



CALIFORNIA
SELF-INSURERS'
SECURITY FUND

2019 Member Informational Meeting

April 8th 2019

Daniel Sovocool, Nixon Peabody

Grant Heinitz, SISF Credit Risk Manager

Jill Dulich, SISF Claims and Operations Manager



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."



CALIFORNIA
SELF-INSURERS'
SECURITY FUND

- 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
 540 self-insured entities
 \$8.3 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.*

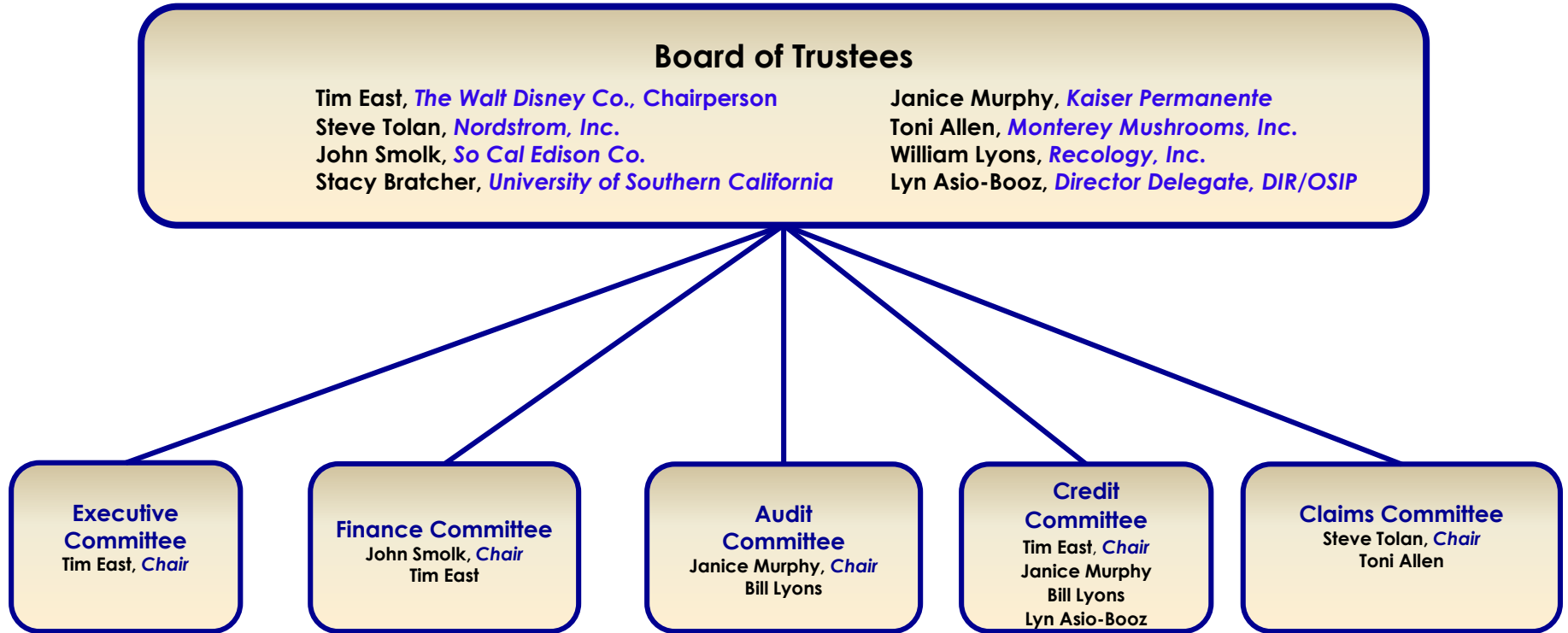


Stacy Bratcher, *University of Southern California*



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

Board and Committees

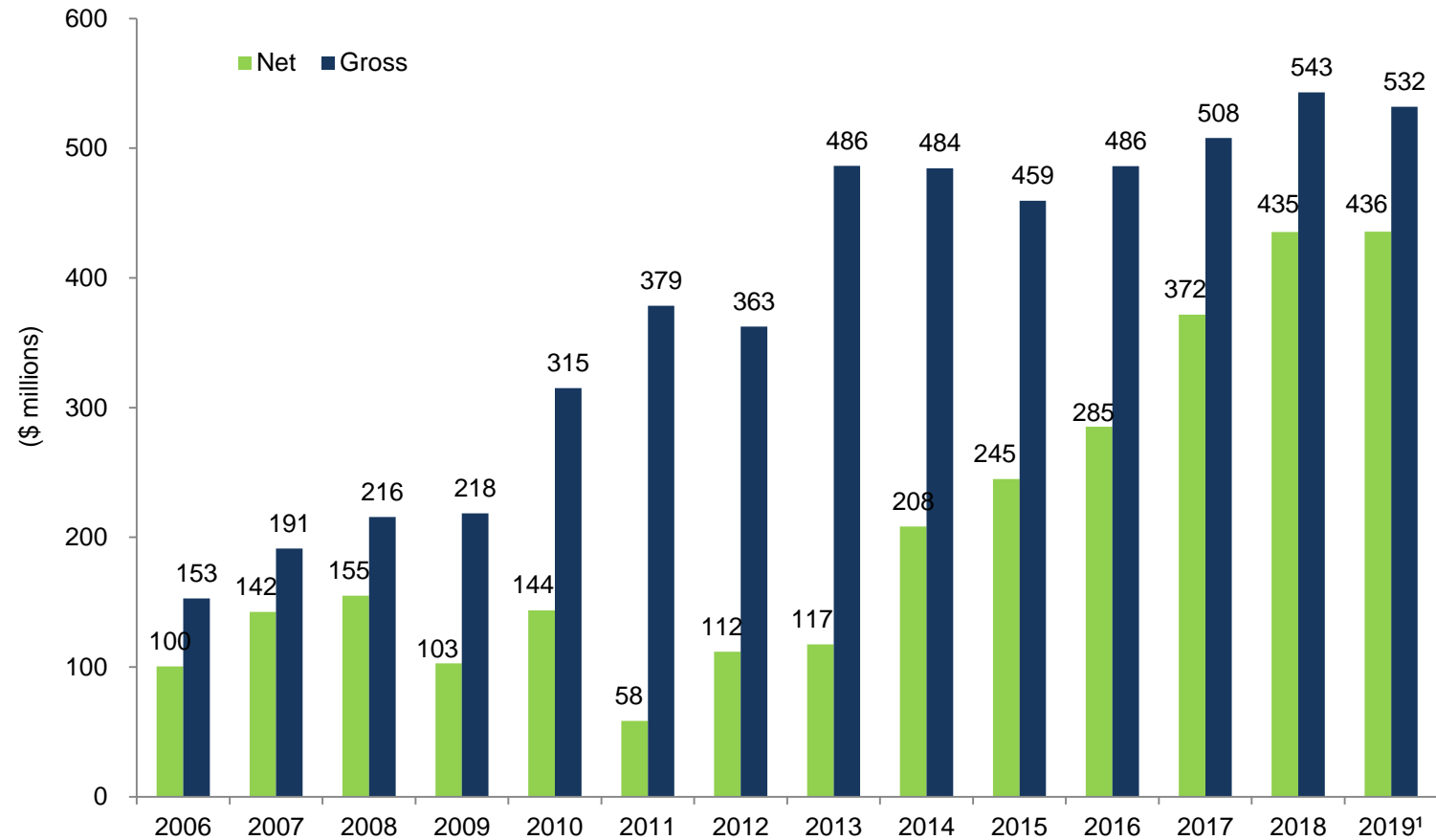


CA Self-Insurance Overview

Entities	540 (including 25 SIG' s)
Payroll	\$95 billion
Employees	2.3 million (1 in 8 in state)

