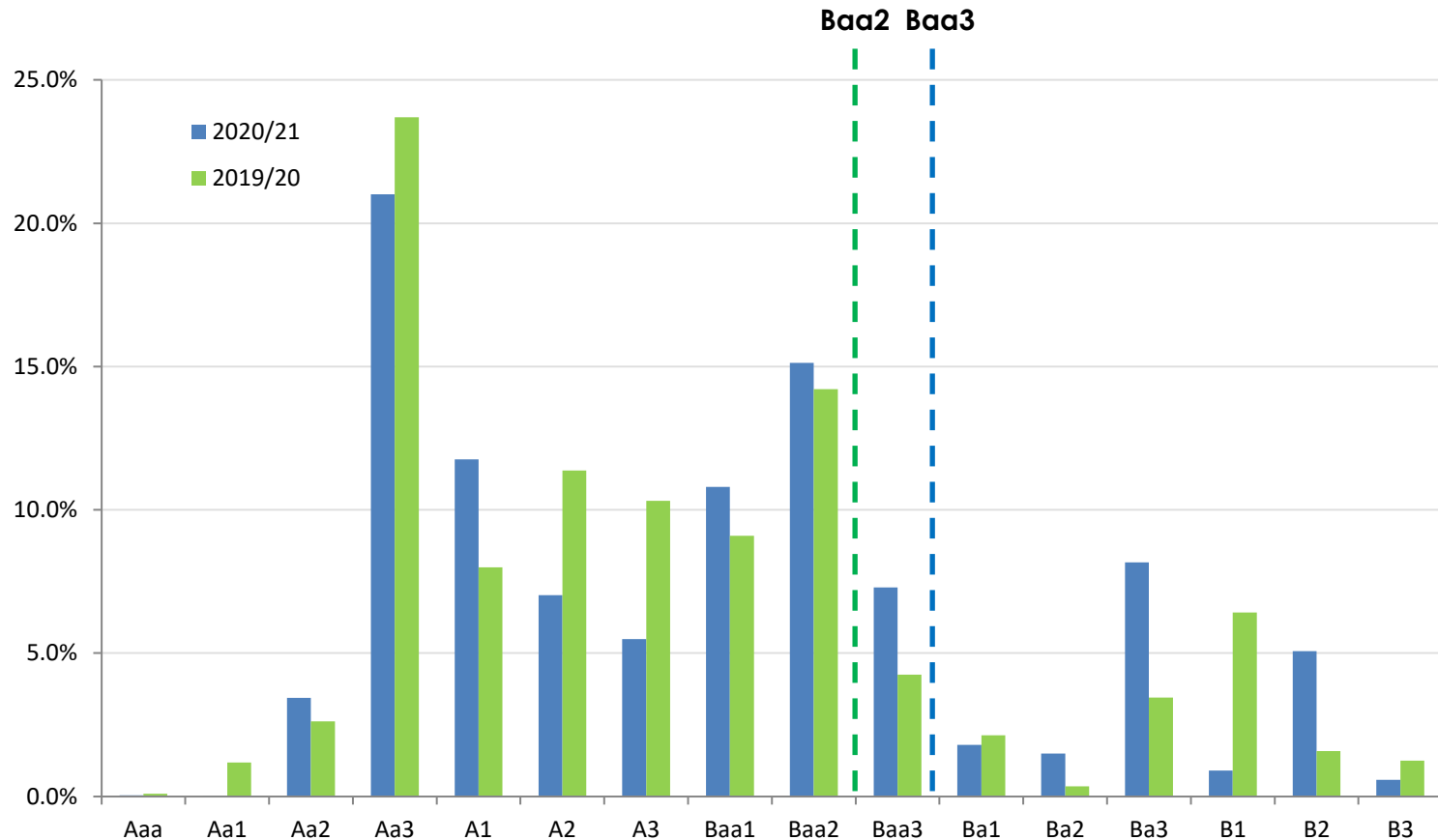
Total liabilities have decreased year-over-year, but industry exposure is relatively unchanged across all groups



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

ASP – Rating Distribution

The overall portfolio credit rating decreased one-notch due to the impact of COVID-19 and rating movements of several members in 2020...



