



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

# 2020 Member Informational Meeting

September 16<sup>th</sup>, 2020

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."



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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  
529 self-insured entities  
\$7.9 billion exposure

# Board of Trustees



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



**Janice Murphy**, *Kaiser Permanente*



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



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



**John Smolk**, *SCE / Edison*



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

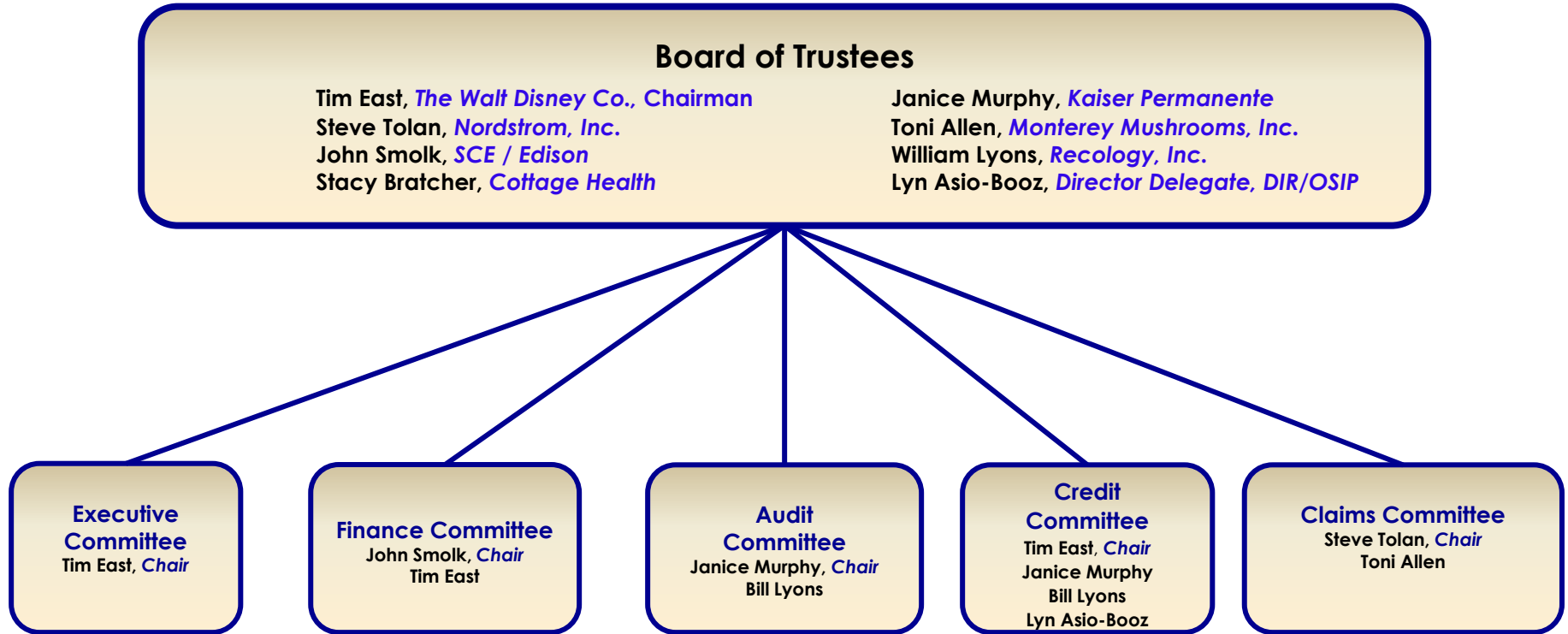


**Stacy Bratcher**, *Cottage Health*



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

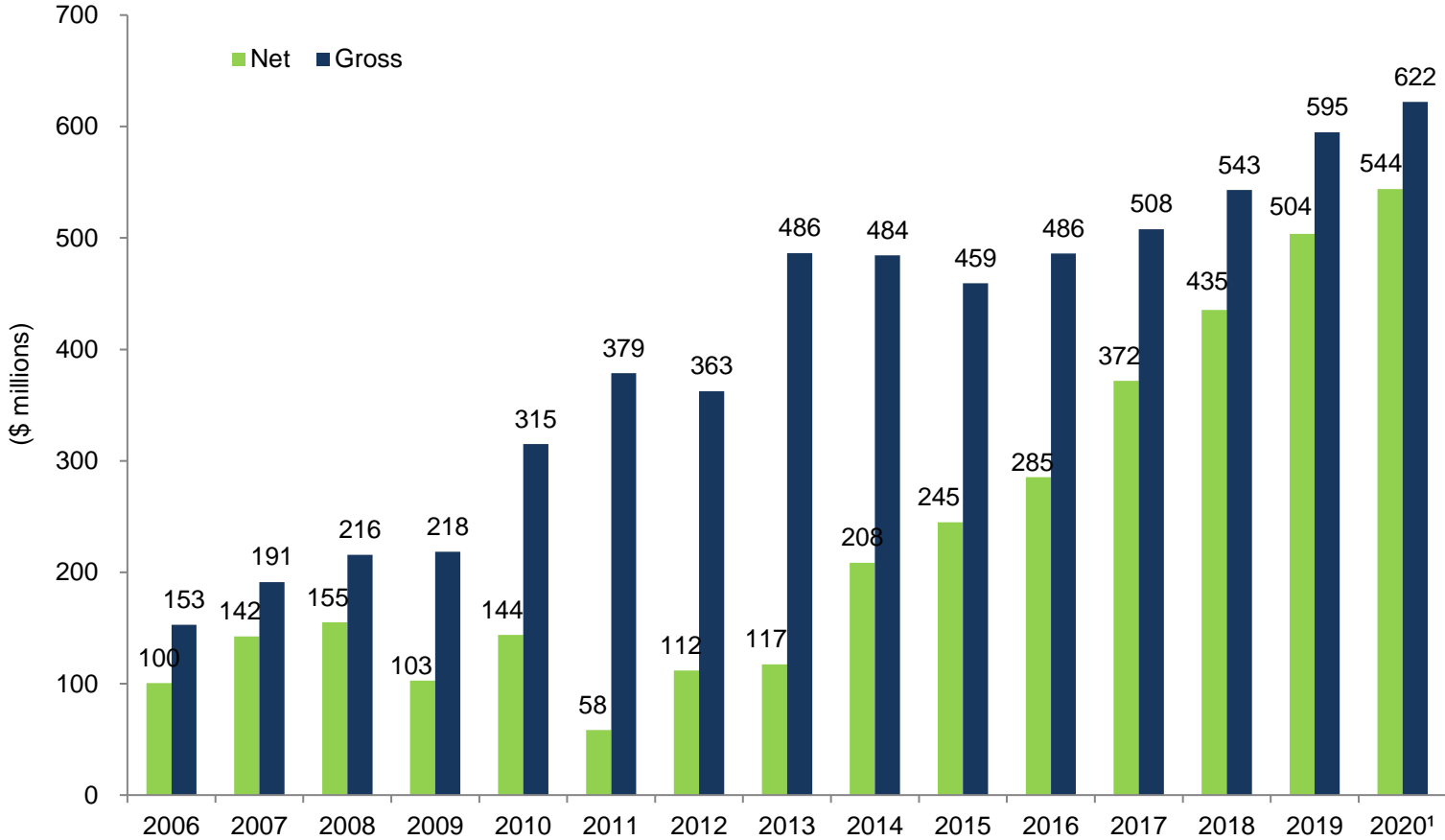
# Board and Committees



# CA Self-Insurance Overview

Entities	<b>529</b> (including 24 SIG' s)
Payroll	<b>\$122 billion</b>
Employees	<b>2.3 million</b> (1 in 8 in state)

# ASP – Financial Strength



<sup>1</sup> SISF Monthly Financials 6/30/20 unaudited  
Source: Audited SISF Financial Statements Jun 30, 2006-2019

