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Date: June 1, 2020

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE:</b>	Open Agenda Item 4 – Statement of Actuarial Opinion
<b>II. NAME AND PROGRAM:</b>	Ken Van Laar, Chief Risk Officer
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

Presentation by the Appointed Actuary of the Loss and Loss Adjustment Expense reserves as of December 31, 2019.

**VI. ANALYSIS:**

Review of Loss and Loss Adjustment Expense Reserves as of December 31, 2019. Recorded reserves are reasonable.

**VII. RECOMMENDATION:** Information only.

**VIII. PRESENTATION EXHIBITS:** None

**IX. APPENDIX:** See attached

## State Compensation Insurance Fund

### **COVID-19 Pandemic Disclosures**

This analysis was completed in February 2020, with the following document delivery dates:

- Statement of Actuarial Opinion (NAIC version) - Sent on February 25, 2020
- Statement of Actuarial Opinion (California version) - Sent on February 25, 2020
- Actuarial Opinion Summary - Sent on March 5, 2020
- Report of December 31, 2019 Analysis - Sent on March 12, 2020

All of these items were completed using data through December 31, 2019, which is before the first reported COVID-19 claim in the United States. Further, the analysis was completed before the pandemic was considered to have any impact on workers compensation costs. Even now, the impacts are unquantifiable, but are expected to touch on the following areas:

- Our estimates make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in State Fund's historical databases or that are not yet quantifiable, including the potential impact of the emerging situation regarding the COVID-19 pandemic. There is substantial uncertainty regarding the impact of COVID-19 on the level and nature of business activity.
- The estimates are made on a going-concern basis. For workers compensation this means that we have assumed injured workers return to work once they are cleared to do so by their primary treating physician. The absence of these jobs, real or perceived, may result in extended claim durations and/or additional filed claims. Additionally, the state of the overall economy may have a similar impact if other employment options are unavailable.
- The Statement of Actuarial Opinion was based on financial statements as of December 31, 2019 and data and information through February 25, 2020. Since the issuance of the Opinion, there has been significant volatility in the financial markets due to the COVID-19 pandemic. The selected materiality standard is a percentage of surplus, which would be directly impacted by any changes in asset values.
- There has been significant volatility as a result of the COVID-19 pandemic, and State Fund's reinsurers' ability to meet their obligations may have been/could be impacted. To the extent that the reinsurers are unable to meet their obligations, State Fund's net liability may increase.

State Compensation Insurance Fund

**Milliman Analysis of Statutory Loss and Loss Adjustment Expense Reserves**  
**As of December 31, 2019**

**Booked Loss and Loss Adjustment Expense Reserves**

1. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Col. 1, Line 1)	\$9,971,766,170
2. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col. 1, Line 3)	\$2,247,219,336
3. Reserve for Unpaid Losses – Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15, Line 12 x 1,000)	\$10,011,477,000
4. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Totals from Cols. 17, 19, and 21, Line 12 x 1,000)	\$2,247,692,000
5. Retroactive Reinsurance Reserve Assumed (Page 3 write-in item)	\$0
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	\$0

**Excerpt from December 31, 2019 Statement of Actuarial Opinion:**

*In my opinion, the sum of the amounts carried on account of items 1. and 2., the sum of the amounts carried on account of items 3. and 4., and the amount carried on account of item 5., all as shown in Exhibit A:*

- A. Meet the requirements of the insurance laws of the State of California;*
- B. Are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates); and*
- C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Fund under the terms of its contracts and agreements.*