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

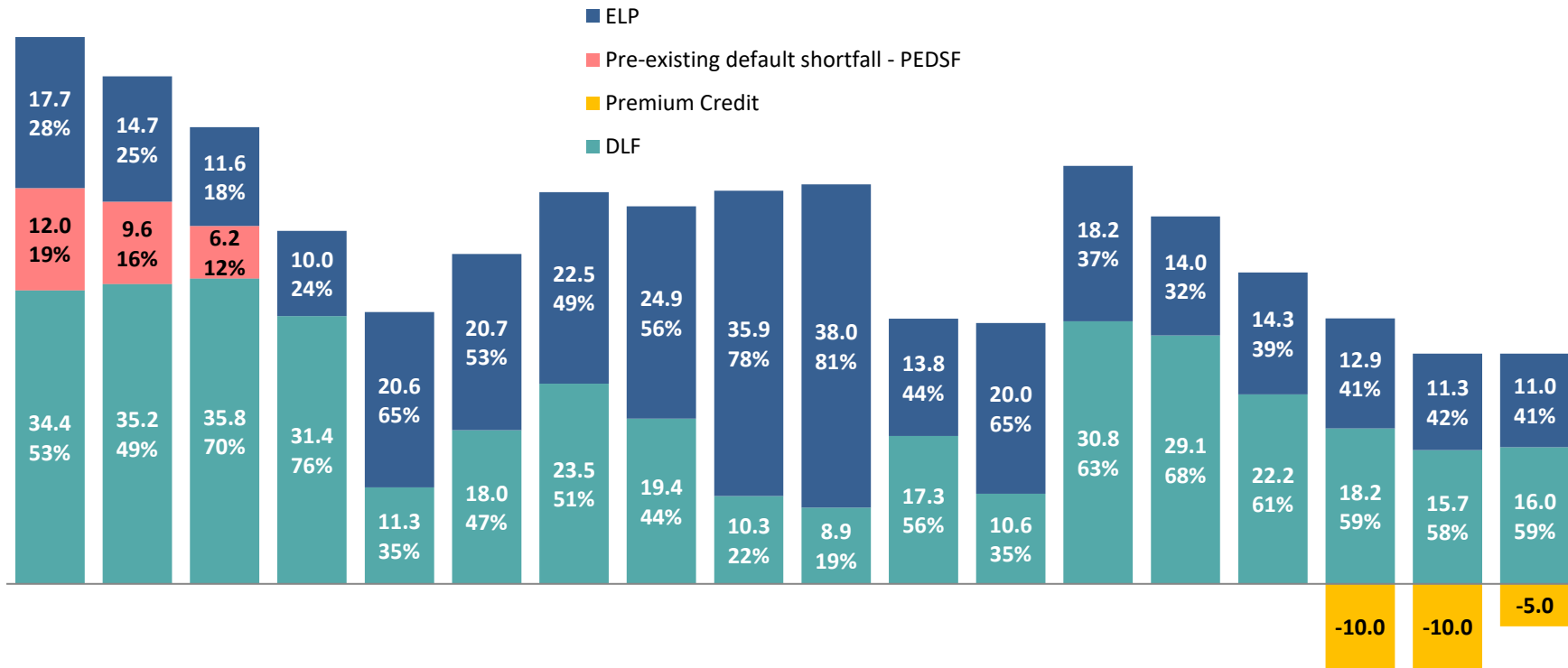
DLF

Capital

Claims

General administrative

ASP – Total Assessment



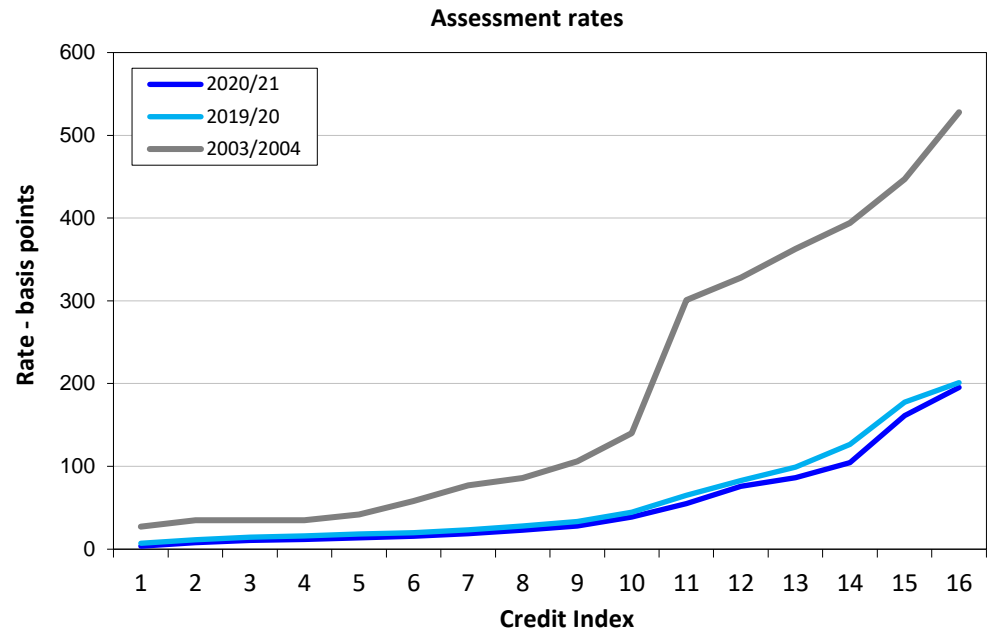
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Aggregate fees	64.2	59.6	53.6	41.4	31.9	38.7	46.0	44.3	46.1	46.9	31.1	30.6	49.1	43.1	36.5	21.1	17.0	22.0
Total liabilities	4,675.0	5,797.0	5,893.0	5,516.1	6,086.1	6,386.6	6,376.8	6,571.5	6,682.2	7,011.4	8,860.2	8,900.4	8,878.3	8,716.7	8,478.2	8,270.2	8,078.2	7,932.0
%	1.4	1.0	0.9	0.8	0.5	0.6	0.7	0.7	0.7	0.7	0.4	0.3	0.6	0.5	0.4	0.3	0.2	0.3