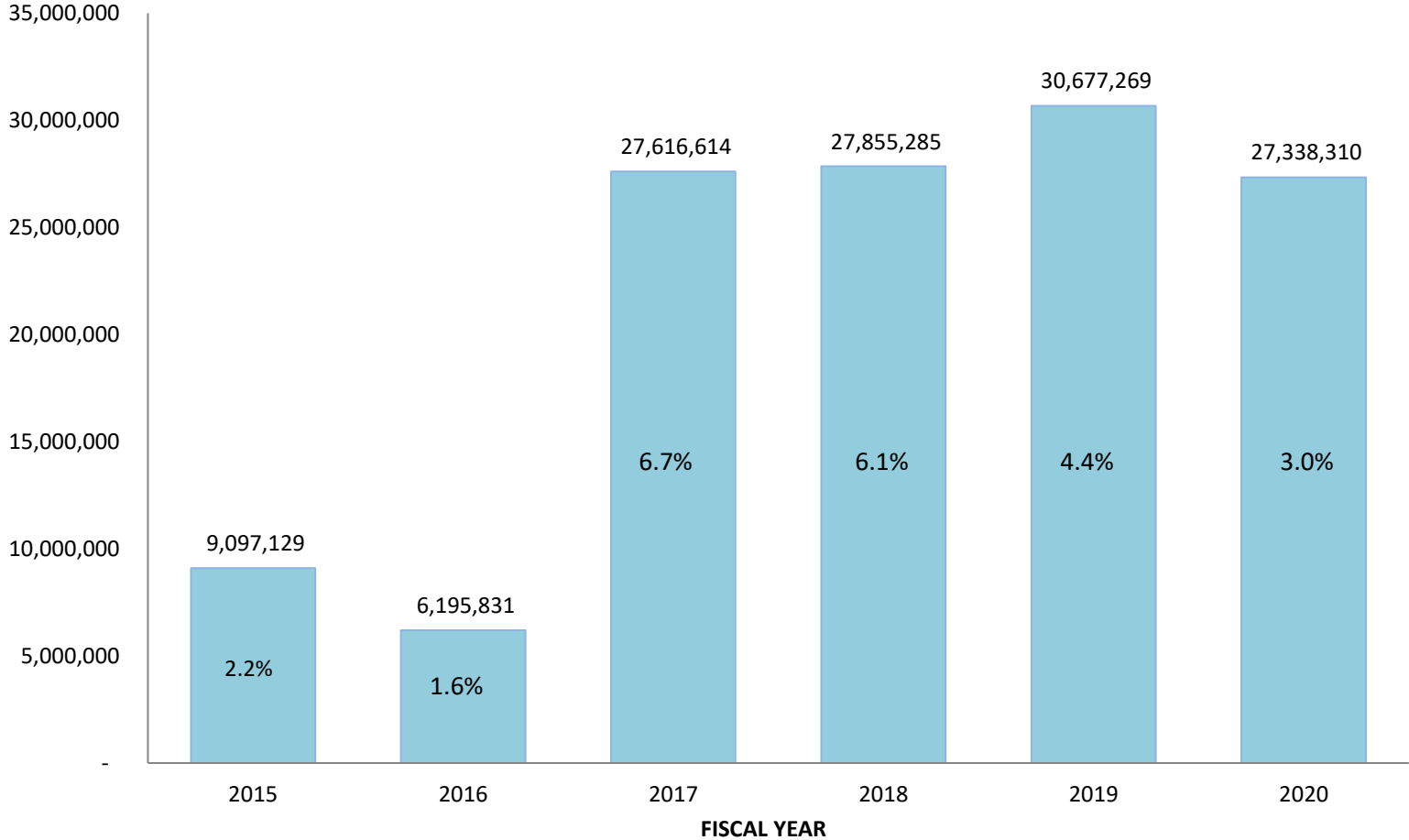
# Estates and Workers' Compensation Claims

		<u>FY2020</u>	<u>FY2019</u>	<u>Δ</u>
<b>Estates</b>	<b>Total</b> (1968 to date)	87	86	1
	<b>Active</b> (1984 to present)	44	46	-2
<b>Claims</b> (as of 6/30/20)	<b>Open</b>	651	854	-203
<b>Claim Liability (net)</b>	Paid	<b>\$8,730,830</b>	<b>\$10,681,058</b>	<b>-\$1,950,228</b>
	Open Case Reserves (EFL)	<b>\$30,834,291</b>	<b>\$34,539,159</b>	<b>-\$3,704,868</b>
	IBNR + ULAE	<u>\$22,938,434</u>	<u>\$29,785,615</u>	<u><b>-\$6,847,181</b></u>
		<b>\$53,772,725</b>	<b>\$64,324,774</b>	<b>-\$10,552,049</b>
<b>SISF total net assets</b> (as of 6/30/20)		\$544,019,641	\$503,658,841	\$40,360,800
<b>Projected annual costs</b>	- claims (net of excess)	\$8,400,000	\$11,000,000	-\$2,600,000
	- claims admin	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>0</u>
	- Total	<u><b>\$10,400,000</b></u>	<u><b>\$13,000,000</b></u>	<u><b>-\$2,600,000</b></u>



