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Date: February 7, 2014

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Item #5 - Financial Update: Year Ended December 31, 2013
II. NAME AND PROGRAM:	
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:

- Estimated annual premiums were 15% more than budget and 27% more than the prior year.
- Our combined ratio of 127.5% was 6 points lower than budget and 10 points lower than the prior year.
- Net income of \$279 million was \$3 million more than budget and policyholders' surplus grew by 6% to more than \$6.3 billion since December 31, 2012.

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, 2013

The following summarizes our statutory financial results for the year ended December 31, 2013. Our results reflect improved underwriting results and growth in 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.
 - We continued our disciplined approach to underwriting. We wrote approximately 132,000 policies, which were 2% more than budget and were comparable with the year ended December 31, 2012. Estimated annual premiums were 15% more than budget and 27% more than the prior year. The average premium per policy written was approximately \$8,900 or 13% more than budget and 27% more than the prior year.
 - Net premiums earned on policies in force of \$1,094 million were 22% more than budget and 19% more than the prior year. The strong growth in premiums in 2013 was a result of our introduction of Tiered pricing in March combined with a hardening market.
 - Our loss and loss adjustment expenses (LAE) ratio of 102% was 5 points higher than budget and the prior year. This reflected a slightly greater focus on claims resources and strengthening of our LAE reserves to align with those resources.
 - Our underwriting expense ratio of 25.5% was 11 points lower than budget and 15 points lower than the prior year. The improvement in this expense ratio was attributable to a combination of factors: maintaining disciplined expense controls, improved operating efficiencies in our underwriting systems, and strong growth in premiums.
 - Our combined ratio of 127.5% was 6 points lower than budget and 10 points lower than the prior year. The related underwriting loss of \$302 million was 3% lower than budget and 10% lower than the prior year.
- Investment and other non-underwriting results
 - Net investment income of \$684 million was 4% lower than budget and 10% lower than the prior year. Reinvestment yields were lower than planned and investing in equities started later than planned.
 - Realized capital gains of \$4 million were \$4 million more than budget and \$39 million lower than the prior year.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2013

- Other expenses mostly represent charge-offs of uncollectible premiums and were \$3 million lower than budget and \$11 million more than the prior year.
- Dividends to policyholders were \$15 million lower than budget and \$14 million lower than the prior year. The Board of Directors approved \$100 million in 2013 policyholders' dividends but this was partially offset by a \$15 million release of 2011 policyholders' dividends reserves in excess of estimated payments.
- Net income and policyholders' surplus
 - Net income of \$279 million was \$3 million more than budget and \$80 million lower than the prior year.
 - Policyholders' surplus grew by 6% to more than \$6.3 billion since December 31, 2012.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2013

Financial Results (\$ millions)	2012 Actual	2013 Budget	2013 Actual	Variance to Budget	Variance to Prior Year
Net premiums earned	923	897	1,094	22%	19%
Losses	692	673	820	22%	19%
Loss adjustment expenses (LAE)	208	202	295	46%	42%
Underwriting expenses	357	332	280	-16%	-22%
Underwriting results	(334)	(310)	(302)	3%	10%
Net investment income	760	711	684	-4%	-10%
Realized capital gain (loss)	43	-	4	4	-39
Other income (expense)	(11)	(25)	(22)	3	-11
Income before dividends to policyholders	458	376	364	-3%	-21%
Dividends to policyholders (credits)	100	100	85	-15	-14
Net income	359	276	279	3	-80
Standard Industry Ratios					
Loss ratio	75.0%	75.0%	75.0%	0%	0%
LAE ratio	22.5%	22.5%	27.0%	5%	5%
Loss and LAE ratio	97.5%	97.5%	102.0%	5%	5%
Underwriting expense ratio	40.2%	36.4%	25.5%	-11%	-15%
Combined ratio	137.7%	133.9%	127.5%	-6%	-10%

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 or prior year.

Red represents worse than plan or prior year.