Liabilities as of 5-3-2021

ASP – Assessment Rates

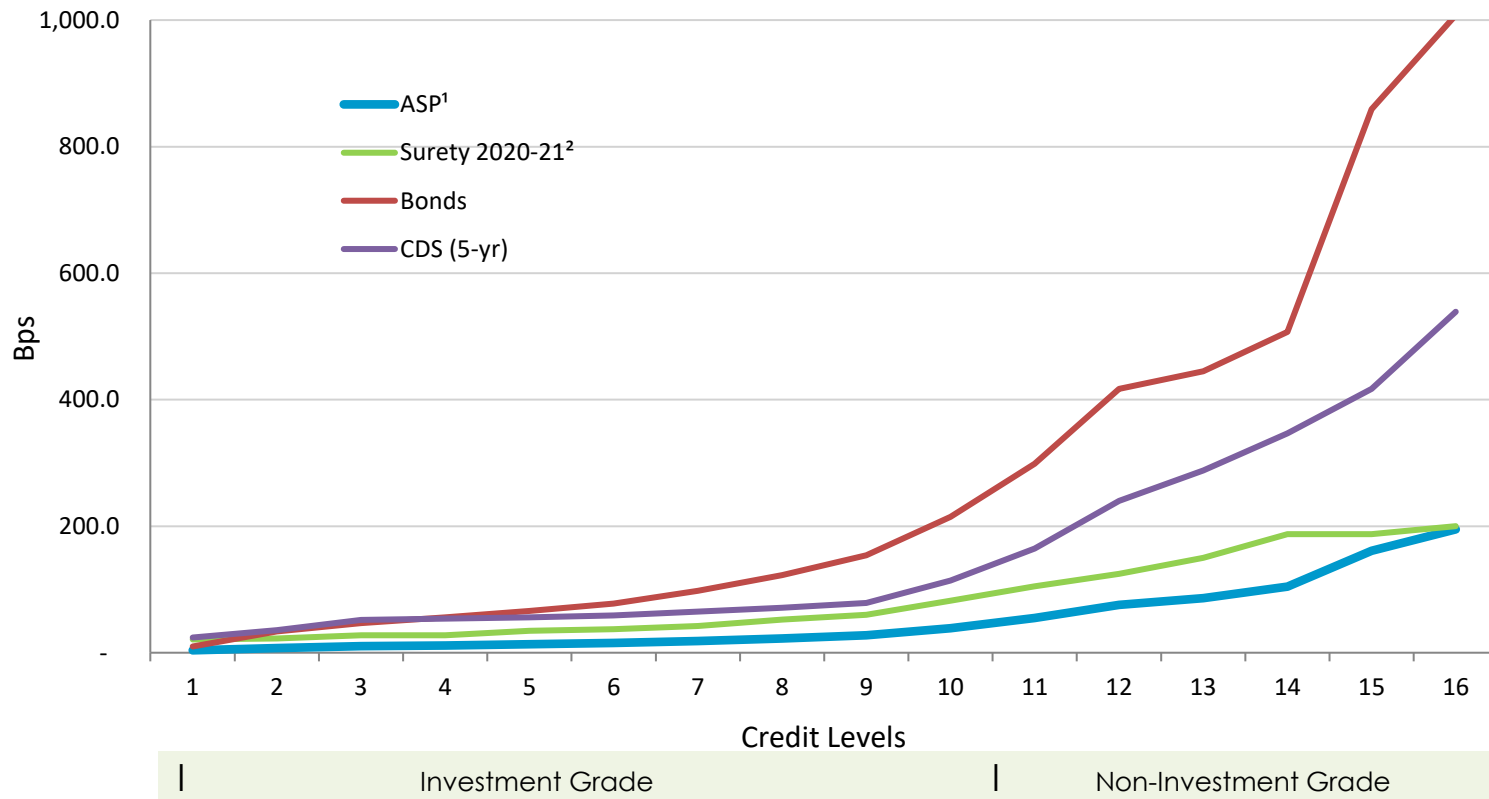
Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across all levels

Index	Rating	2020/21	2019/20	% Δ
1	Aaa / AAA+	4	7	-47%
2	Aa1 / AA+	8	11	-31%
3	Aa2 / AA	10	15	-29%
4	Aa3 / AA-	12	16	-26%
5	A1 / A+	14	18	-26%
6	A2 / A	15	20	-23%
7	A3 / A-	19	23	-20%
8	Baa1 / BBB+	23	28	-18%
9	Baa2 / BBB	28	33	-16%
10	Baa3 / BBB-	39	45	-13%
11	Ba1 / BB+	55	65	-15%
12	Ba2 / BB	76	83	-9%
13	Ba3 / BB-	86	99	-13%
14	B1 / B+	104	127	-17%
15	B2 / B	161	178	-9%
16	B3 / B-	195	201	-3%



