



333 Bush Street
 San Francisco, CA 94104
 (415) 263-5400
www.statefundca.com

Date: November 5, 2020

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Financial and President’s Report: 3Q 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 \$735 million were 18% lower than prior year because State Fund filed a rate decrease of 10%, the reduction of estimated audit premium bills, and the impact of COVID-19.
- Combined ratio of 139.8% was 3.7 points higher than the same period in the prior year.
- Net income before dividends of \$185 million was \$8 million lower than the same period last year. State Fund declared dividends to policyholders of \$75 million for policies that have incepted January 1, 2020 through August 26, 2020. Therefore, our net income is \$110 million.
- Policyholders’ surplus decreased by \$43 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
Nine Months Ended September 30, 2020

The following summarizes our statutory financial results for the nine months ended September 30, 2020. Our results reflect a decrease in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$735 million were 18% lower than prior year mainly due to the reduction of estimated audit premium bills of \$45 million, lower audit premium, decrease in rate filed of 10%, and the impact of COVID-19.
 - Loss and loss adjustment expenses (LAE) ratio of 92.3% was 7.5 points lower compared to the same period last year. The decrease can be mainly attributed to State Fund's reduction in the assumed cost per claim resulting from pension contributions.
 - Underwriting expense ratio of 47.5% was 11.3 points higher than the same period in the prior year due to \$114 million decrease in written premiums and \$47 million increase in underwriting expenses, of which \$37 million was from COVID-19 Safety Funds.
 - The combined ratio of 139.8% was 3.7 points higher than the same period last year mainly due to the decrease in written premiums and increase in underwriting expenses.

- Investment and other non-underwriting results
 - Net investment income of \$438 million was \$38 million lower than the prior year mainly due to federal funds' interest rate cuts this year which lowered our reinvestment rates on the investment portfolio.
 - Realized capital gains of \$71 million were \$21 million lower than prior year, however, we did see an increase of \$29 million in bond gains as we implemented our Environmental, Social, Governance (ESG) initiative to reduce our carbon footprint.
 - Other expenses, mostly representing charge-offs of uncollectible premiums were \$43 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.
 - Net income and policyholders' surplus
 - Net income before dividends of \$185 million was \$8 million lower than the same period in the prior year. State Fund declared dividends to policyholders of \$75 million for policies that have incepted January 1, 2020 through August 26, 2020. Therefore, our net income is \$110 million.
 - Policyholders' Surplus went down by \$43 million since December 31, 2019. This was mainly due to the decrease of \$72 million in unrealized capital gains as a result of COVID-19 pandemic, a drop in the price of oil, and the following recession, reclassification of \$42 million of restricted surplus to recognize State Fund's share of Other Post Employment Benefit (OPEB), and \$39 million decrease in non-admitted assets, offset by net income of \$110 million.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2020

Financial Results (\$ millions)	2019 Actual	2020 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	896	735	(162)	-18.0%
Losses	627	514	(113)	-18.0%
Loss adjustment expenses (LAE)	267	164	(103)	-38.7%
Underwriting (UW) expenses	326	373	47	14.5%
Underwriting results	(324)	(316)	8	2.4%
Net investment income	476	438	(38)	-8.0%
Realized capital gain (loss)	91	71	(21)	-22.7%
Other income (expense)	(51)	(8)	43	85.0%
Income before dividends to policyholders	193	185	(8)	-4.2%
Dividends to policyholders (credits)	105	75	(30)	-28.6%
Net income (loss)	88	110	22	24.9%
Standard Industry Ratios				
Loss ratio	70.0%	70.0%		-
LAE ratio	29.8%	22.3%		-7.5%
Loss and LAE ratio	99.8%	92.3%		-7.5%
UW expense ratio	36.3%	47.5%		11.3%
Combined ratio	136.1%	139.8%		3.7%

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.