ASP – Financial Strength

The ASP is operating as intended and both gross and net assets continue to grow

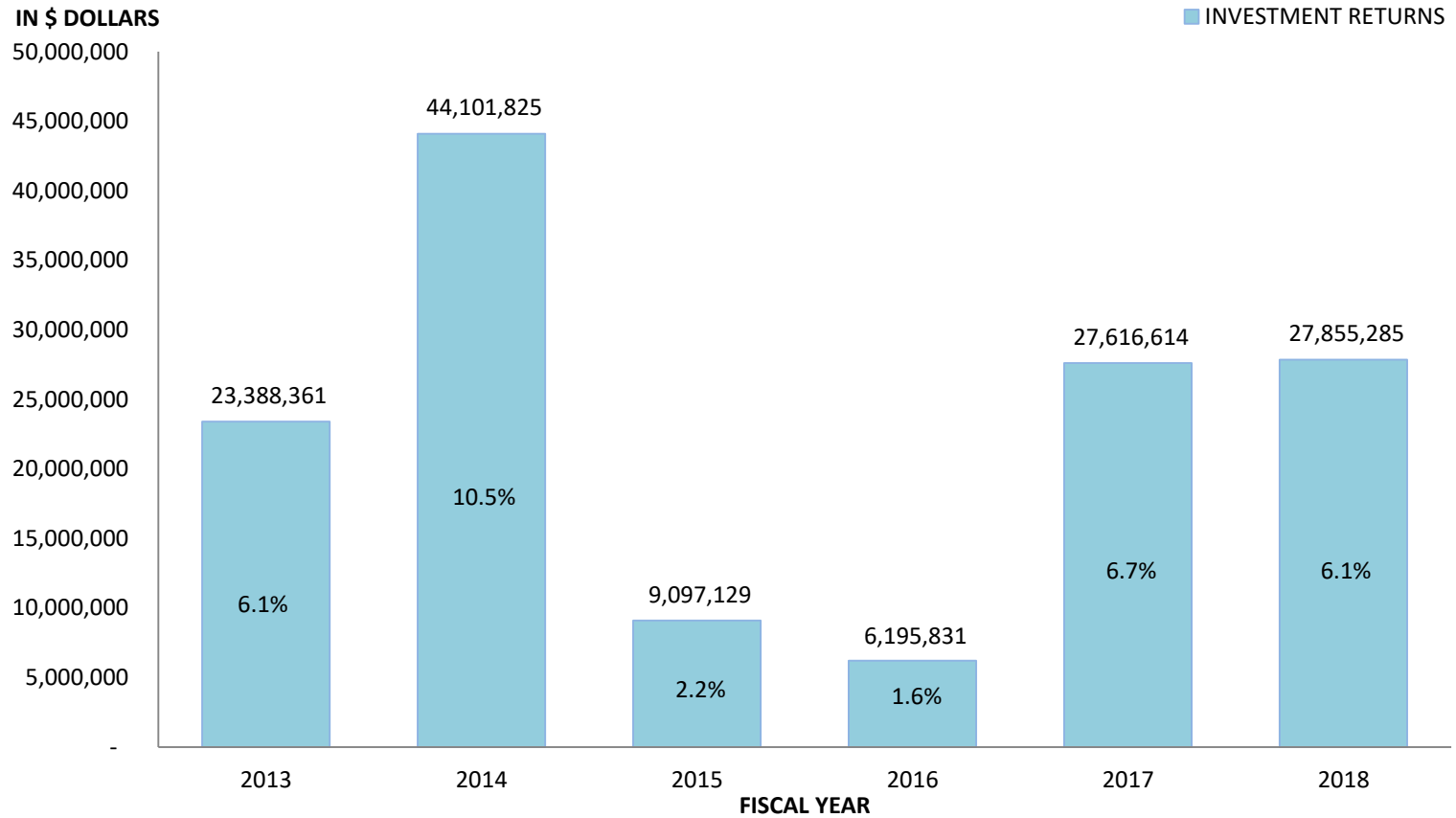


¹ SISF Monthly Financials 12/31/18 unaudited
Source: Audited SISF Financial Statements Jun 30, 2006-2018

Estates and Workers' Compensation Claims

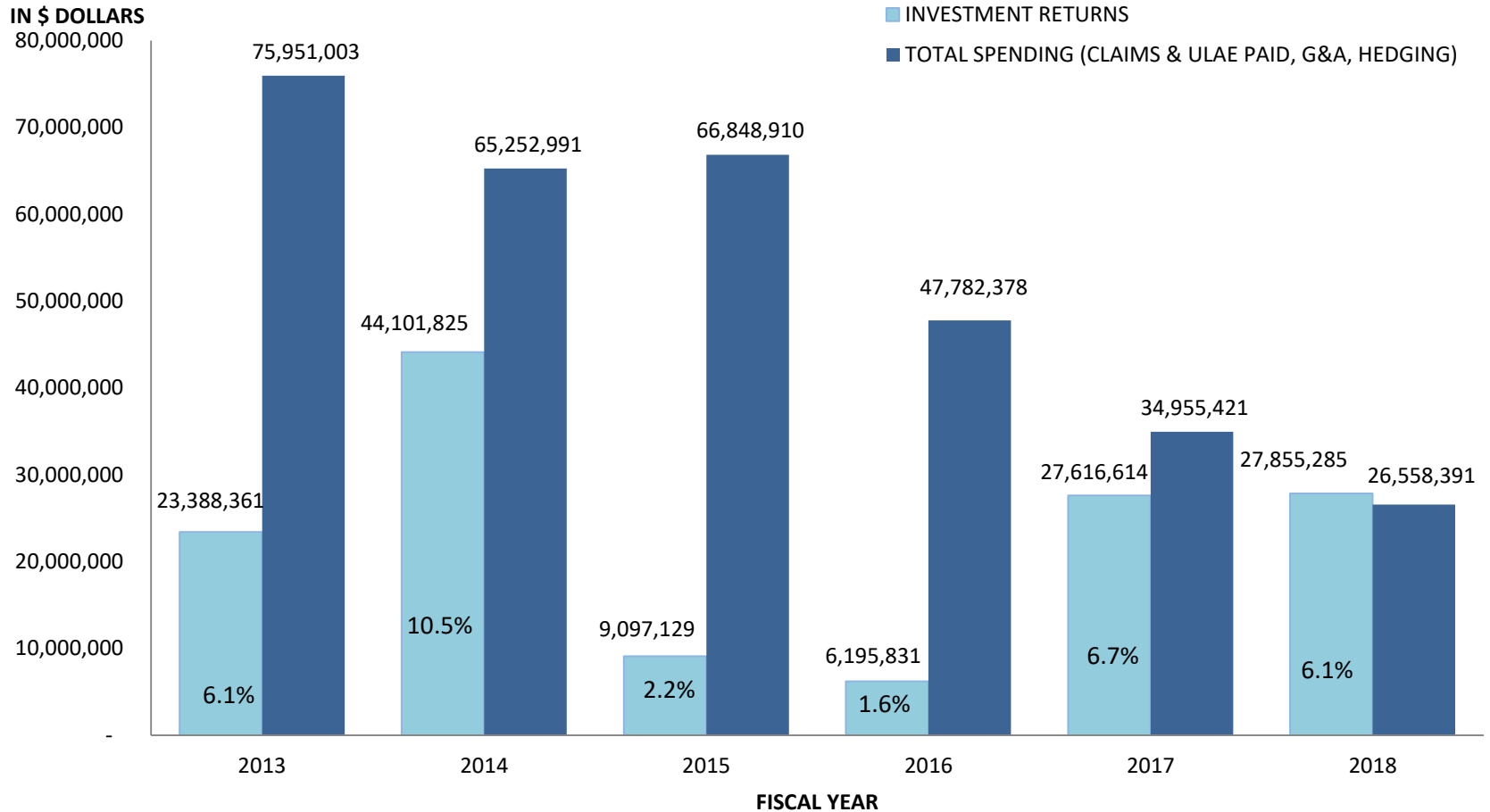
		<u>2019</u>	<u>2018</u>	<u>Δ</u>
Estates	Total (1968 to date)	86	85	1
	Active (1984 to present)	46	46	0
Claims (as of 2/28)	Open	854	957	-103
Claim Liability (net)	Paid (1984-2018)	\$381,200,737	\$386,302,296	-\$5,101,559
	Open Case Reserves (EFL)	\$36,341,934	\$45,111,000	-\$8,769,066
	IBNR + ULAE (actuarial estimate as of 12/31)	\$30,653,508	\$39,432,000	-\$8,778,492
		\$448,196,179	\$470,845,296	-\$22,649,117
OSIP Deposits turned over to Fund		<u>\$255,562,783</u>	<u>\$251,051,000</u>	<u>\$4,511,783</u>
SISF total net assets (as of 12/31)		\$435,597,150	\$428,668,257	\$6,928,893
Projected annual costs	- claims (net of excess)	\$11,000,000	\$10,500,000	\$500,000
	- claims admin	\$2,000,000	\$2,500,000	-\$500,000
	- Total	\$13,000,000	\$13,000,000	\$0