ASP – Current rates vs. market

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



¹ SISF Assessment rates 2020/21

² Marsh Surety estimates

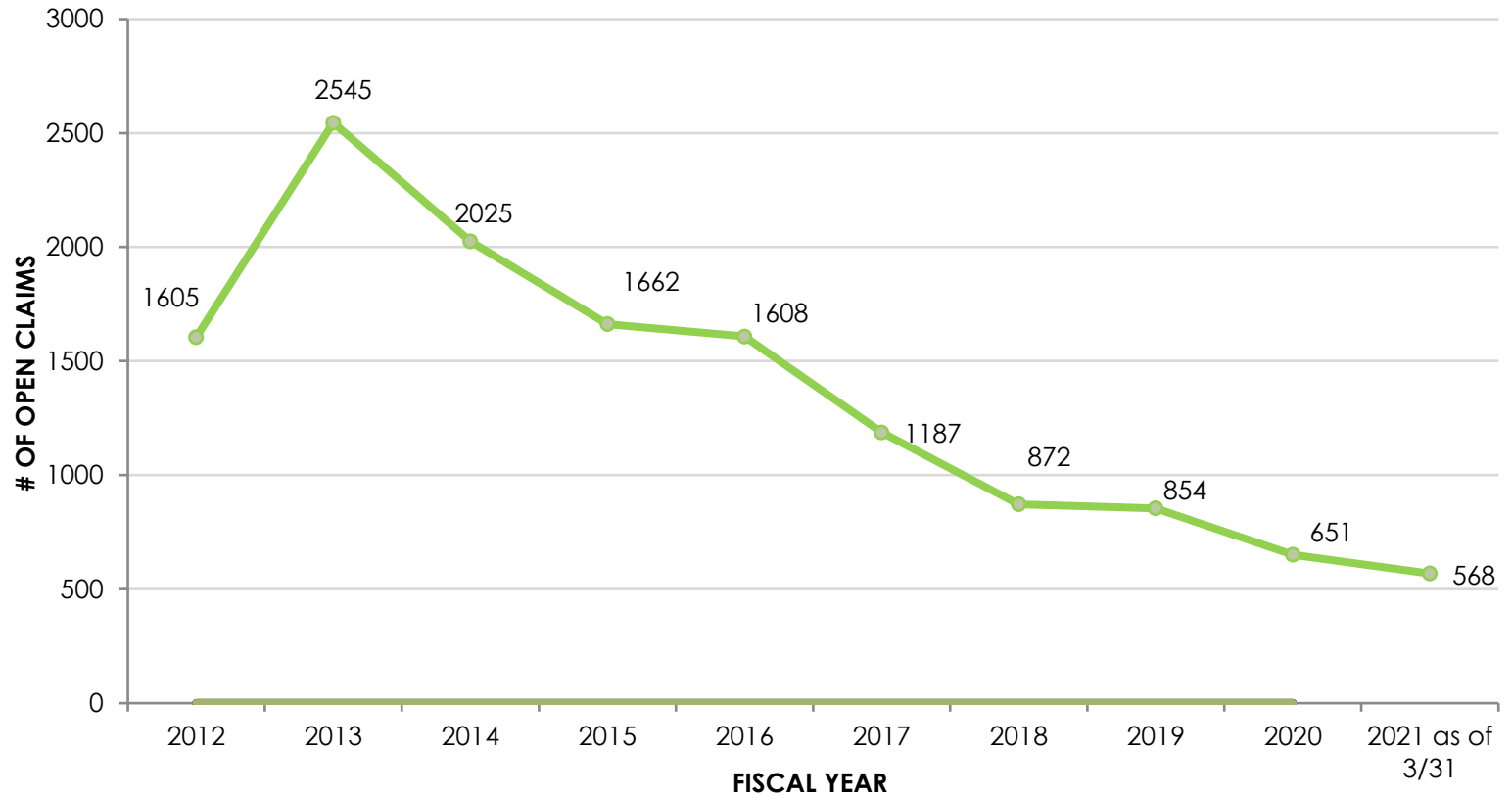
Moody's Market Implied Bond Spreads and CDS 5/18/2020