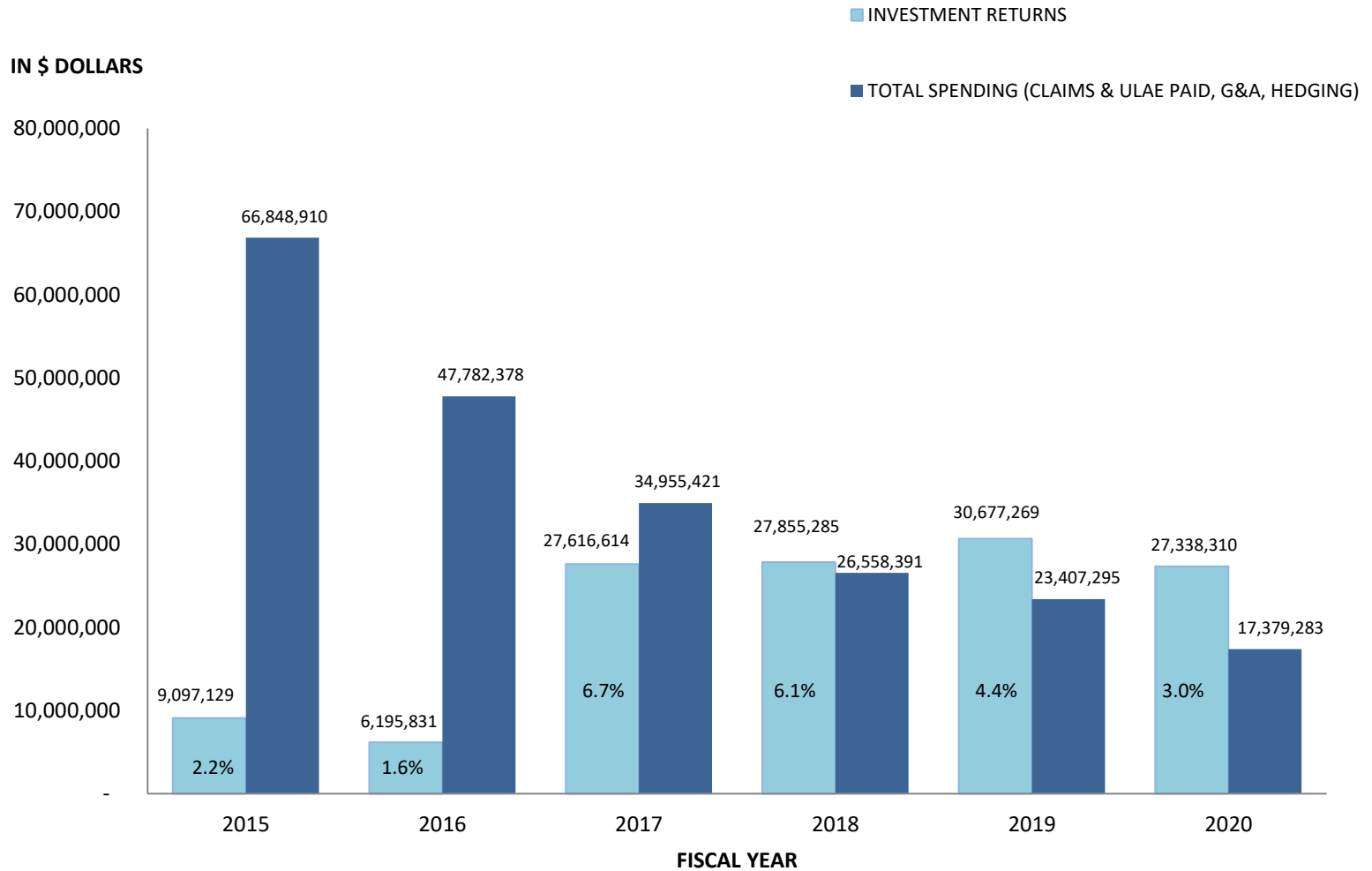
# Investment Returns

IN \$ DOLLARS



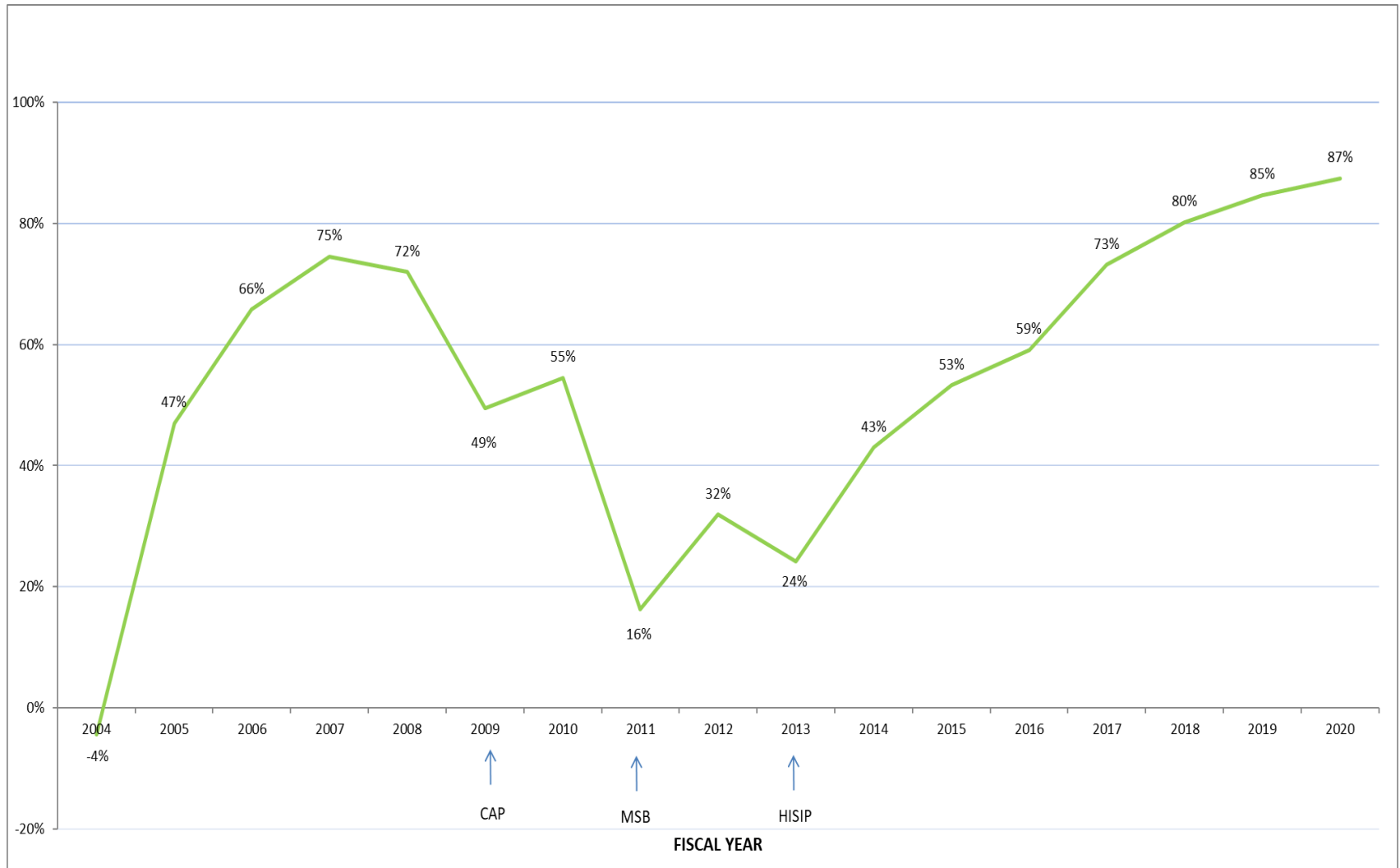
Last six fiscal years

# Total Spending and Investment Returns

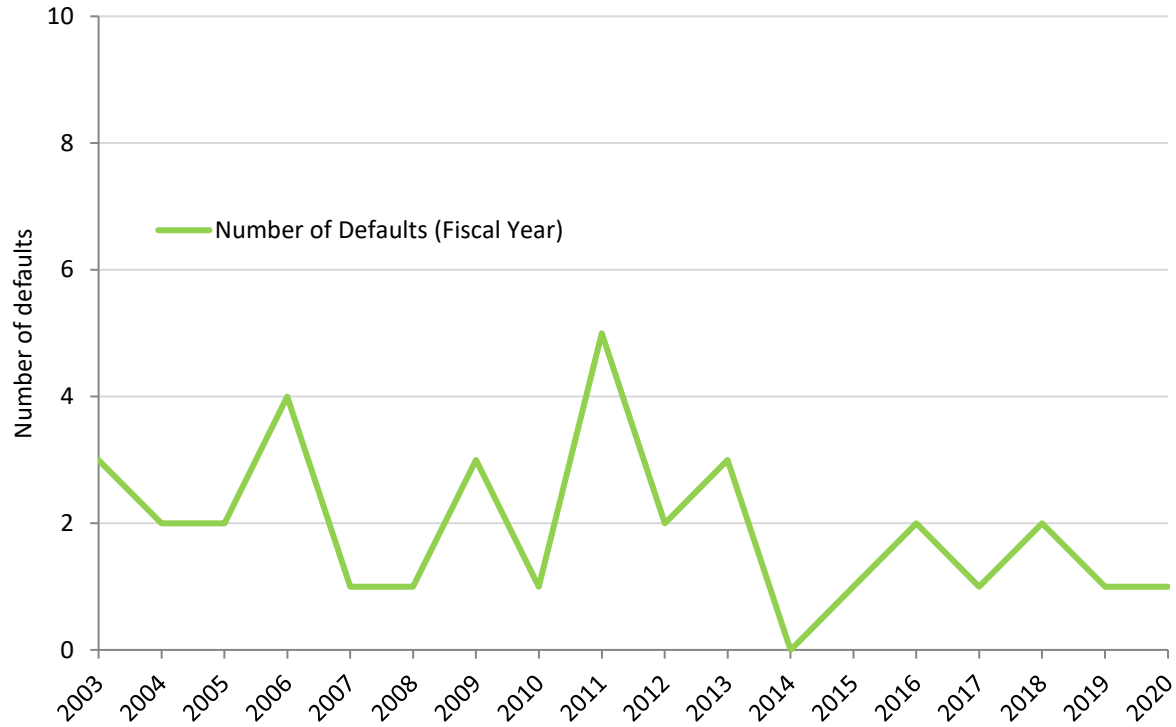


Last six fiscal years

# % Net Assets / Gross Assets (ASP inception)



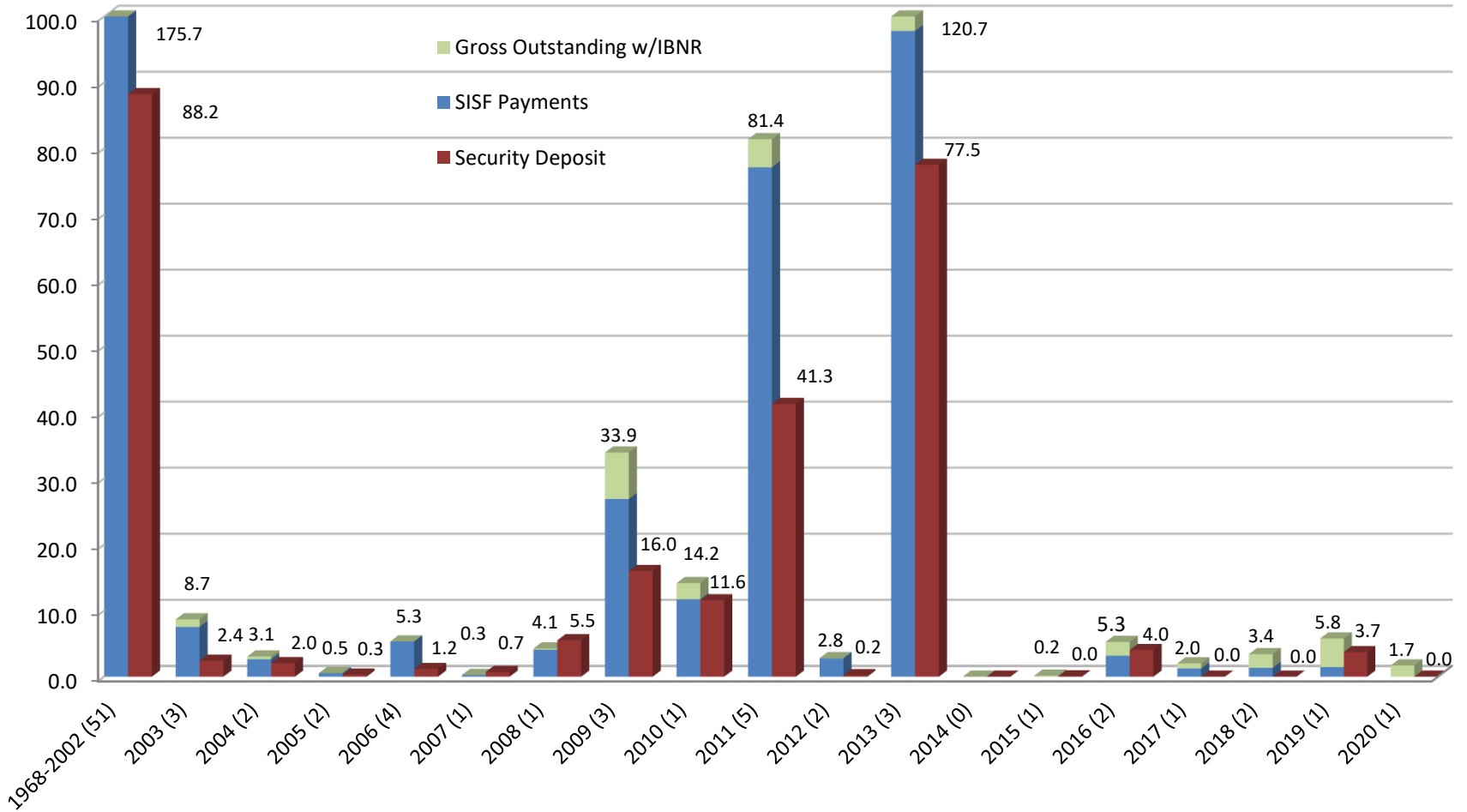
# Default History



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

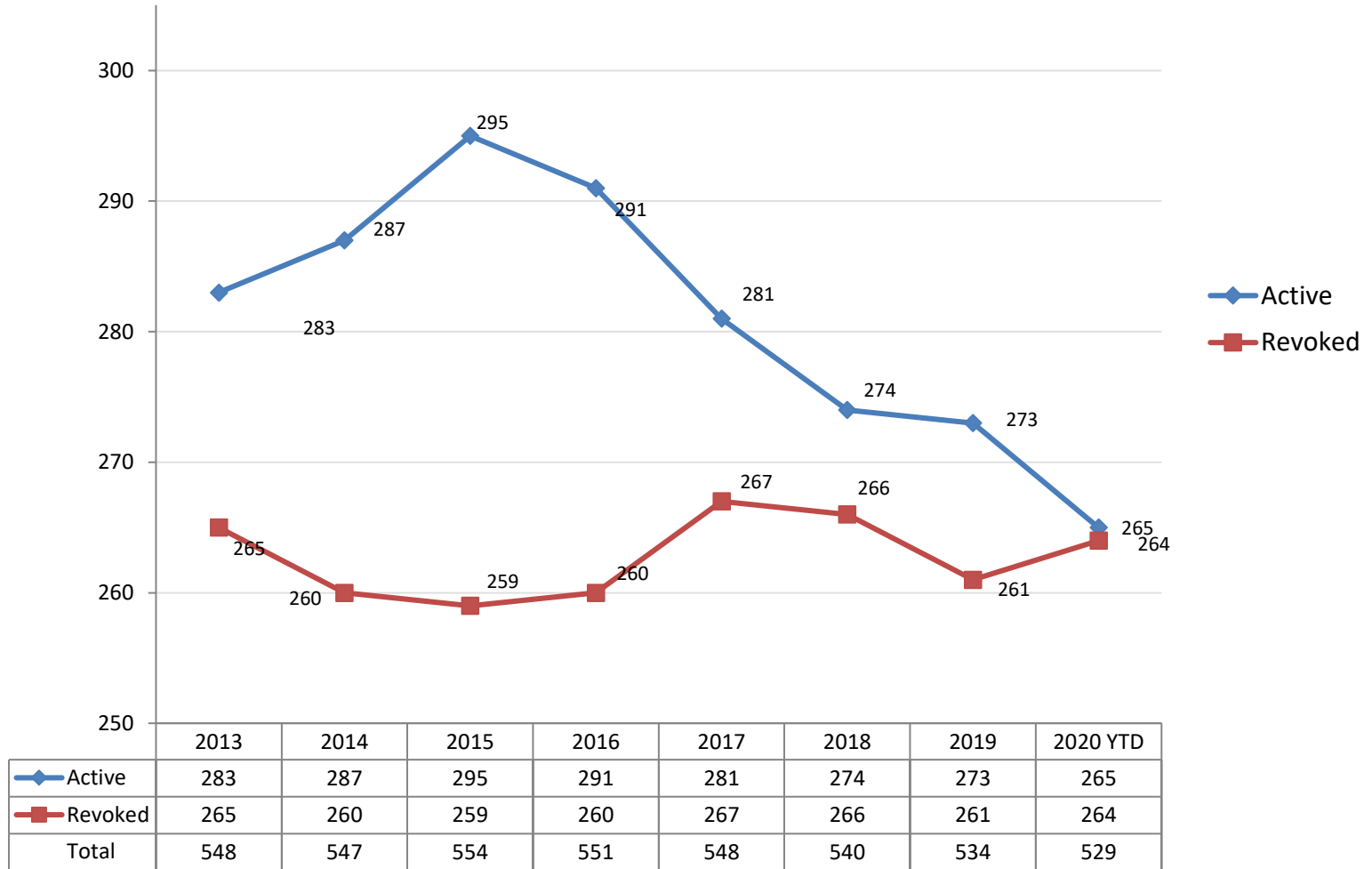
# Default History (cont'd)

Defaults generally in line with economic cycles



SISF Payments are from date of Default to 6/30/20 (net of recoveries), SISF fiscal years (example: 2019 = 7/1/18 to 6/30/19)

# Members by Status



Last eight fiscal years

## Four New Self-Insurers



# 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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# 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 2019/20 Alternative Security Program
  - 7<sup>th</sup> year post SB863
  - ASP and Composite Deposit decreased slightly (-2.3%) and (-4.9%)
- Financial strength of Fund continues to improve<sup>1</sup>
  - net        \$544 mill
  - gross     \$622 mill
- Overall portfolio credit rating stable – Baa2
- Assessment decreased -13.0% (\$27.0mm vs. \$31.1mm) from the prior year
  - \$10mm in Premium credit was returned to eligible members
  - Actual assessment decreased -20% (\$17.0mm net of Premium Credit)

