

BOARD OF DIRECTORS MEETING (OPEN)

AGENDA ITEM 15

ATTACHMENT 15-I

FINANCIAL UPDATE—1st QUARTER 2009

PRESENTED BY: Jay Stewart

May 15, 2009

STATE
COMPENSATION
INSURANCE
FUND

Financial Results
First Quarter Preliminary Results
March 31, 2009

Income Statement Highlights - YTD

Quarter Ended, 3/31/09

	<i>(unaudited)</i>				
	YTD FY 2009 Actual	YTD FY 2009 Budget	Increase (Decrease)	YTD FY 2008 Actual	Increase (Decrease)
Premiums earned:					
Direct premiums written	326	400	(74)	452	(126)
Ceded	(8)	(13)	4	(15)	7
Net premiums written	318	388	(70)	437	(119)
Adjustment to earned	(2)	3	(4)	(9)	8
Net premiums earned	316	390	(74)	427	(111)
Losses incurred	239	293	(54)	328	(89)
Loss adjustment expense	161	161	0	148	14
Underwriting expense	114	135	(22)	140	(26)
Underwriting gain (loss)	(197)	(199)	2	(188)	(10)
Net investment income	234	213	22	258	(23)
Realized capital gain (loss)	0	-	0	(2)	2
Other income (expense)	(7)	(13)	5	(21)	14
Net income (loss) before dividends	30	1	29	47	(17)
Dividends to policyholders	(0)	-	(0)	2	(2)
Net income after dividend	30	1	29	49	(19)
Change in net unrealized capital gain (loss)	-	n/a	n/a	0	(0)
Change in nonadmitted assets	(3)	n/a	n/a	4	(7)
Change in provision for reinsurance	(3)	n/a	n/a	2	(5)
Policyholders' surplus beginning	5,089	n/a	n/a	4,909	180
Policyholders' surplus ending	5,113	n/a	n/a	4,964	149
Key ratios based on net earned premium:					
Incurred loss ratio	75.5%	75.0%	0.5%	76.7%	-1.2%
LAE ratio	50.9%	41.3%	9.7%	34.5%	16.4%
Loss expense ratio	126.4%	116.3%	10.2%	111.2%	15.2%
Expense ratio	38.0%	38.2%	-0.2%	36.9%	1.1%
Combined ratio	164.4%	154.4%	10.0%	148.1%	16.3%
Investment income ratio	74.0%	54.5%	19.5%	60.3%	13.7%
Operating ratio	90.4%	99.9%	-9.6%	87.8%	2.6%

