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Date: February 5, 2016

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: Year Ended December 31, 2015
II. NAME AND PROGRAM:	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 \$1.6 billion was 3.8% less than the prior year.
- Combined ratio of 129.8% was 13.3 points lower than the same period in the prior year which resulted in underwriting loss of \$483 million.
- Net income of \$271 million was higher than the same period in the prior year.
- Policyholders' surplus grew by \$164 million since December 31, 2014.

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 of Directors on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2015

The following summarizes our statutory financial results for the year ended December 31, 2015. Our results reflect continued growth in premiums and policyholders' surplus.

- Underwriting results
 - Due to the nature of our business, our underwriting results are significantly impacted by the dynamics that affect California business including economic conditions, unemployment and market pricing.
 - Net premiums earned of \$1.6 billion was 3.8% less than the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 106.3% was 12 points lower than the same period last year.
 - Our underwriting expense ratio of 23.5% was 1.3 points lower than the same period last year.
 - Our combined ratio of 129.8% was 13.3 points lower than the same period last year due to decreases in losses and loss adjustment expenses.
- Investment and other non-underwriting results
 - Net investment income of \$642 million was \$14 million lower than the same period in prior year.
 - Realized capital gains of \$89 million was \$14 million higher than the same period in prior year.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, was \$1 million lower than the same period in the prior year.
 - The Board of Directors did not declare any policyholders' dividends in 2015, however, excess policyholders' dividends reserve of \$38 million was released for prior years.
- Net income and policyholders' surplus
 - Net income of \$271 million was higher than the same period in the prior year mainly due to the decrease in the underwriting results and release of excess dividend reserves.
 - Policyholders' surplus grew by \$164 million since December 31, 2014.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2015

Financial Results (\$ millions)	2014 Actual	2015 Actual	Actual vs. Prior Year \$ Variance	Actual vs. Prior Year % Variance
Net premiums earned	1,669	1,605	(64)	-4%
Losses	1,372	1,252	(121)	-9%
Loss adjustment expenses (LAE)	602	454	(149)	-25%
Underwriting expenses	375	382	7	2%
Underwriting results	(681)	(483)	198	29%
Net investment income	656	642	(14)	-2%
Realized capital gain (loss)	75	89	14	18%
Other income (expense)	(17)	(16)	1	6%
Income before dividends to policyholders	33	233	199	595%
Dividends to policyholders (credits)	(4)	(38)	(35)	-930%
Net income	37	271	234	628%
Standard Industry Ratios				
Loss ratio	82.2%	78.0%		-4%
LAE ratio	36.1%	28.3%		-8%
Loss and LAE ratio	118.3%	106.3%		-12%
Underwriting expense ratio	24.8%	23.5%		-1%
Combined ratio	143.1%	129.8%		-13%

Numbers or ratios may not foot or cross 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 prior year.
Red represents worse than prior year.