<sup>1</sup> SISF Monthly Financials 6/30/2020 unaudited

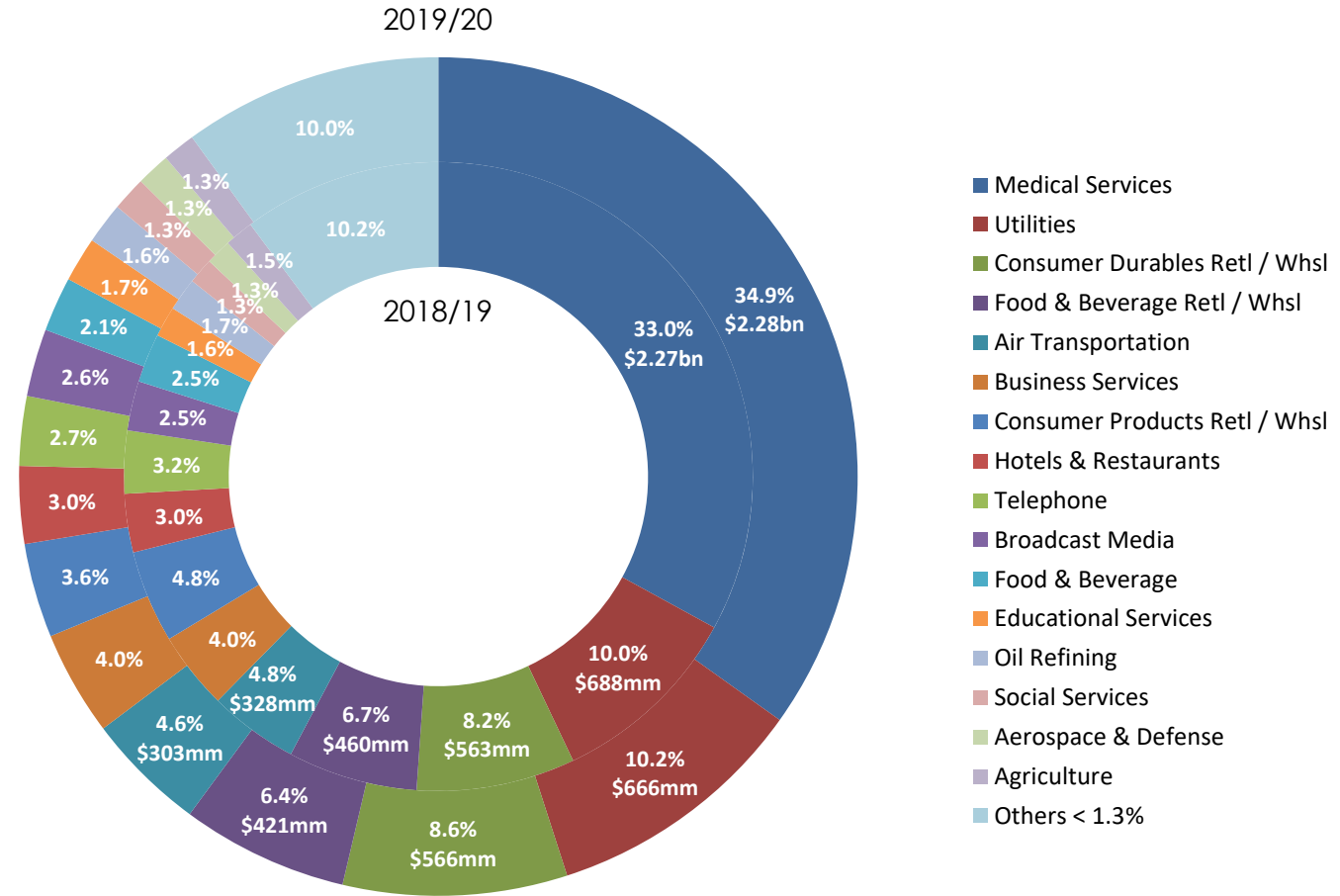
# ASP – Participation Summary

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

	2019/20		2018/19		Δ	
	\$ (mm)	#	\$ (mm)	#	\$ (mm)	%
Fully	5,719	300	6,195	324	(476)	-7.7%
Partial	832	47	697	54	135	19.4%
<b>Composite Deposit</b>	6,551	347	6,892	378	(341)	-4.9%
Partial	635	47	609	54	26	4.3%
Excluded	892	187	770	161	122	15.9%
<b>3701 Security</b>	1,527		1,379		148	10.8%
<b>Total ASP</b>	8,078	534	8,270	539	(192)	-2.3%

# ASP – Industry Distribution

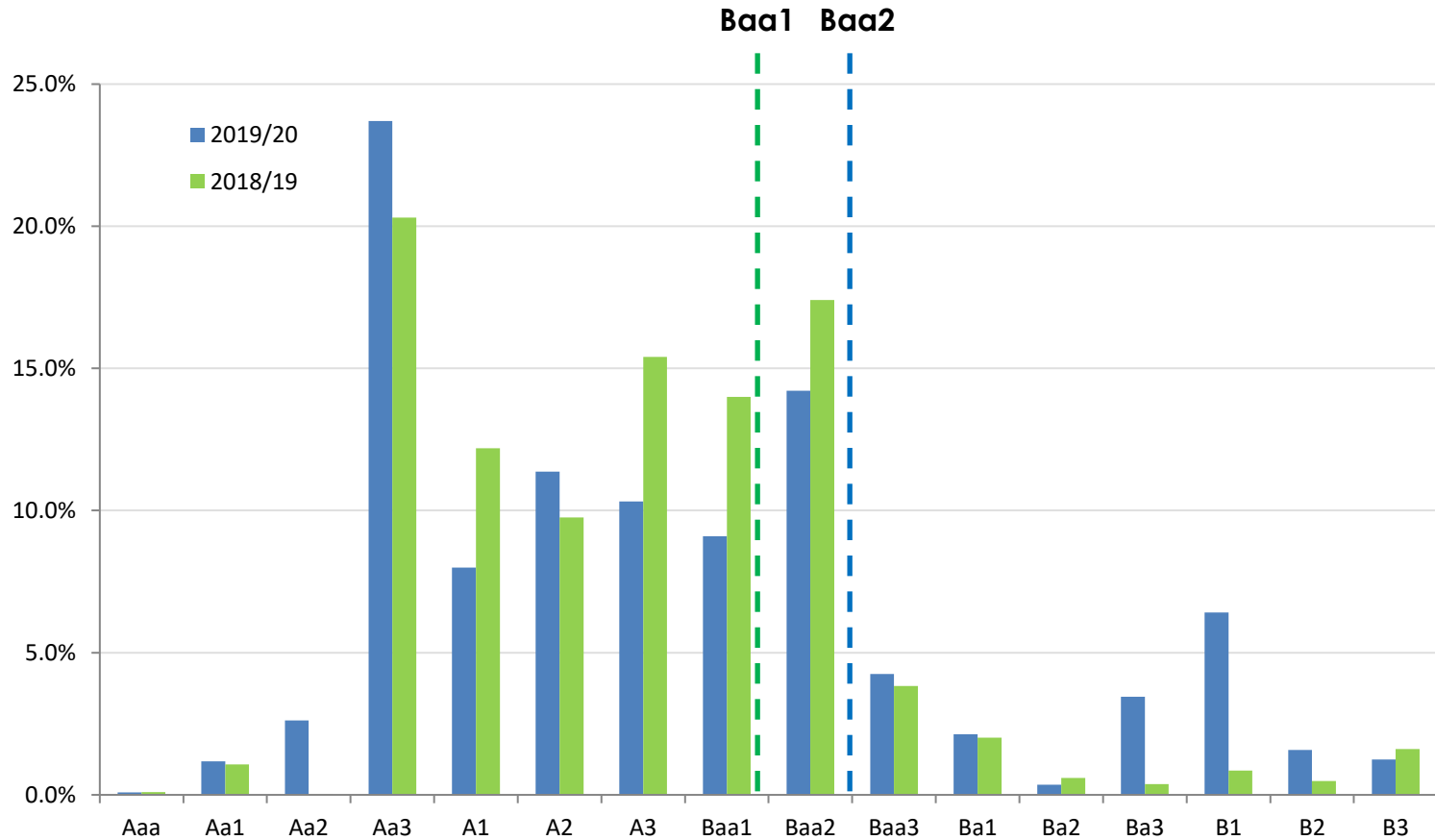
Industry exposure is relatively unchanged across all groups



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

# ASP – Rating Distribution

The overall portfolio credit rating decreased one-notch due to the impact of COVID-19 and rating movements of several members in 1H2020...