Jill Dulich
Claims and Operations Manager

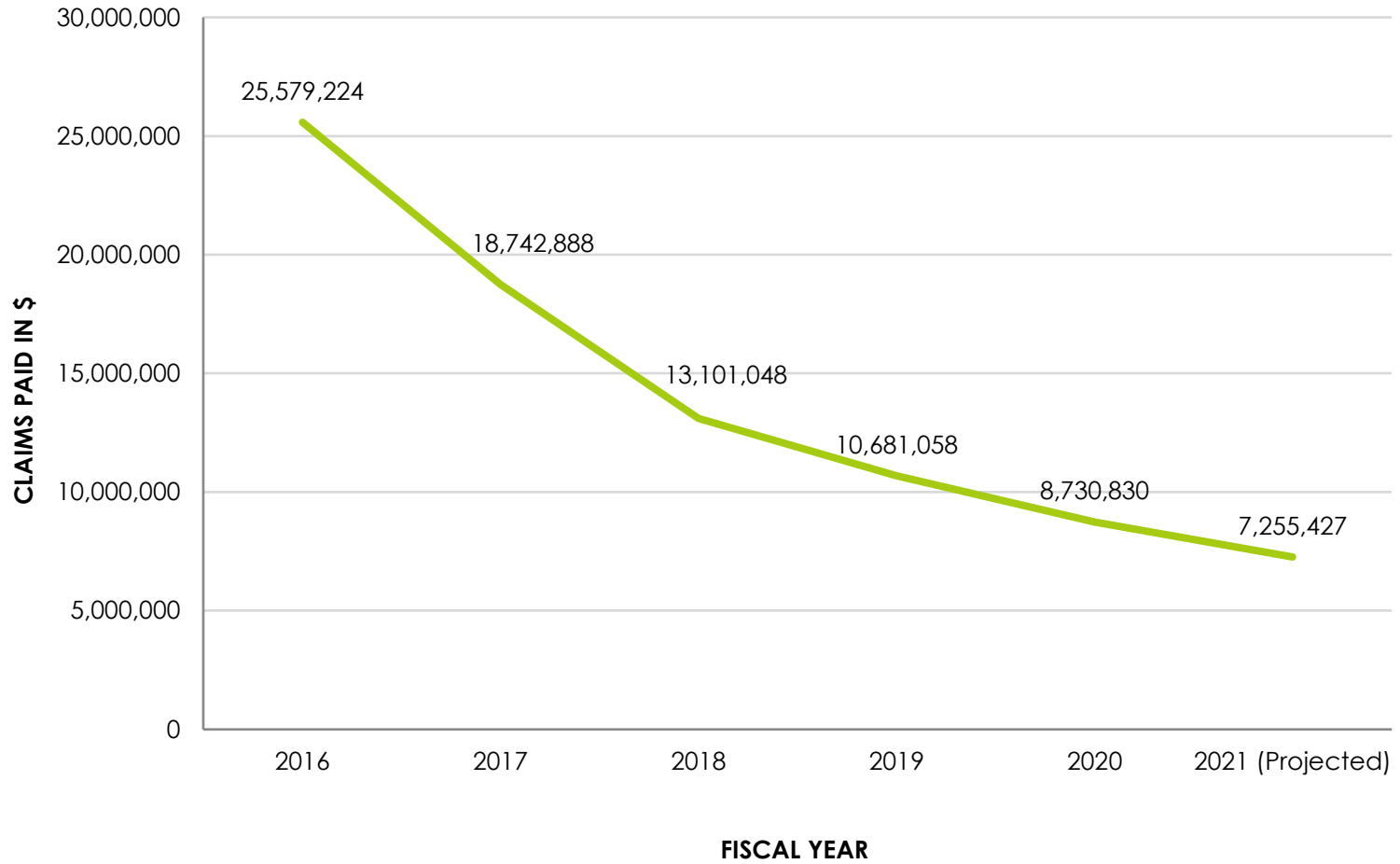


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Open