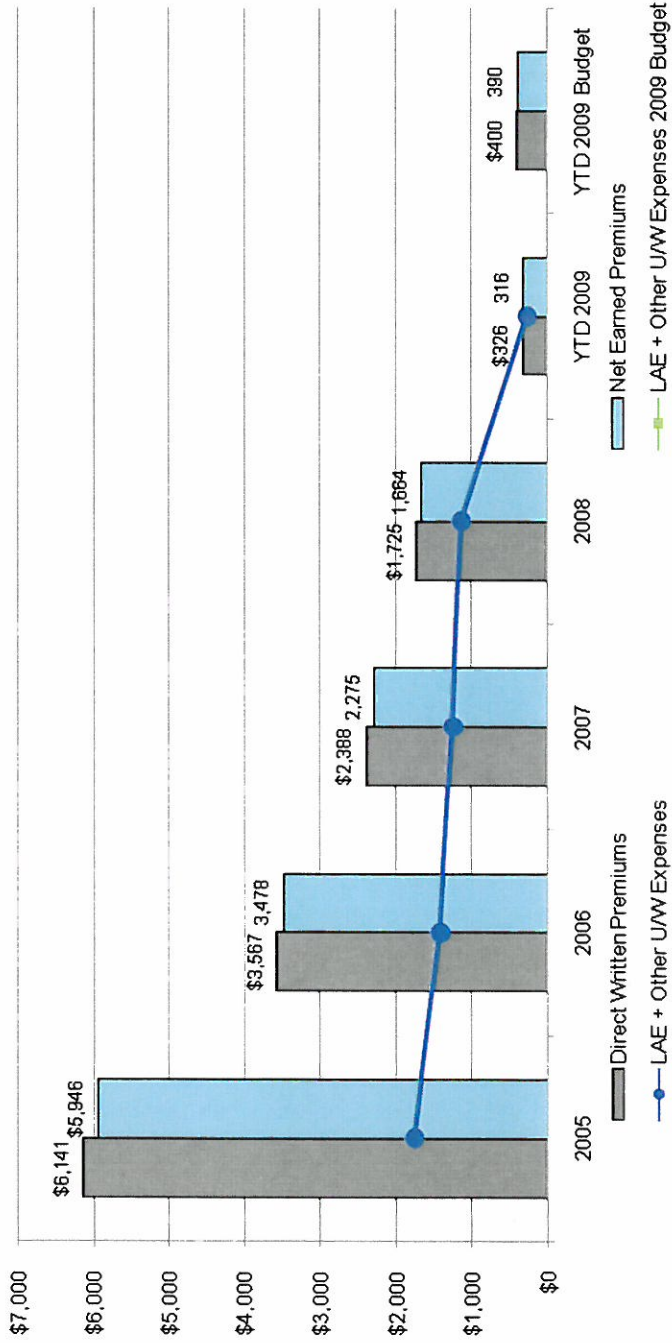
Balance Sheet

As of 3/31/09

	(unaudited)			
	03/31/2009	12/31/2008	03/31/2008	Increase (Decrease)
Admitted Assets				
Bonds, at amortized cost	17,981	18,524	19,760	(1,778)
Real estate	383	378	344	39
Cash, cash equivalents and short-term investments	2,078	1,540	602	1,476
Receivables for securities	3	2	141	(138)
Total cash and investments	<u>20,445</u>	<u>20,444</u>	<u>20,847</u>	<u>(402)</u>
Premiums in the course of collection	37	44	47	(9)
Deferred, earned but unbilled and accrued retrospective premiums	47	49	58	(11)
Reinsurance recoverables	1	2	6	(4)
Accrued interest and dividends	169	190	202	(34)
Guaranty fund receivables	165	172	198	(34)
Due from adjusting contracts	67	66	55	12
Other assets	120	138	139	(19)
Total admitted assets	<u>21,051</u>	<u>21,105</u>	<u>21,552</u>	<u>(501)</u>
Liabilities and Policyholders' Surplus				
Estimated liabilities for:				
Losses	14,347	14,489	14,918	(571)
Loss adjustment expenses	1,910	1,891	1,870	41
Retroactive reinsurance ceded	(809)	(836)	(920)	111
Collateral for loaned securities	-	-	183	(183)
Unearned premiums	90	91	104	(14)
Amounts held in trust liability	72	72	80	(8)
Other liabilities	326	309	353	(27)
Total liabilities	<u>15,938</u>	<u>16,016</u>	<u>16,588</u>	<u>(650)</u>
Special surplus for retroactive reinsurance	576	576	576	-
Unassigned surplus	4,537	4,513	4,388	149
Policyholders' surplus	5,113	5,089	4,964	149
Total liabilities and policyholders' surplus	<u>21,051</u>	<u>21,105</u>	<u>21,552</u>	<u>(501)</u>