Investment Returns



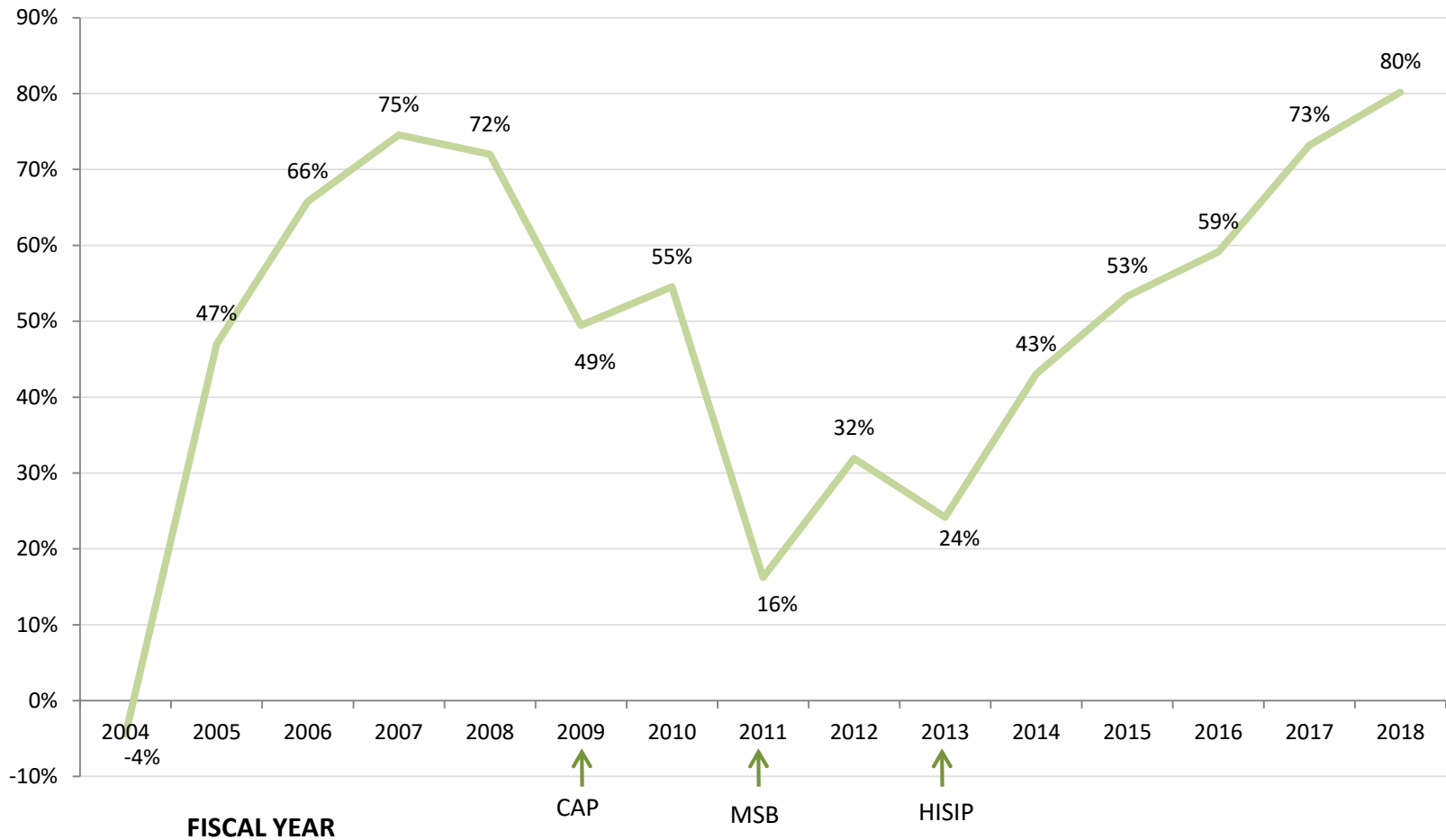
Last six fiscal years

Total Spending and Investment Returns

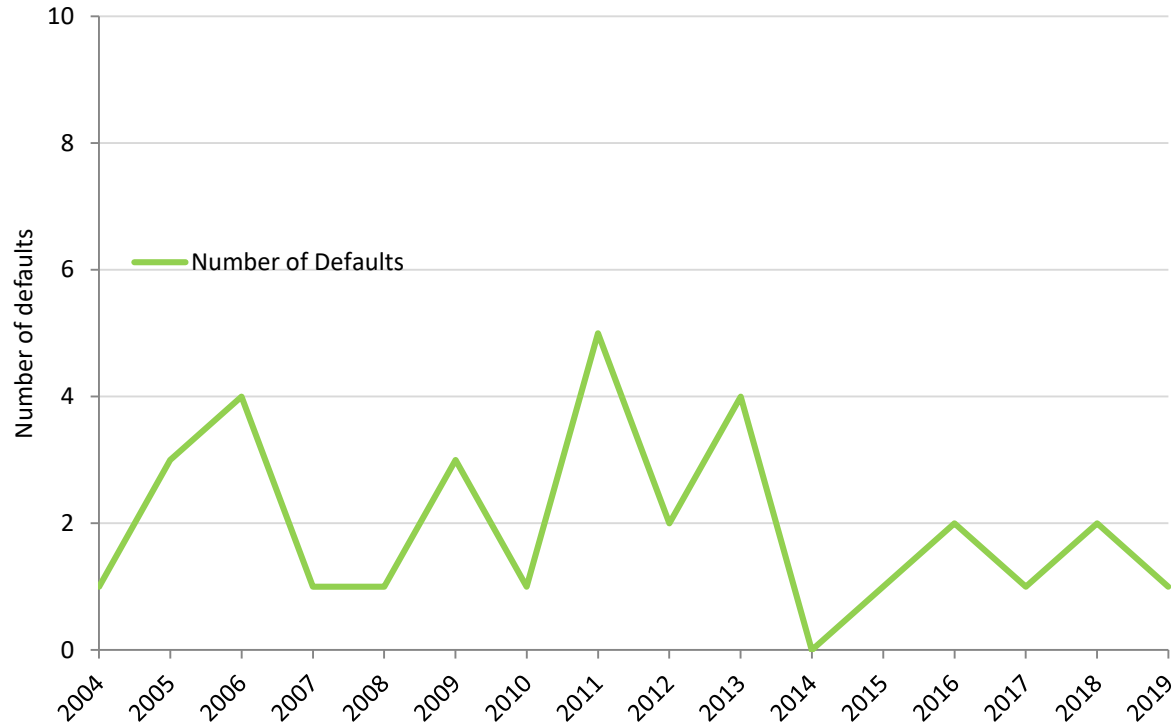


Last six fiscal years

% Net Assets / Gross Assets (ASP inception)



