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Date: February 8, 2021

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE:	Open Agenda Item 4 – Financial and President’s Report: 4Q 2020
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO and Peter Guastamachio, Chief Financial Officer
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

- Net premiums earned of \$1,016 million were 14.6% lower than prior year due to State Fund’s filing of a rate decrease of 10%, the reduction of estimated audit premium bills, and the impact of COVID-19.
- Combined ratio of 141.3% was 45.8 points higher than the same period in the prior year, mainly driven by the prior year reserve release of \$536 million.
- Net income before dividends to policyholders of \$172 million was \$527 million lower than the same period last year mainly due to reserve release mentioned above. State Fund declared total dividends to policyholders of \$119 million for 2020 policy year but this was partially offset by an \$18 million release of 2019 policyholders’ dividend reserves in excess of estimated payments. Therefore, our net income after dividends was \$72 million.
- Policyholders’ surplus went down by \$145 million since December 31, 2019.

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, 2020

The following summarizes our statutory financial results for the year ended December 31, 2020. Our results reflect a decrease in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$1,016 million were 14.6% lower than prior year mainly due to the reduction of estimated audit premium bills of \$45 million, decrease in rate filed of 10% and the impact of COVID-19.
 - The 2020 loss and loss adjustment expense (LAE) ratios were 70% and 22%, respectively. Together these ratios were 36.1 points higher compared to prior year. This year's ratios have normalized compared to last year's ratios when they were significantly less due to the combined \$536 million reserve release resulting from both system wide improvements and several initiatives to improve claims operational outcomes.
 - Underwriting expense ratio of 49.2% was 9.7 points higher than the same period in the prior year due to \$128 million decrease in written premiums, \$15 million in premium deficiency reserve and \$37 million increase in underwriting expenses, of which \$44 million was from COVID-19 safety funds net of the \$7 million decrease in premium taxes. State Fund recognized a \$15 million of premium deficiency reserve to cover for related future expected losses and LAE resulting from unprecedented COVID-19 pandemic.
 - The combined ratio of 141.3% was 45.8 points higher than the same period last year mainly due to the prior year reserve release of \$536 million.

- Investment and other non-underwriting results
 - Net investment income of \$574 million was \$52 million lower than the prior year mainly due to lower interest rates and increase amortization expense of \$25 million.
 - Realized capital gains of \$89 million were \$11 million lower than prior year.
 - Other expenses, mostly representing charge-offs of uncollectible premiums are \$32 million higher in the prior year than this year. AB 2883 resulted in unusually high audited premium billings in 2018, part of which were charged off in 2019. This was a one-time occurrence.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2020

- Net income and policyholders' surplus
 - Net income before dividends of \$172 million was \$527 million lower than the same period in the prior year mainly due to the reserve release previously mentioned.
 - State Fund declared regular dividends of \$114 million and large account safety dividend of \$5 million for policies that have incepted January 1, 2020 through December 31, 2020 but this was partially offset by an \$18 million release of 2019 policyholders' dividends reserves in excess of estimated payments. Therefore, total declared dividends were \$101 million, which resulted in our net income after dividends of \$72 million.
 - Policyholders' Surplus went down by \$145 million since December 31, 2019. This was mainly due to \$181 million reclassification of surplus to recognize State Fund's share of Pension and Other Post Employment Benefit (OPEB) as liabilities in compliance with Statements of Statutory Accounting Principles (SSAP) No. 5R – "Liabilities, Contingencies and Impairments of Assets". The additional decrease was attributed to a decrease of \$17 million in unrealized capital gains, a \$19 million decrease in non-admitted assets, offset by net income of \$72 million.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2020

Financial Results (\$ millions)	2019 Actual	2020 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,190	1,016	(174)	-14.6%
Losses	464	711	247	53.3%
Loss adjustment expenses (LAE)	201	224	22	11.2%
Underwriting expenses	471	509	37	7.9%
Other underwriting deductions	-	15	15	n/a
Underwriting results	53	(442)	(495)	-933.2%
Net investment income	627	574	(52)	-8.4%
Realized capital gain (loss)	100	89	(11)	-11.1%
Other income (expense)	(80)	(48)	32	39.9%
Income before dividends to policyholders	699	172	(527)	-75.4%
Dividends to policyholders (credits)	160	101	(59)	-37.2%
Net income (loss)	539	72	(468)	-86.7%
Standard Industry Ratios				
Loss ratio	39.0%	70.0%		31.0%
LAE ratio	16.9%	22.0%		5.1%
Loss and LAE ratio	55.9%	92.0%		36.1%
UW expense ratio	39.6%	49.2%		9.7%
Combined ratio	95.5%	141.3%		45.8%

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.