Net Earned Premiums

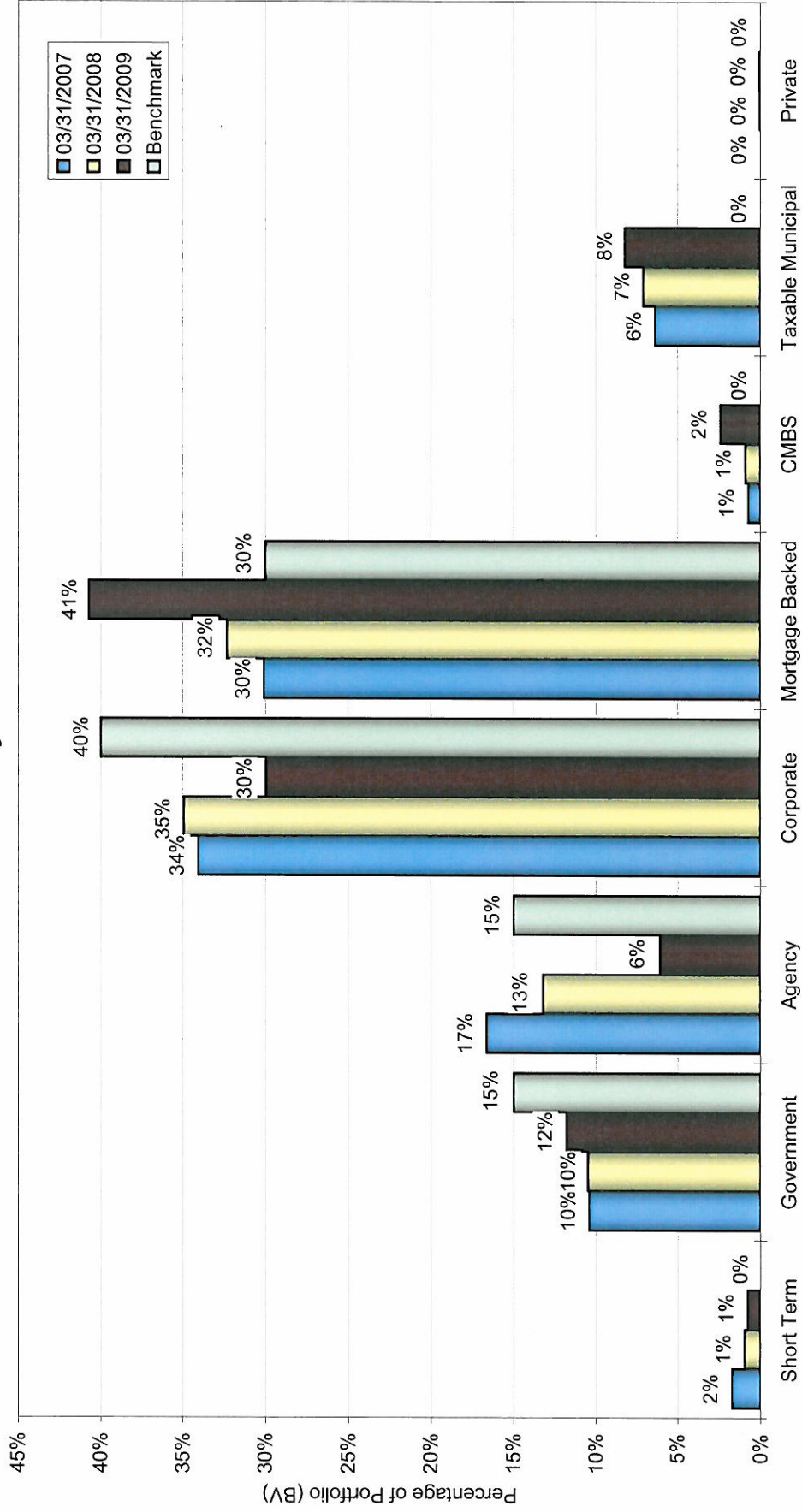
Quarter Ended, 3/31/09



Year	Direct Written Premiums	Net Earned Premiums	LAE + Other U/W Expenses
2005	\$6,141	\$5,946	\$3,567
2006	\$3,567	\$3,478	\$2,388
2007	\$2,388	\$2,275	\$1,725
2008	\$1,725	\$1,664	\$326
YTD 2009 Budget	\$400	\$390	\$316