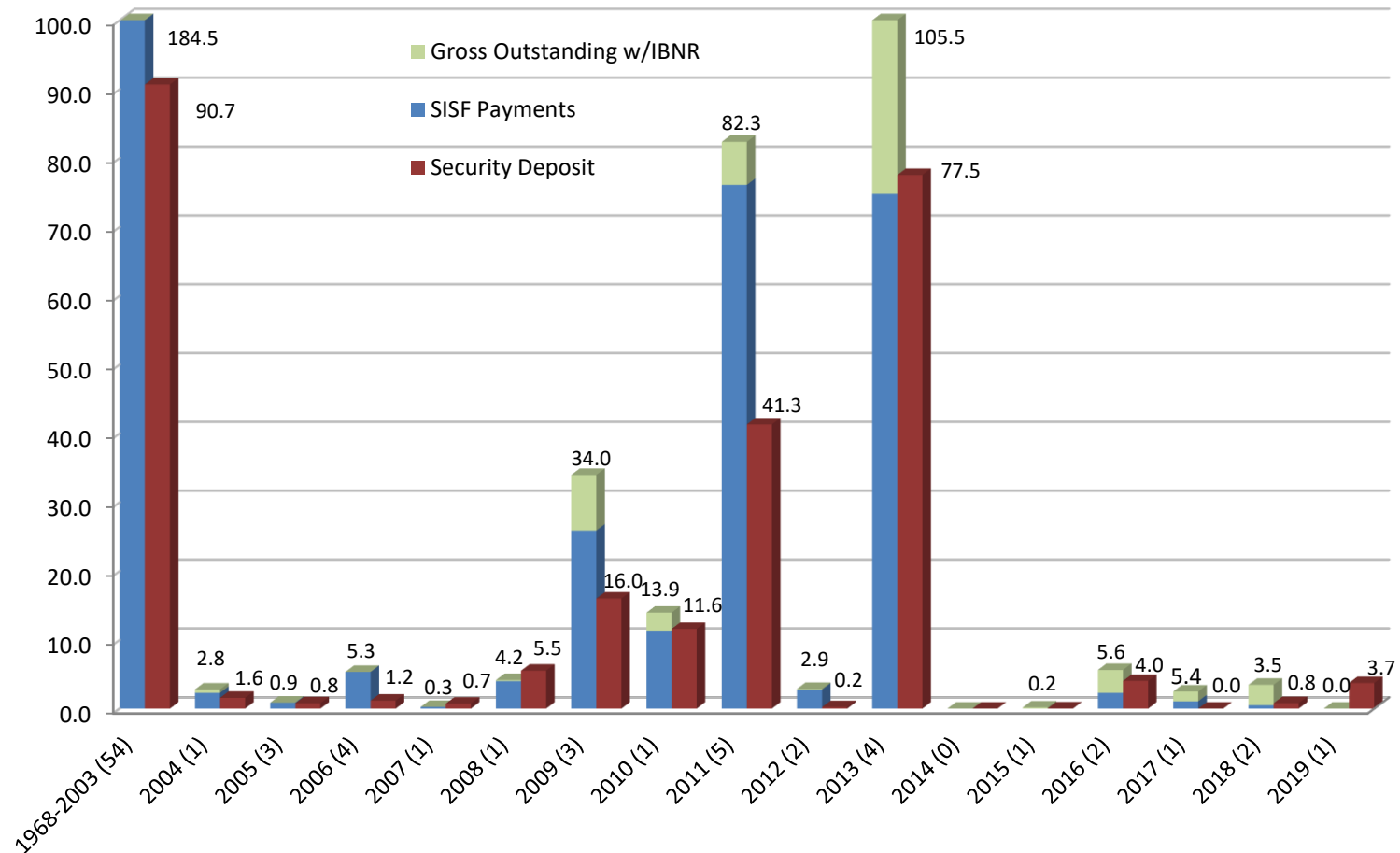
Default History



Defaults as of 3/20/19, SISF fiscal years (example: 2019 = 7/1/18 to 6/30/19)

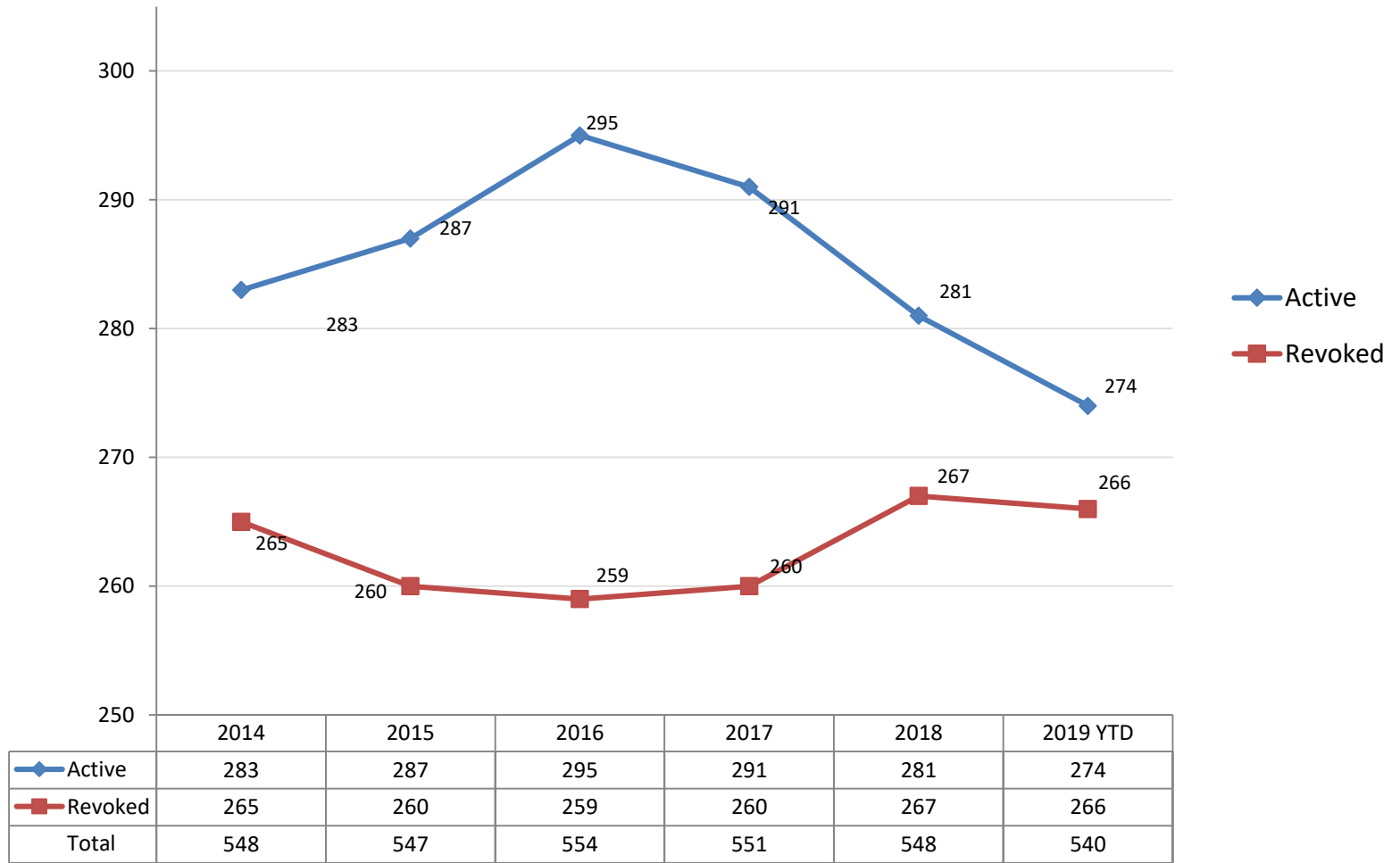
Default History (cont'd)

Defaults generally in line with economic cycles



SISF Payments are from date of Default to 12/31/18 (net of recoveries), SISF fiscal years (example: 2019 = 7/1/18 to 6/30/19)

Members by Status



Last six fiscal years

Seven New Self-Insurers

NETFLIX



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



CALIFORNIA
SELF-INSURERS'
SECURITY FUND

ASP – Overview

- Successful implementation of 2018/19 Alternative Security Program
 - 6th year post SB863
 - ASP and Composite Deposit decreased slightly (-2.5%) and (-3.4%)
- Financial strength of Fund continues to improve¹
 - net \$436 mill
 - gross \$532 mill
- Overall portfolio credit rating stable – Baa1
- Assessment decreased 15.0% (\$31.1mm vs. \$36.6mm) from the prior year
 - \$10mm in Premium credit was returned to eligible members
 - Actual assessment decreased 42% (\$21.1mm net of Premium Credit)