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

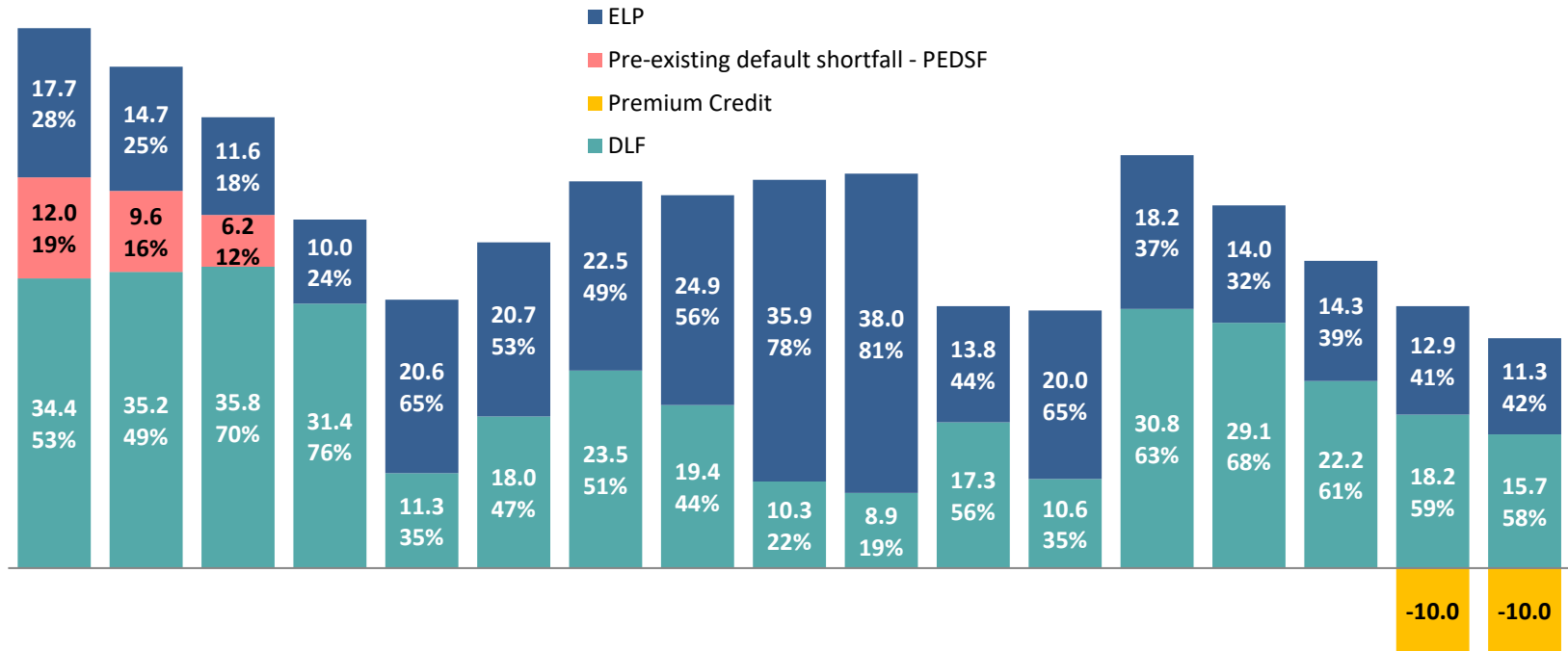
## DLF

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
<b>Aggregate fees</b>	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
<b>Total liabilities</b>	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
<b>%</b>	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	0.4	0.4

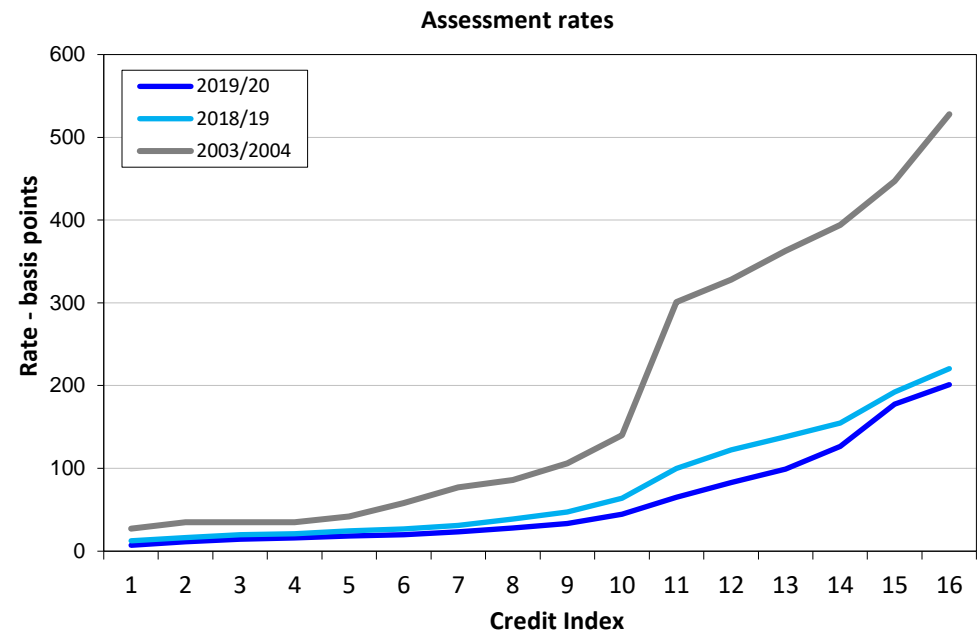
Source: liabilities as of 6-30-2020



# ASP – Assessment Rates

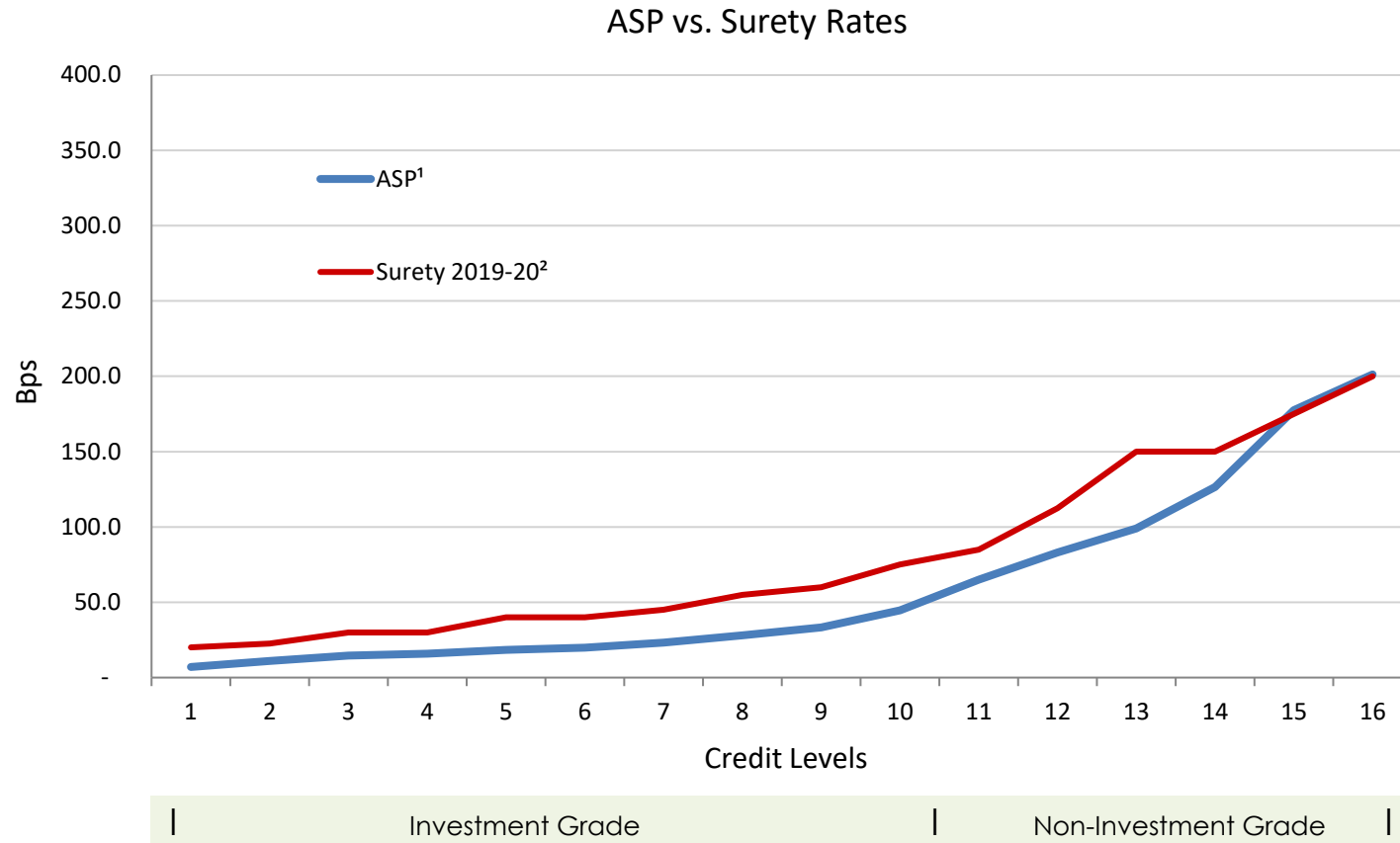
Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across all levels

