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Date: May 8, 2015

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 6 – Statement of Actuarial Opinion
<b>II. NAME AND PROGRAM:</b>	Guy Avagliano, FCAS, MAAA of Milliman
<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 of the Appointed Actuary

**VI. ANALYSIS:**

Review of Loss and Loss Adjustment Expense Reserves as of December 31, 2014.  
Recorded reserves are reasonable.

**VII. RECOMMENDATION:** Information only

**VIII. PRESENTATION EXHIBITS:** None

**IX. APPENDIX:** Attached

State Compensation Insurance Fund

**Unpaid Claims Components**  
**As of December 31, 2014**

Description	(1) State Fund Carried	(2) Milliman Estimated	(3) Dollar Difference (1) – (2)	(4) Percentage Difference (3) / (2)
<b>Gross of Reinsurance</b>				
Regular Losses	\$10,707	\$10,705	\$ 2	
Loss Adjustment Expenses	1,745	1,623	122	
USL&H and Other	47	48	(1)	
Subtotal	\$12,499	\$12,376	\$123	1.0%
 <b>Per Claim Reinsurance</b>	 \$67	 \$67	 \$0	
<b>Net of Reinsurance (Statutory)</b>	\$12,432	\$12,309	\$123	1.0%
 <b>Loss Portfolio Transfer</b>	 \$270	 \$270	 \$0	
<b>Net Unpaid</b>	\$12,162	\$12,039	\$123	1.0%

Notes:

1. Calculations may include rounding differences.
2. Dollar amounts are in millions.

State Compensation Insurance Fund

**Comparison of State Fund's Carried Reserves With  
Milliman's Selected Estimates at Successive Year-Ends**

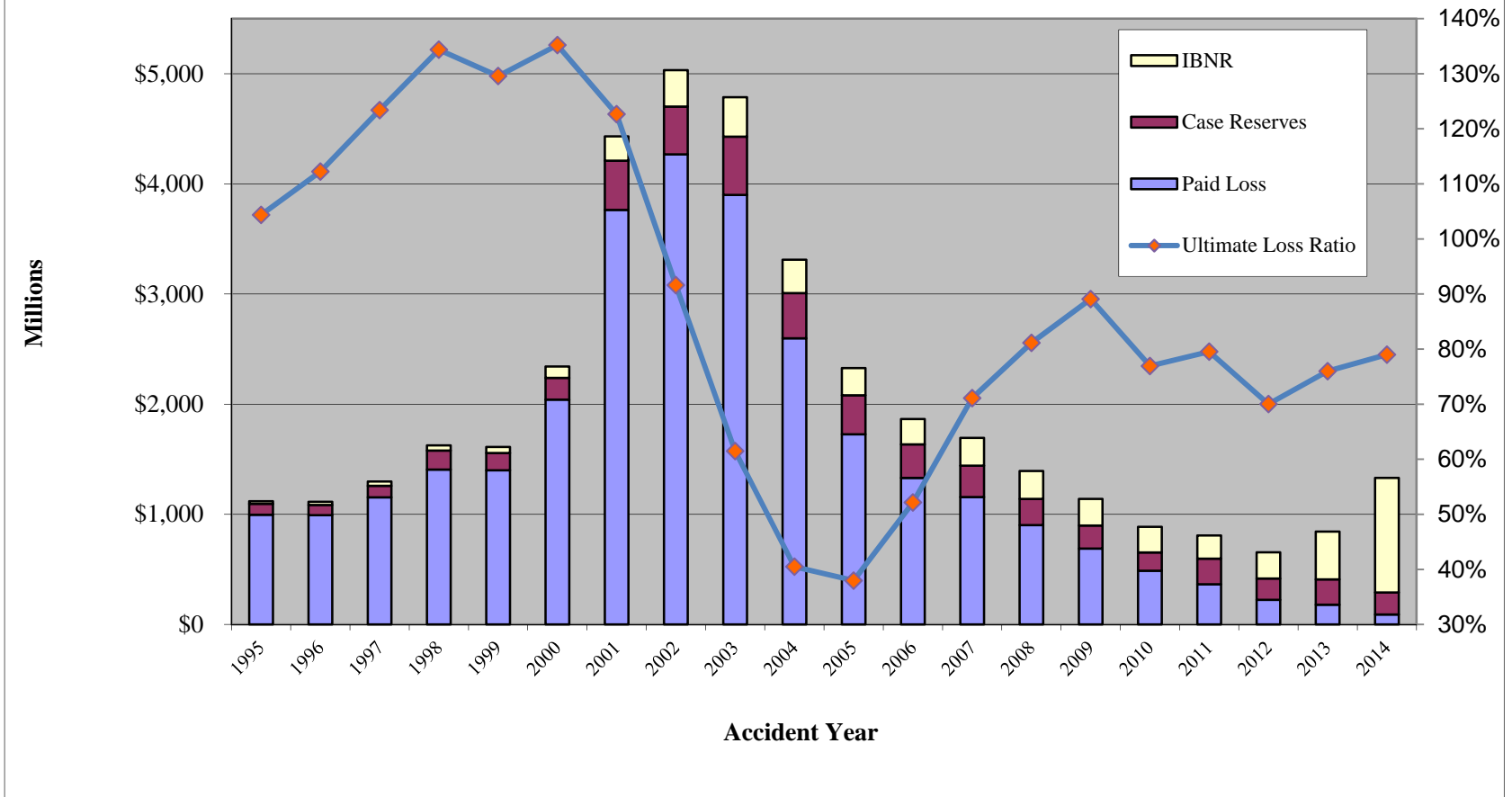
Year-End	Amount By Which State Fund's Carried Reserves Exceeded Milliman's Estimate	Difference as % of Milliman's Estimate
2000	\$60	1.1%
2001	2	0.0
2002	(33)	(0.3)
2003	364	3.2
2004	763	5.6
2005	1,265	8.6
2006	1,852	12.9
2007	2,768	21.0
2008	2,657	20.6
2009	1,444	10.7
2010	1,194	9.0
2011	605	4.6
2012	339	2.8
2013	(13)	(0.1)
2014	123	1.0
	Average:	6.7%

