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Date: February 17, 2017

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: 4 th Quarter 2016
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 \$1.5 billion was 4.8% less than the prior year.
- Combined ratio of 130.2% was 0.4 point higher than the same period in the prior year which resulted in underwriting loss of \$478 million.
- Net income of \$192 million was lower than the same period in the prior year.
- Policyholders’ surplus grew by \$156 million since December 31, 2015.

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, 2016

The following summarizes our statutory financial results for the year ended December 31, 2016. Our results reflect a slight decline in premiums earned and an increase 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, market pricing, as well as the effects of the insurance profitability cycle.
 - Net premiums earned of \$1.5 billion was 4.8% less than the prior year. State Fund also filed a rate decrease of 9.5% effective in September.
 - Our loss and loss adjustment expenses (LAE) ratio of 106.3% was comparable to the same period last year.
 - Our underwriting expense ratio of 23.9% was 0.4 point higher than the same period last year.
 - Our combined ratio of 130.2% was 0.4 point higher than the same period last year due to increase in loss adjustment expenses.
- Investment and other non-underwriting results
 - Net investment income of \$627 million was \$15 million lower than the same period in prior year.
 - Realized capital gains of \$69 million was \$20 million lower than the same period in prior year.
 - Other expenses, mostly representing charge-offs of uncollectible premiums, was \$15 million higher than the same period in the prior year.
 - The Board of Directors did not declare any policyholders' dividends in 2016, however excess policyholders' dividends reserve of \$5 million was released for prior years.
- Net income and policyholders' surplus
 - Net income of \$192 million was lower than the same period in the prior year mainly due to the decrease in the net premiums earned, lower net investment income and realized capital gains along with higher charge-off of uncollected premiums.
 - Policyholders' surplus grew by \$156 million since December 31, 2015.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2016

Financial Results (\$ millions)	2015 Actual	2016 Actual	Actual vs. Prior Year \$ Variance	Actual vs. Prior Year % Variance
Net premiums earned	1,605	1,527	(77)	-4.8%
Losses	1,252	1,130	(121)	-9.7%
Loss adjustment expenses (LAE)	454	493	40	8.7%
Underwriting expenses	382	382	(0)	0.0%
Underwriting results	(483)	(478)	5	0.9%
Net investment income	642	627	(15)	-2.4%
Realized capital gain (loss)	89	69	(20)	-22.3%
Other income (expense)	(16)	(31)	(15)	-93.2%
Income before dividends to policyholders	233	187	(46)	-19.6%
Dividends to policyholders (credits)	(38)	(5)	34	87.8%
Net income	271	192	(79)	-29.3%
Standard Industry Ratios				
Loss ratio	78.0%	74.0%		-4.0%
LAE ratio	28.3%	32.3%		4.0%
Loss and LAE ratio	106.3%	106.3%		0.0%
Underwriting expense ratio	23.5%	23.9%		0.4%
Combined ratio	129.8%	130.2%		0.4%

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.