Index	Rating	2019/20	2018/19	% Δ
1	Aaa / AAA+	7	13	-45%
2	Aa1 / AA+	11	16	-31%
3	Aa2 / AA	15	20	-26%
4	Aa3 / AA-	16	21	-25%
5	A1 / A+	18	25	-25%
6	A2 / A	20	27	-25%
7	A3 / A-	23	31	-25%
8	Baa1 / BBB+	28	39	-27%
9	Baa2 / BBB	33	47	-29%
10	Baa3 / BBB-	45	64	-30%
11	Ba1 / BB+	65	100	-35%
12	Ba2 / BB	83	122	-32%
13	Ba3 / BB-	99	138	-28%
14	B1 / B+	127	155	-18%
15	B2 / B	178	192	-8%
16	B3 / B-	201	221	-9%



# ASP – Assessment vs. Surety Rates

A comparison between surety and 2019/20 ASP assessment rates



<sup>1</sup> Assessment rates 2019/20

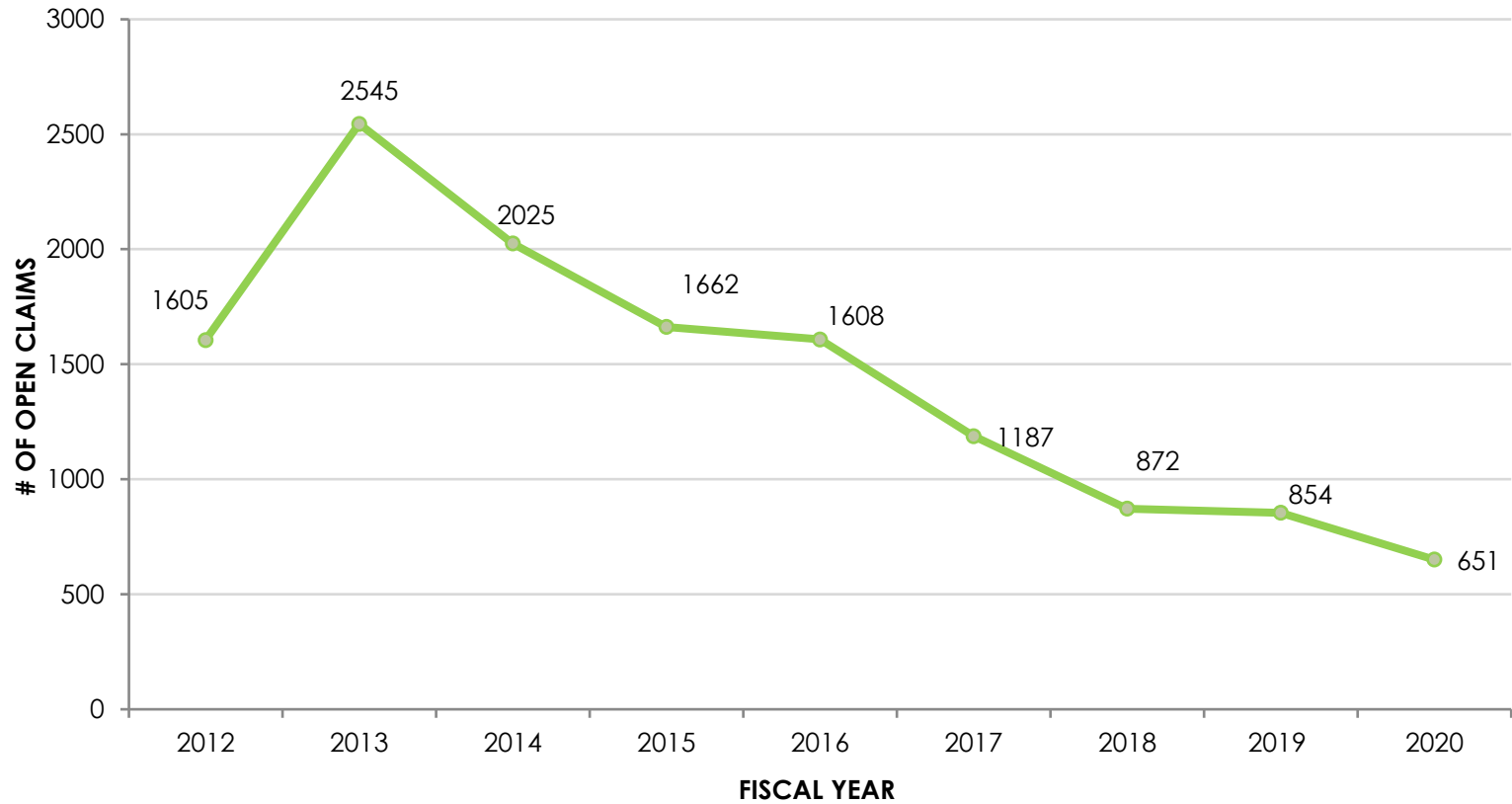
<sup>2</sup> Marsh JLT – general market indications of available terms 2019-20