Claims Count

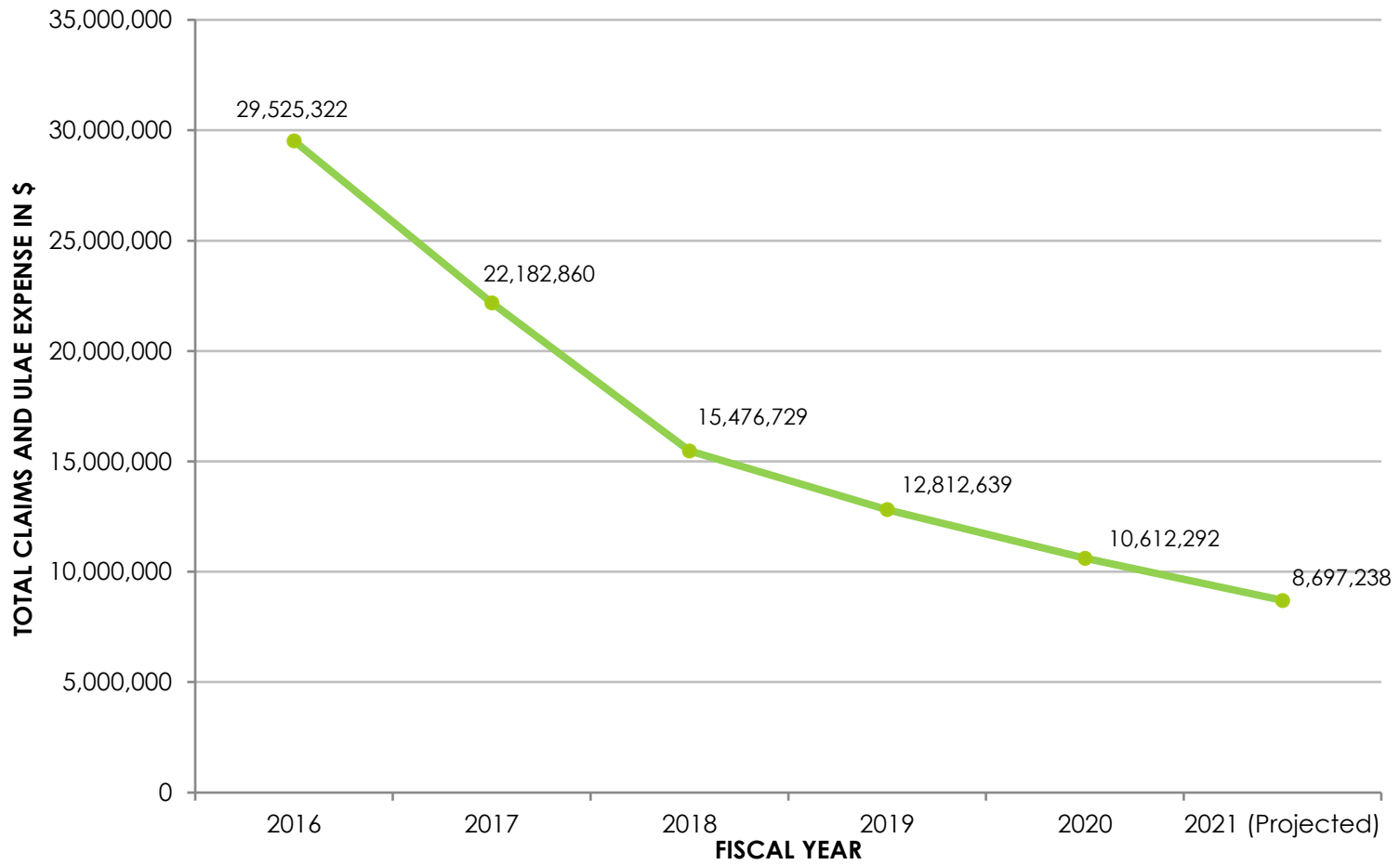


Claims Paid



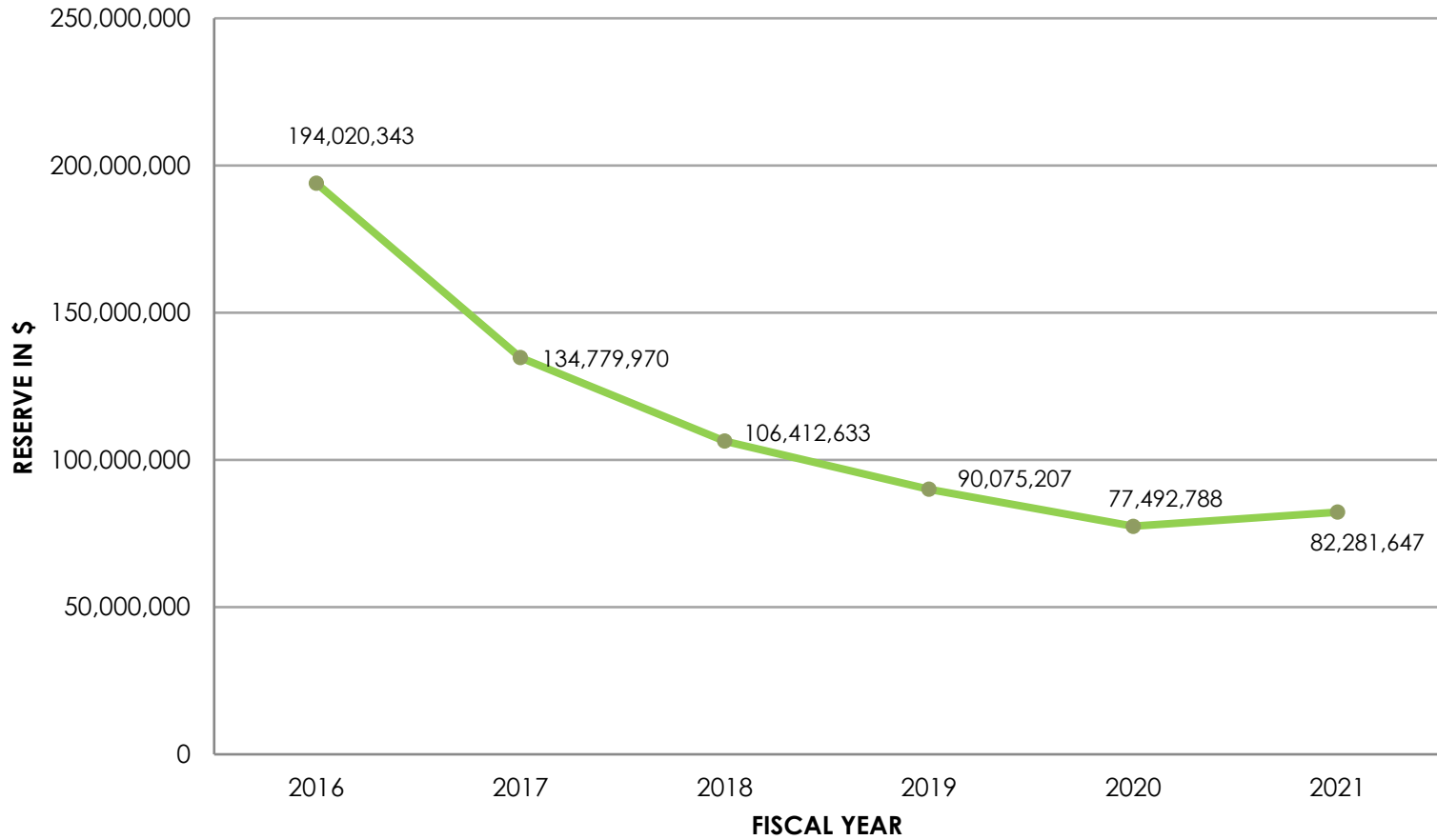
Last six fiscal years

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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