¹ SISF Monthly Financials 12/31/18 unaudited

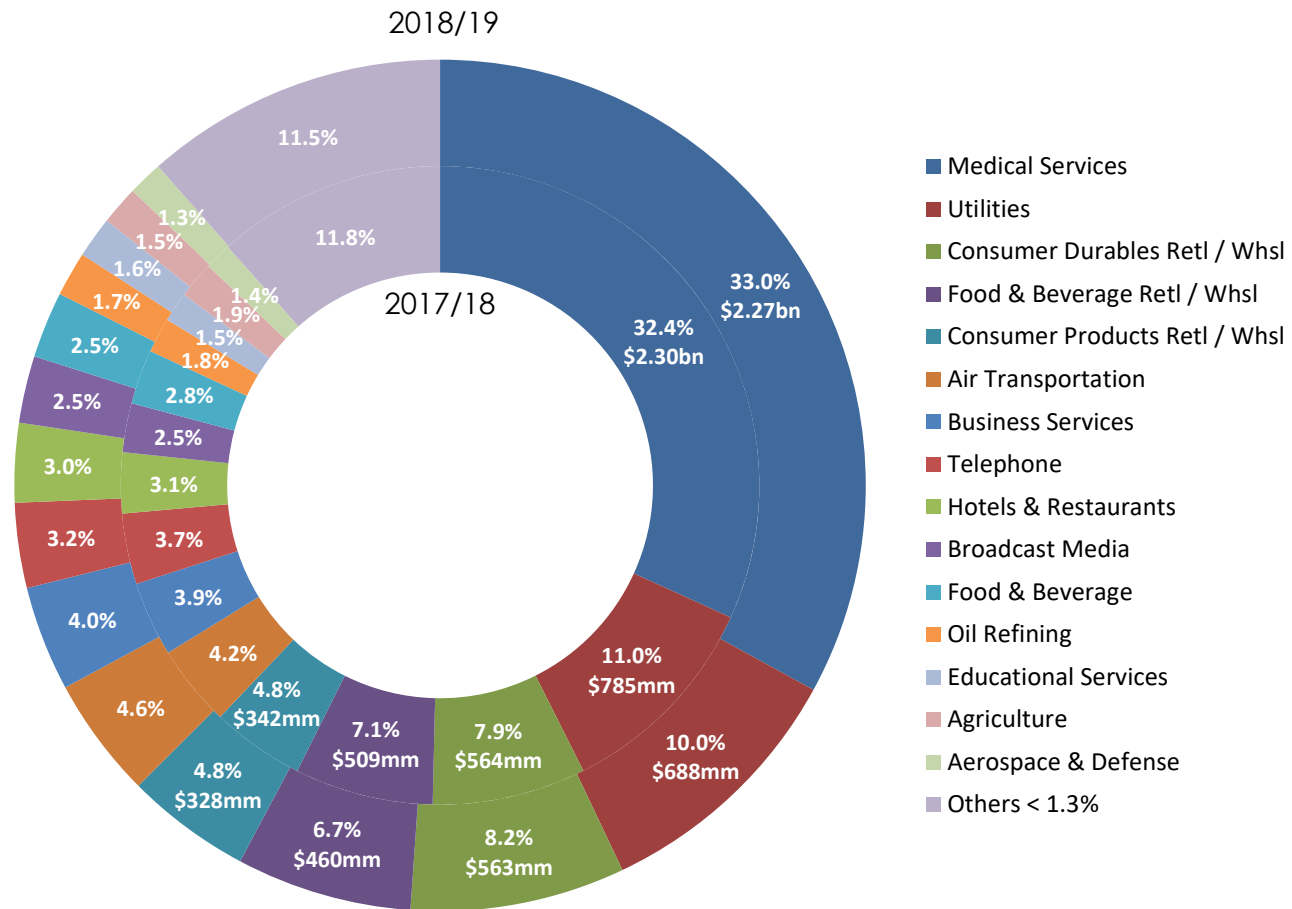
ASP – Participation Summary

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

	2018/19		2017/18		Δ	
	\$ (mm)	#	\$ (mm)	#	\$ (mm)	%
Fully	6,195	325	6,759	310	(564)	-8.3%
Partial	697	54	375	49	322	85.9%
Composite Deposit	6,892	378	7,134	359	(242)	-3.4%
Partial	609	54	488	49	121	24.7%
Excluded	770	161	862	189	(92)	-10.7%
3701 Security	1,379		1,350		29	2.1%
Total	8,270	540	8,484	548	(213)	-2.5%

ASP – Industry Distribution

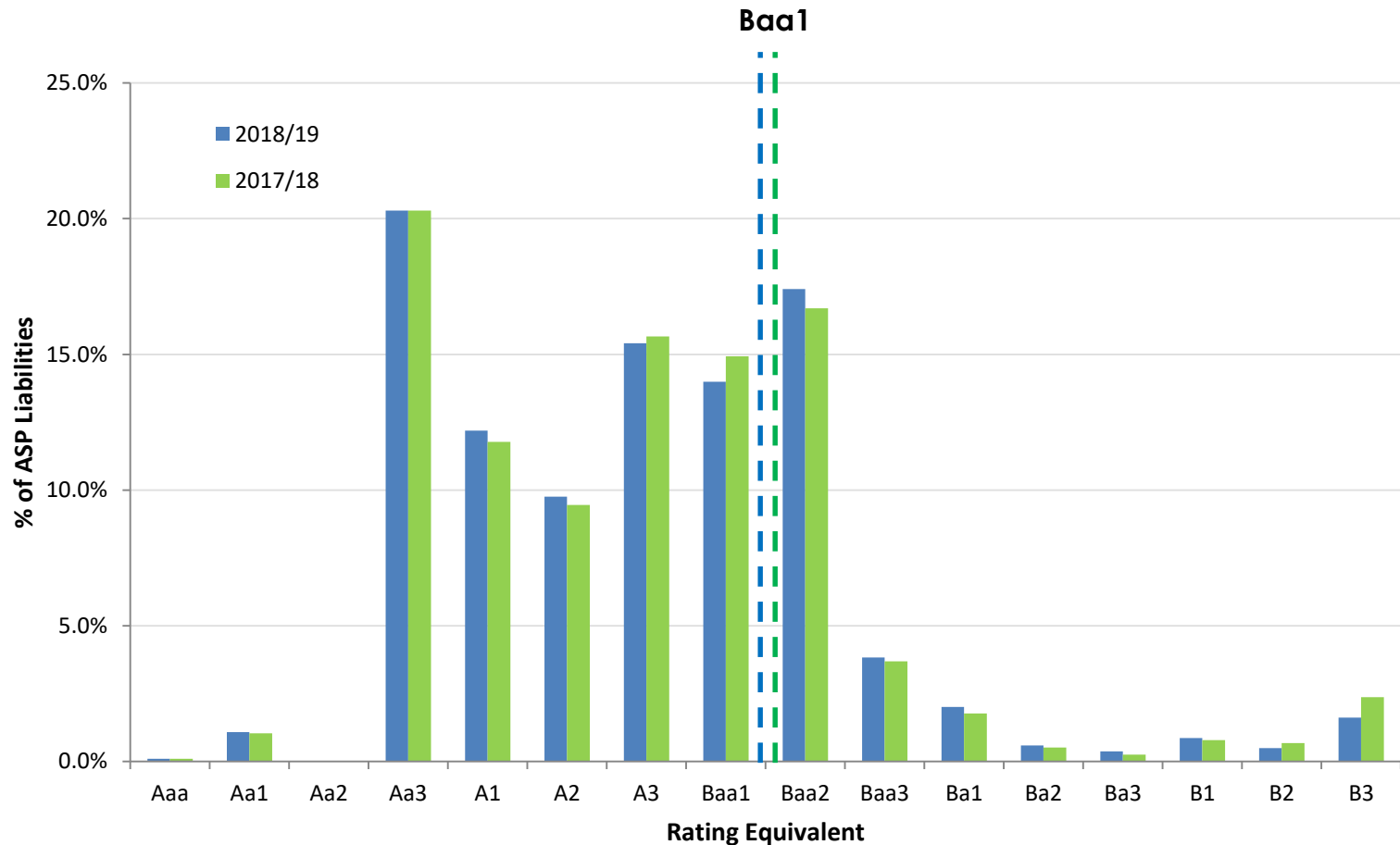
Industry exposure is relatively unchanged across all groups



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

ASP – Rating Distribution

The overall portfolio credit rating was essentially unchanged with a generally improving portfolio...