Jill Dulich  
Claims and Operations Manager

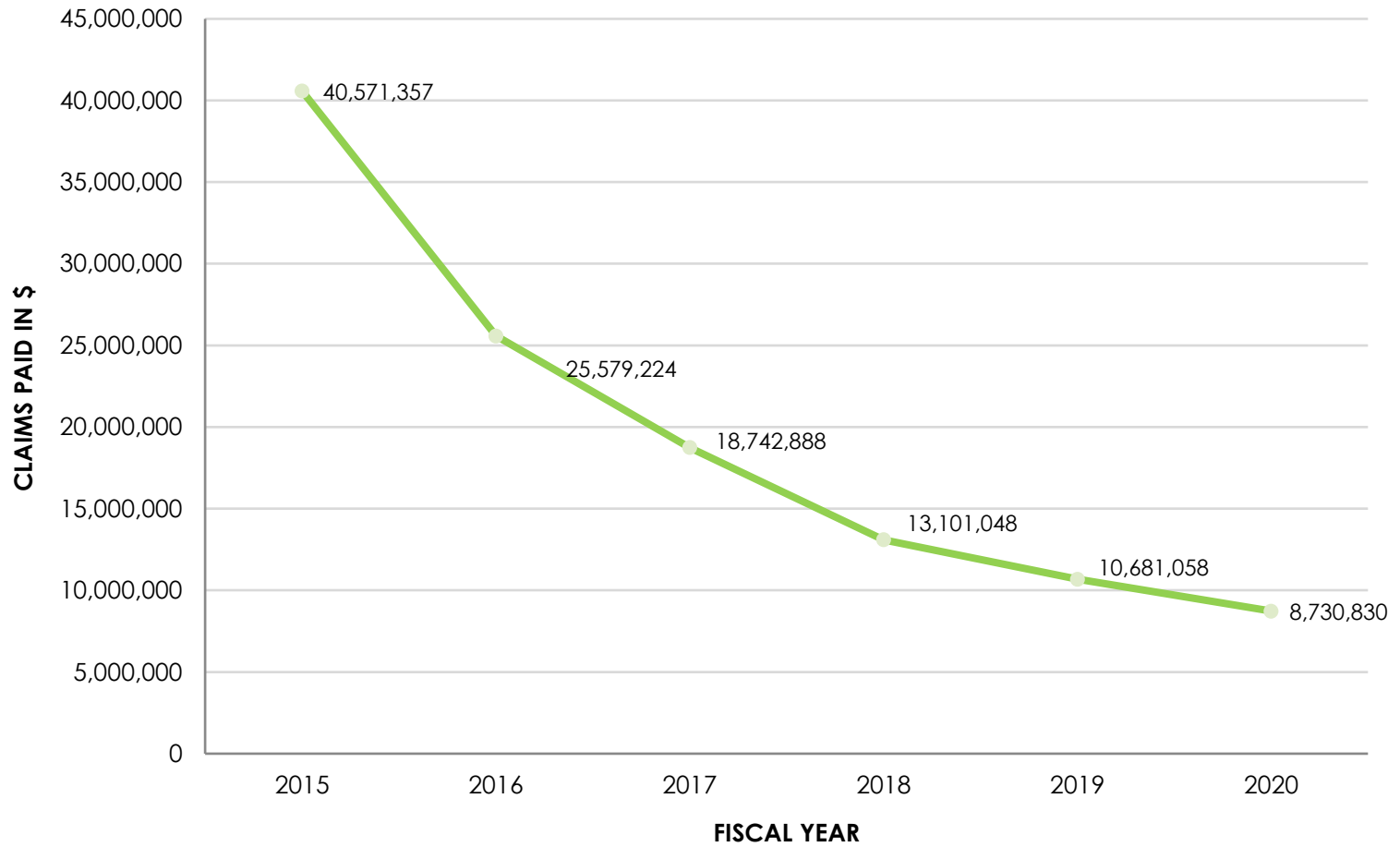


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# Open Claims Count

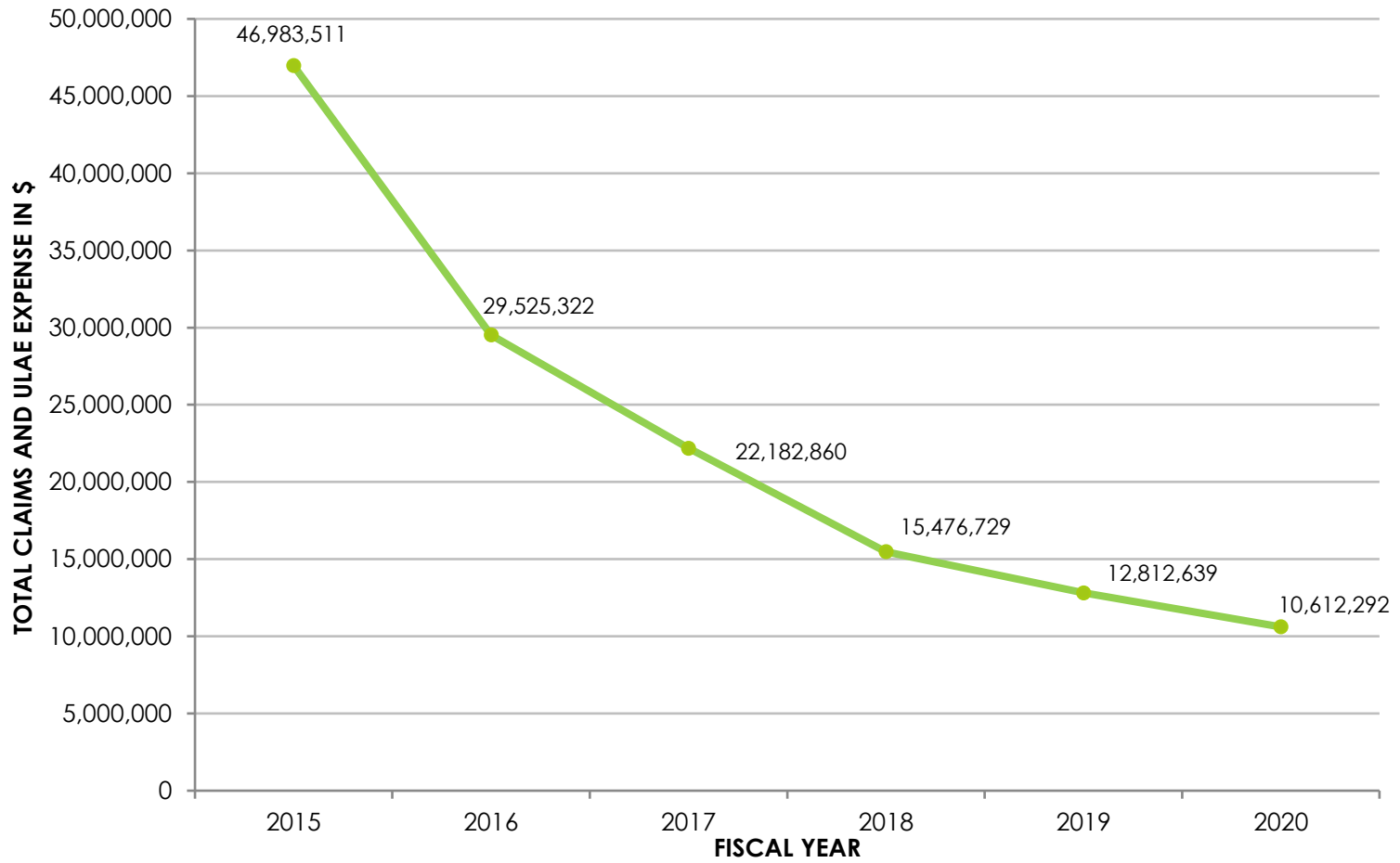


# Claims Paid



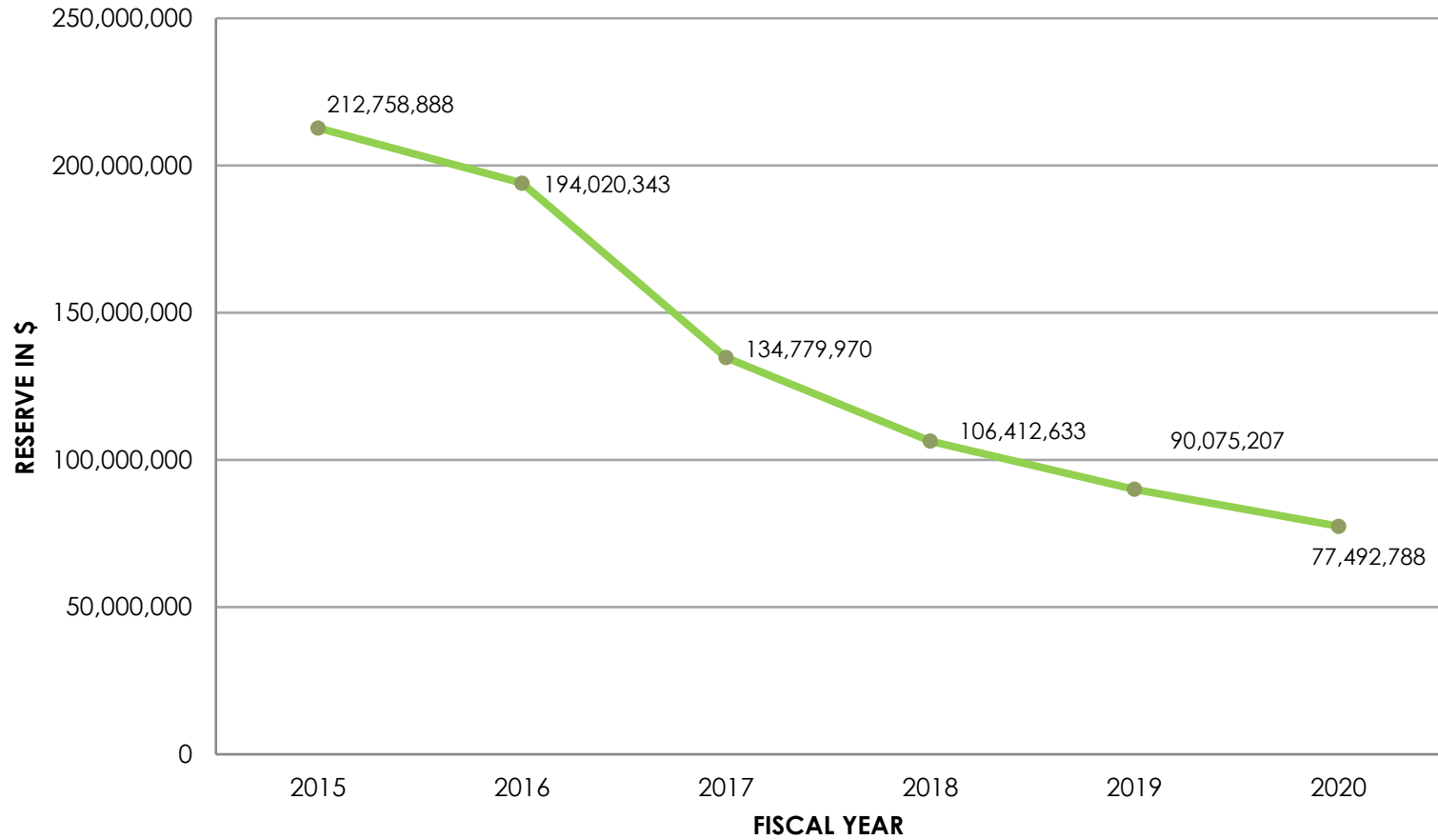
Last six fiscal years

# Total Claims and ULAE Expenses



Last six fiscal years

# Estimated Future Liabilities for Claims and ULAE



Last six fiscal years



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