Notes:

1. Dollar amounts are in millions.
2. Positive values indicate reserve redundancy; (negative) values indicate reserve deficiency.

State Compensation Insurance Fund

**Milliman Ultimate Loss Components and Ultimate Loss Ratios**  
**as of December 31, 2014**  
**(Regular Business Only)**



State Compensation Insurance Fund

**California Workers' Compensation Loss Ratio Summary**

Accident Year	WCIRB			Milliman Estimates of State Fund			State Fund Carried		
	As of 12/31/xx	As of 12/31/2014	Change	As of 12/31/xx	As of 12/31/2014	Change	As of 12/31/xx	As of 12/31/2014	Change
2000	70% *	133%	63%	93%	135%	42%	89%	137%	48%
2001	66% *	114%	48%	85%	123%	38%	82%	124%	42%
2002	64% *	88%	24%	75%	92%	17%	75%	94%	19%
2003	58%	57%	-1%	65%	61%	-4%	69%	62%	-7%
2004	52%	37%	-15%	58%	40%	-18%	66%	40%	-26%
2005	34%	34%	0%	57%	38%	-19%	67%	37%	-30%
2006	37%	45%	8%	70%	52%	-18%	60%	51%	-9%
2007	48%	63%	15%	70%	71%	1%	67%	70%	3%
2008	71%	81%	10%	80%	81%	1%	73%	80%	8%
2009	75%	95%	20%	85%	89%	4%	78%	86%	8%
2010	81%	96%	15%	72%	77%	5%	77%	76%	-1%
2011	80%	85%	5%	70%	80%	10%	74%	77%	3%
2012	72%	77%	5%	70%	70%	0%	74%	73%	-1%
2013	70%	67%	-3%	78%	76%	-2%	75%	75%	0%
2014	61%	61%	n/a	79%	79%	n/a	75%	75%	n/a
Average 2000-2013			14%			4%			4%

Notes:

1. (\*) Based on March 31 data.
2. "Accident Year" is those injuries occurring January 1 through December 31.

State Compensation Insurance Fund

**Ultimate Loss Ratio Range As Indicated  
By Milliman Projection Methods**

**(Regular Business Only)**

<u>Accident Year</u>	<u>Indicated Range</u>			<u>Selected</u>
	<u>Low</u>	<u>High</u>	<u>Midpoint</u>	
2012	62%	79%	71%	70%
2013	63%	92%	78%	76%
2014	54%	96%	75%	79%

Notes:

1. "Accident Year" is those injuries occurring January 1 through December 31.
2. The range covers the highest and lowest indications from the methods used; actual ultimate losses may fall outside of this range.

State Compensation Insurance Fund

**Milliman Analysis of Statutory Claim and Claim Adjustment Expense Reserves**  
**As of December 31, 2014**

**Booked Loss Reserves**

1. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Col. 1, Line 1)	\$10,687,180,196
2. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col. 1, Line 3)	1,744,634,206
3. Reserve for Unpaid Losses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 13 and 15, Line 12 x 1,000)	10,753,799,000
4. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 17, 19, and 21, Line 12 x 1,000)	1,745,224,000
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	0

**Excerpt from December 31, 2014 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 Loss and Loss Adjustment Expense Reserves); 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.*