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

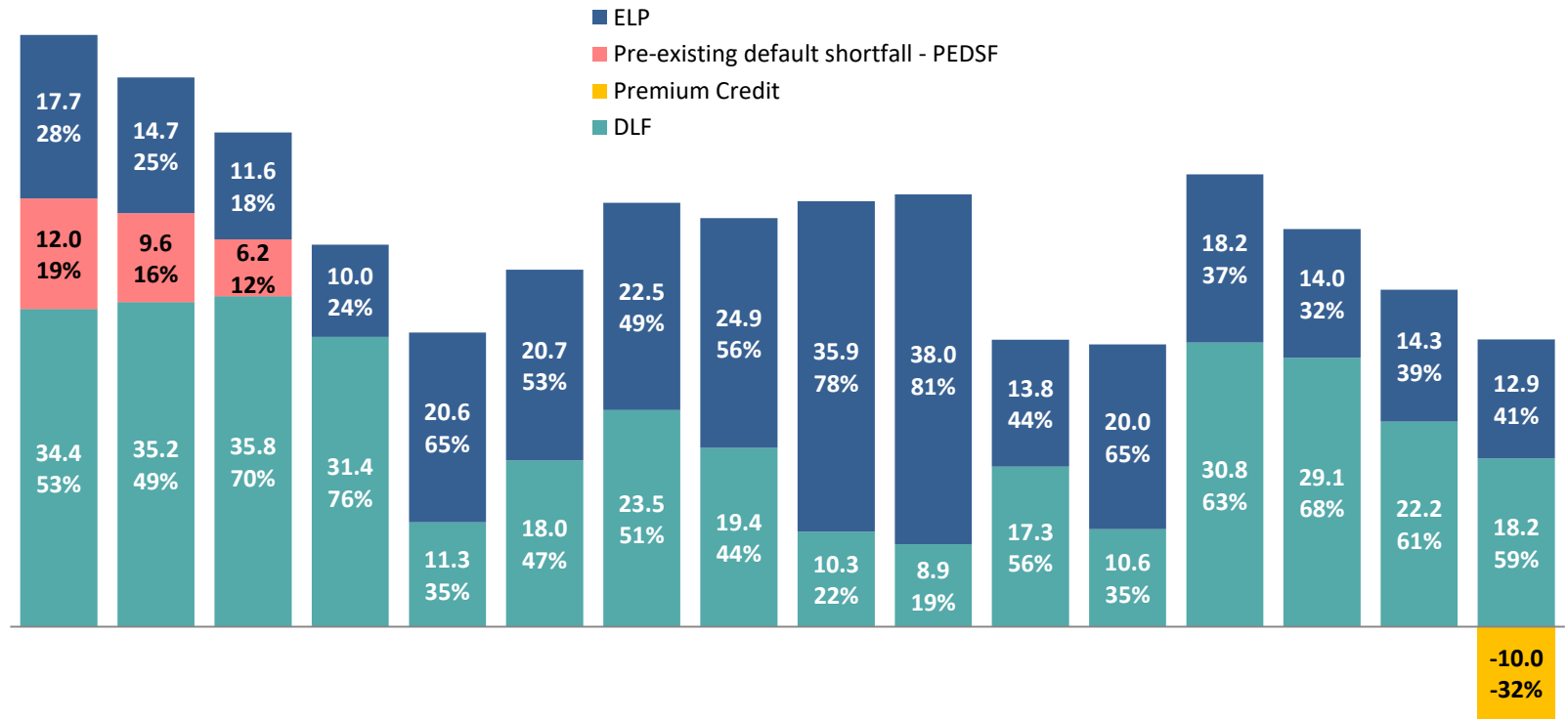
DLF

Capital

Claims

General administrative

ASP – Total Assessment



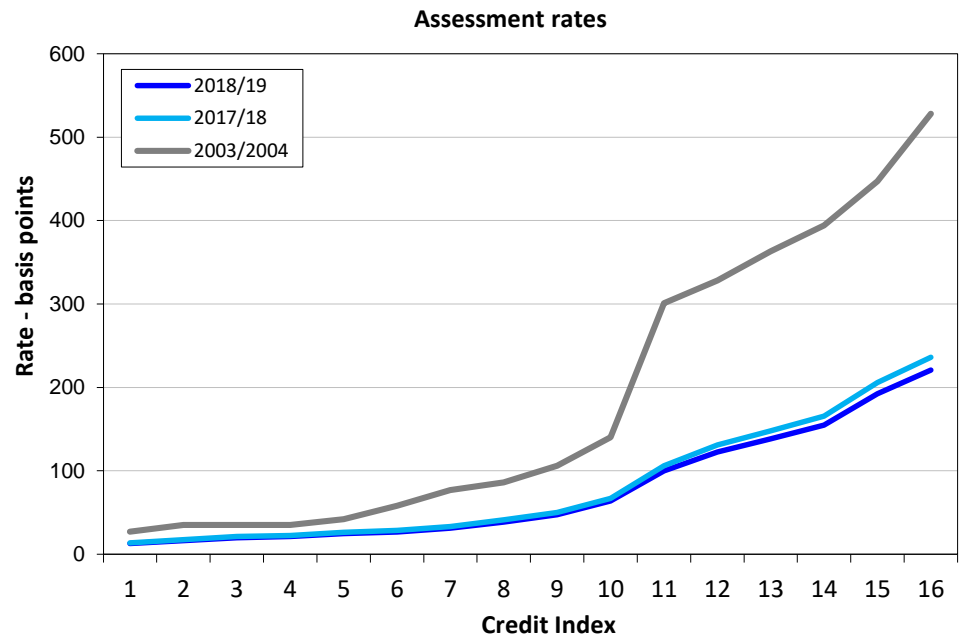
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Aggregate fees	64.2	59.6	53.6	41.4	31.9	38.7	46.0	44.3	46.1	46.9	31.1	30.6	49.1	43.1	36.5	21.1
Total liabilities	4,699.0	5,797.0	5,893.0	5,516.1	6,086.1	6,386.6	6,376.8	6,571.5	6,682.2	7,011.4	8,860.2	8,900.4	8,878.3	8,716.7	8,483.7	8,270.2
%	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

Source: 2018/19 liabilities as of 4-1-2019

ASP – Assessment Rates

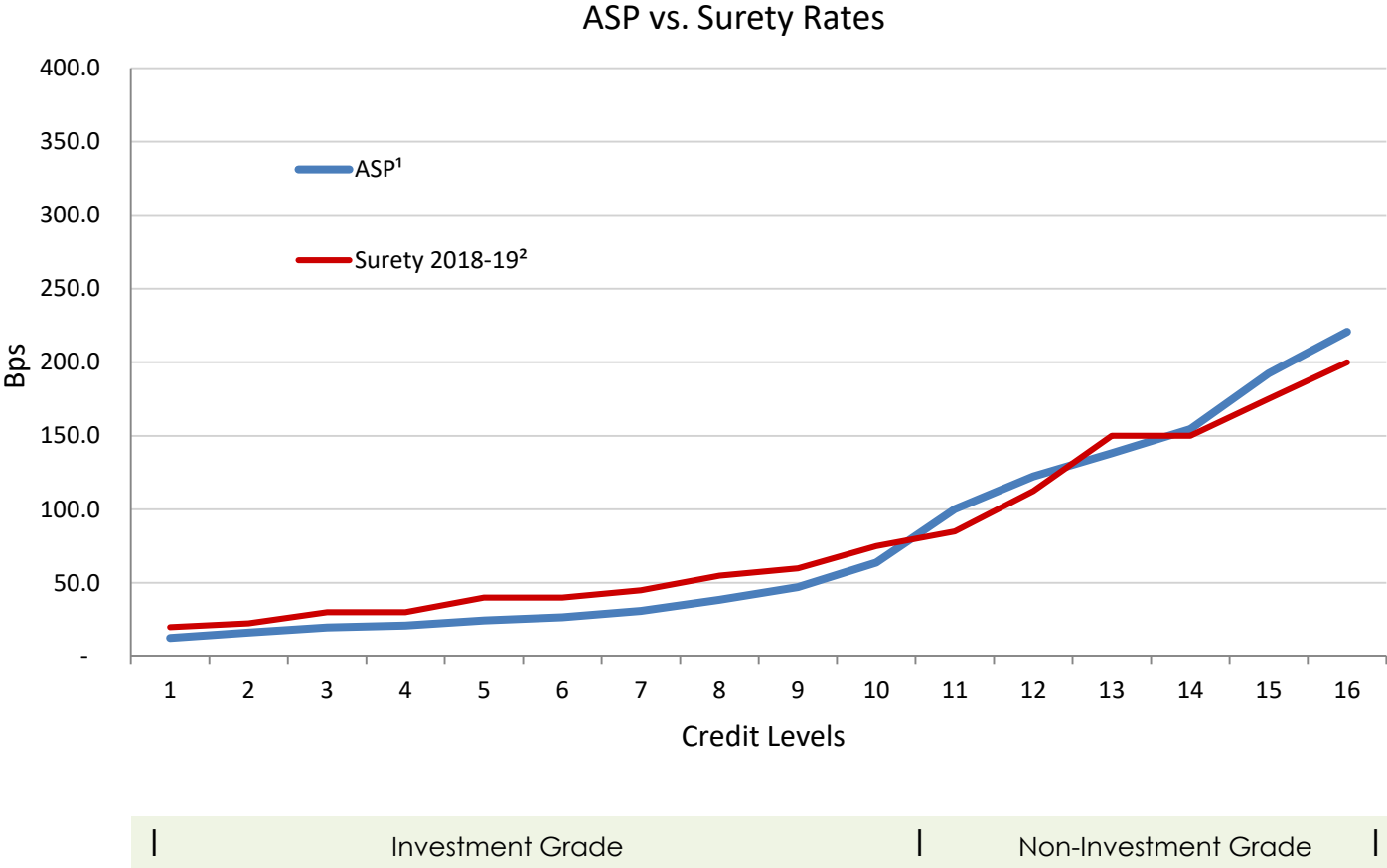
Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across all levels

