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Date: February 24, 2022

TO: MEMBERS, BOARD OF DIRECTORS

I.	**AGENDA ITEM # AND TITLE:**	Open Agenda Item 4 – Financial and President's Report: 4Q 2021
II.	**NAME AND PROGRAM:**	Vernon Steiner, President and CEO Peter Guastamachio, Chief Financial Officer
III.	**ACTIVITY:**	☒ Informational ☐ Request for Direction ☐ Action Proposed ☐ Exploratory
IV.	**JUSTIFICATION:**	☒ Standard/Required Item ☐ Board Request – New Item ☐ New Topic from Staff

V. EXECUTIVE SUMMARY:

- Net premiums earned of $1,236 million were 21.7% higher than prior year.
- Combined ratio of 143.6% was 2.3 point higher than the same period in the prior year.
- Net income of $166 million was $94 million higher than the same period last year.
- Policyholders' surplus increased by $140 million since December 31, 2020.

VI. ANALYSIS /BACKGROUND:

- Statutory financial results are filed with the California Department of Insurance and the National Association of Insurance Commissioners on a quarterly basis.
- Highlights are also shared with the Board on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2021

The following summarizes our statutory financial results for the year ended December 31, 2021. Our results reflect an increase in premiums earned and policyholders' surplus.

- Underwriting results
  - Net premiums earned of $1,236 million were 21.7% higher than prior year mainly due to increase in reported payroll policies resulting from reopening of businesses, $45 million reduction in estimated audit premium in prior year and none this year, and the decrease in unearned premium due to discontinued deposit requirements for payroll-reporting policies.
  - The 2021 loss and loss adjustment expense (LAE) ratios were 74.9% and 26.9%, respectively. Together these ratios were 9.8 points higher compared to last year. Loss ratio was higher by 4.9 points because of COVID claims, increased medical legal fees and increased reserves in transportation more specifically parcel delivery. LAE ratio was higher by 4.9 points mainly due to lower LAE reserve release this year, one-time expense resulting from the LAE portion of a legal case settlement accrual, increase in salary and other claims adjustment cost, and higher reported claims count in transportation, manufacturing, and retail.
  - Underwriting expense ratio of 41.8% was 7.5 points lower than the same period in the prior year mainly due to $158 million increase in premiums written, $10 million premium deficiency reserve release net of $11 million increase in underwriting expenses. The increase in underwriting expenses are represented by the underwriting portion of the aforementioned legal case settlement accrual, increase in commission expenses, partially offset by the $44 million COVID-19 Safety Funds paid last year .
  - The combined ratio of 143.6% was 2.3 points higher compared to the same period last year mainly due to the above-mentioned increases in loss and LAE, partially offset by the decrease underwriting expenses.
- Investment and other non-underwriting results
  - Net investment income of $515 million was $59 million lower than the prior year mainly due to the lower interest rates and increased amortization expenses. Realized capital gains of $159 million were $71 million higher than prior year due to increase in gain on sale of equity investments.
  - Other income of $23 million this year represents charge-off recoveries and a change in the charge-off policy that became effective this year.
- Net income and policyholders' surplus

  Net income before dividends to policyholders of $165 million was $7 million lower than prior year due to $90 million increase in underwriting loss and $59 million decrease in net investment income, mostly offset by $142 million increase in other income and realized capital gain. Finally, net income of $166 million was $94 million higher than last year mainly due to no dividends declared this year compared to $119 million declared 2020 dividends net of $18 million 2019 dividend reserve release last year.

- Policyholders' surplus went up by $140 million since December 31, 2020. This increase is a result of the net income of $166 million, an increase of $99 million in unrealized capital gains and provision for reinsurance, offset by an unfavorable increase of $63 million in non-admitted assets and a $62 million reclassification of special surplus to recognize State Fund's share of Pension and OPEB as liabilities in compliance with Statements of Statutory Accounting Principles (SSAP) No. 5R – "Liabilities, Contingencies and Impairment of Assets".

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2021

Financial Results ($ millions)	2020 Actual	2021 Actual	Actual vs. Prior Year $ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,016	1,236	220	21.7%
Losses	711	926	215	30.2%
Loss adjustment expenses (LAE)	224	333	109	48.7%
Underwriting (UW) expenses	509	520	11	2.2%
Other underwriting deductions	15	(10)	(24)	-165.3%
Underwriting results	(442)	(532)	(90)	-20.3%
Net investment income	574	515	(59)	-10.3%
Realized capital gain (loss)	89	159	71	79.9%
Other income (expense)	(48)	23	71	147.8%
Income before dividends to policyholders	172	165	(7)	-4.2%
Dividends to policyholders (credits)	101	(1)	(101)	-100.9%
Net income (loss)	72	166	94	131.2%
Standard Industry Ratios				
Loss ratio	70.0%	74.9%		4.9%
LAE ratio	22.0%	26.9%		4.9%
Loss and LAE ratio	92.0%	101.8%		9.8%
UW expense ratio	49.2%	41.8%		-7.5%
Combined ratio	141.3%	143.6%		2.3%

Numbers or ratios may not foot due to rounding.
Dash (-) represents a null value.
Zero (0) represents a calculated zero or number which rounds to zero
Green represents better than plan and prior year.
Red represents worse than plan and prior year.