Index	Rating	2018/19	2017/18	% Δ
1	Aaa / AAA+	13	14	-7%
2	Aa1 / AA+	16	17	-6%
3	Aa2 / AA	20	21	-7%
4	Aa3 / AA-	21	22	-6%
5	A1 / A+	25	26	-6%
6	A2 / A	27	28	-7%
7	A3 / A-	31	33	-6%
8	Baa1 / BBB+	39	41	-6%
9	Baa2 / BBB	47	50	-6%
10	Baa3 / BBB-	64	67	-5%
11	Ba1 / BB+	100	106	-6%
12	Ba2 / BB	122	131	-6%
13	Ba3 / BB-	138	148	-6%
14	B1 / B+	155	165	-6%
15	B2 / B	192	206	-6%
16	B3 / B-	221	236	-6%



ASP – Assessment vs. Surety Rates

A comparison between surety and 2018/19 ASP assessment rates



¹ Assessment rates 2018/19

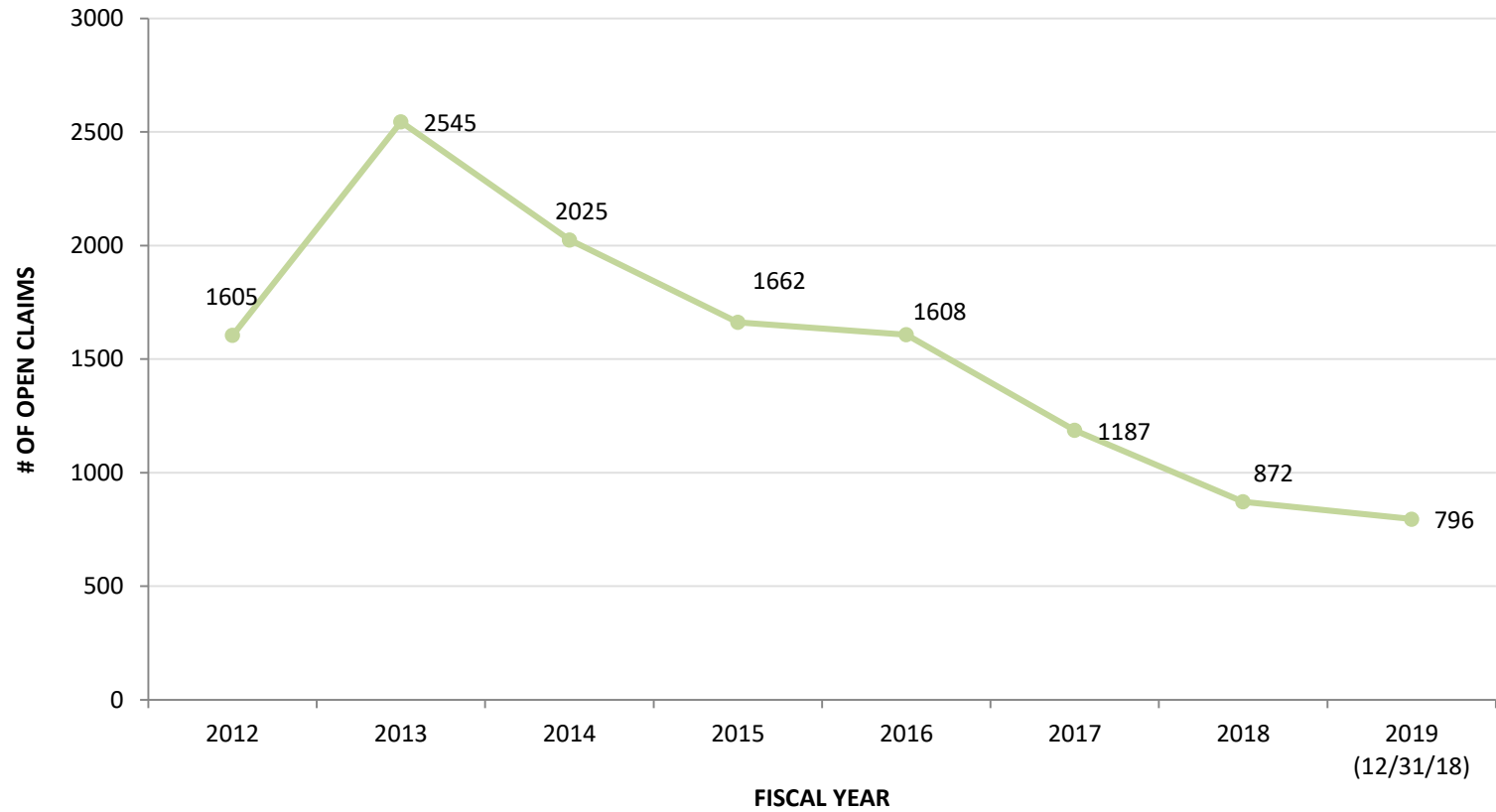
² JLT Specialty – general market indications of available terms 2018-19

Jill Dulich
Claims and Operations Manager

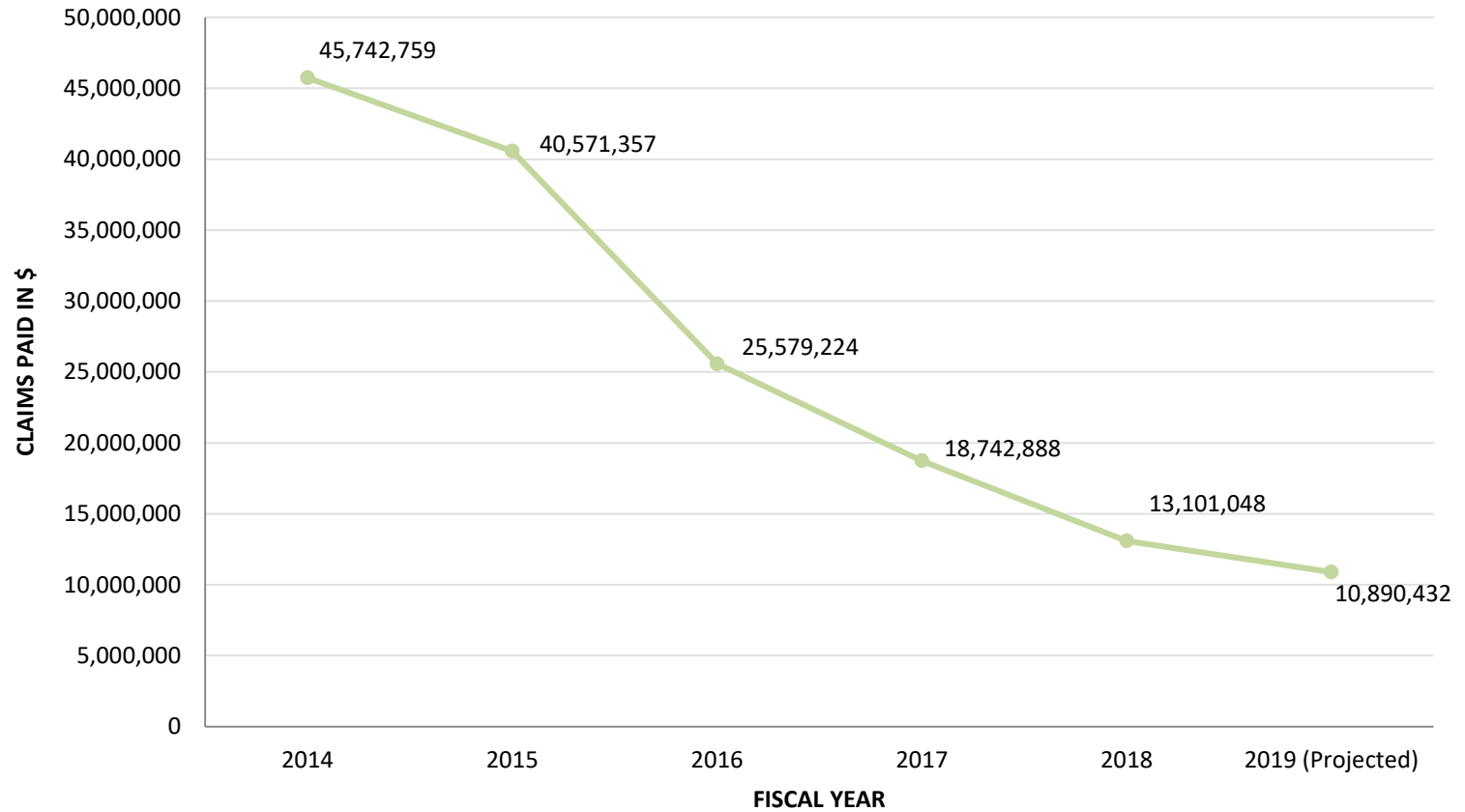


CALIFORNIA
SELF-INSURERS'
SECURITY FUND

Open Claims Count

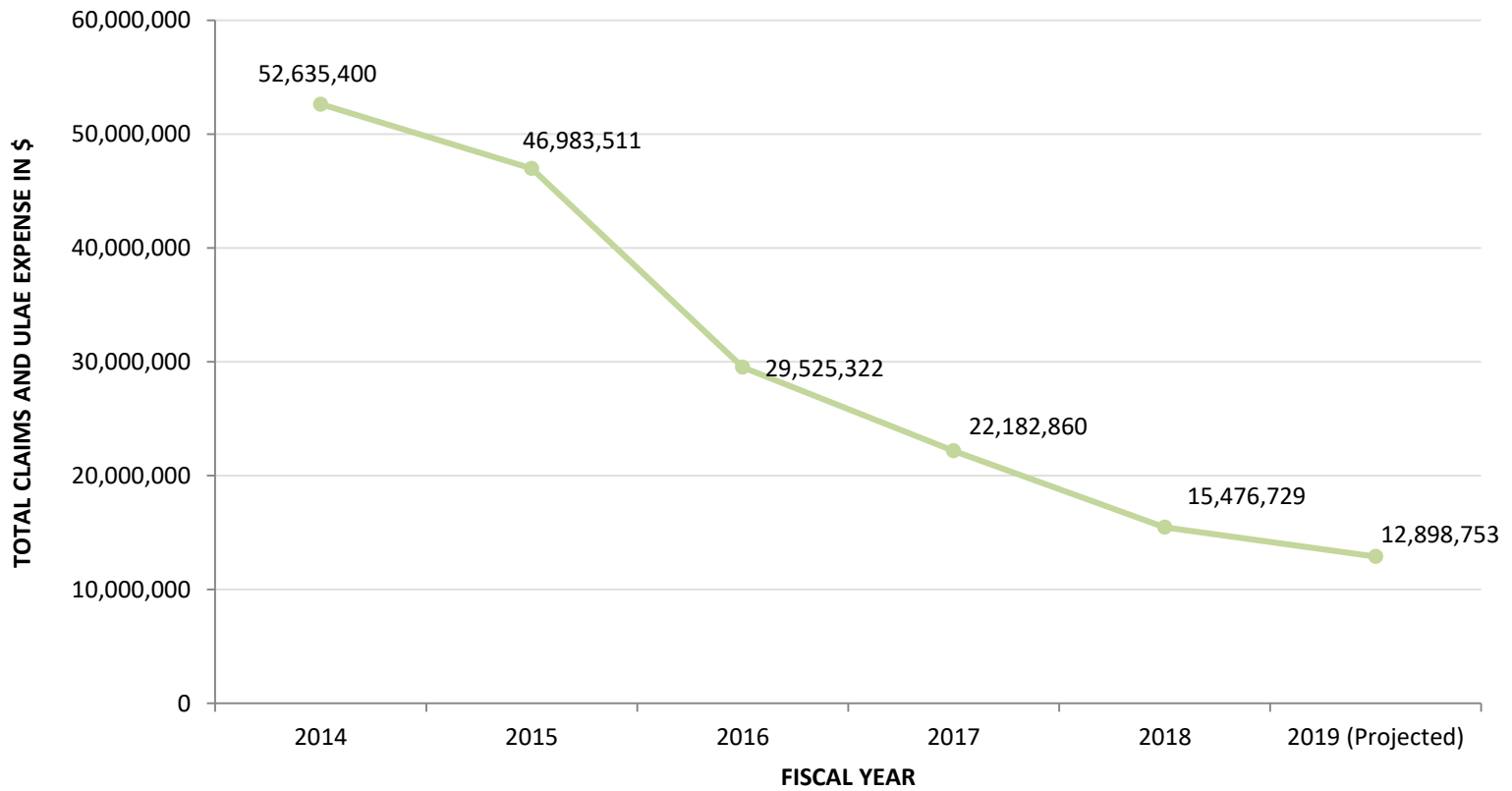


Claims Paid



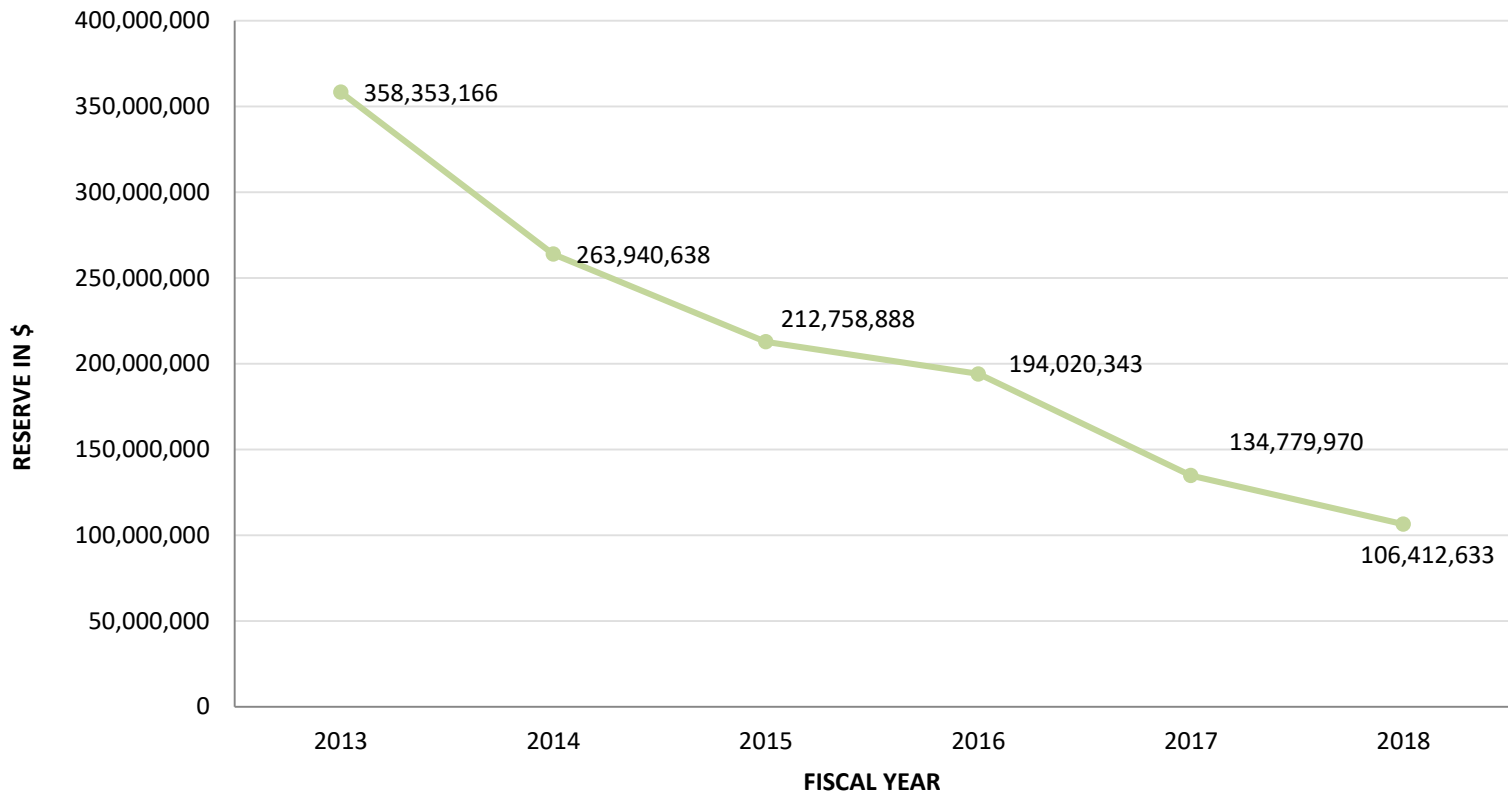
Last six fiscal years

Total Claims and ULAE Expenses



Last six fiscal years

Estimated Future Liabilities for Claims and ULAE



Last six fiscal years



CALIFORNIA
SELF-INSURERS'
SECURITY FUND