Sector Allocation

State Compensation Insurance Fund of CA Portfolio Mix by Asset Class

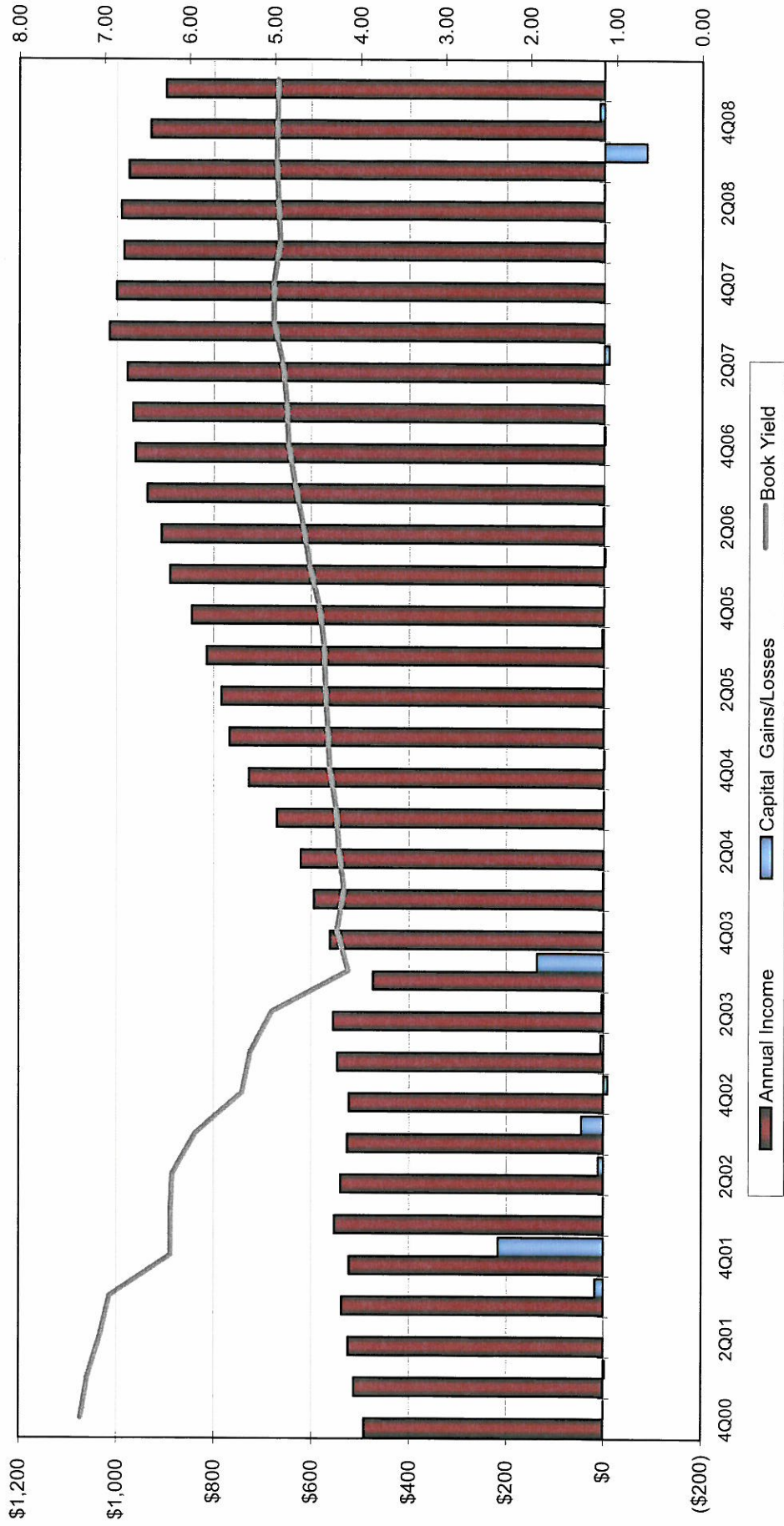


* CMBS holdings consist of GNMA Project Loans that are guaranteed by the U.S. Government, with the exception of one deal issued by FNMA (\$4.6 mm par).



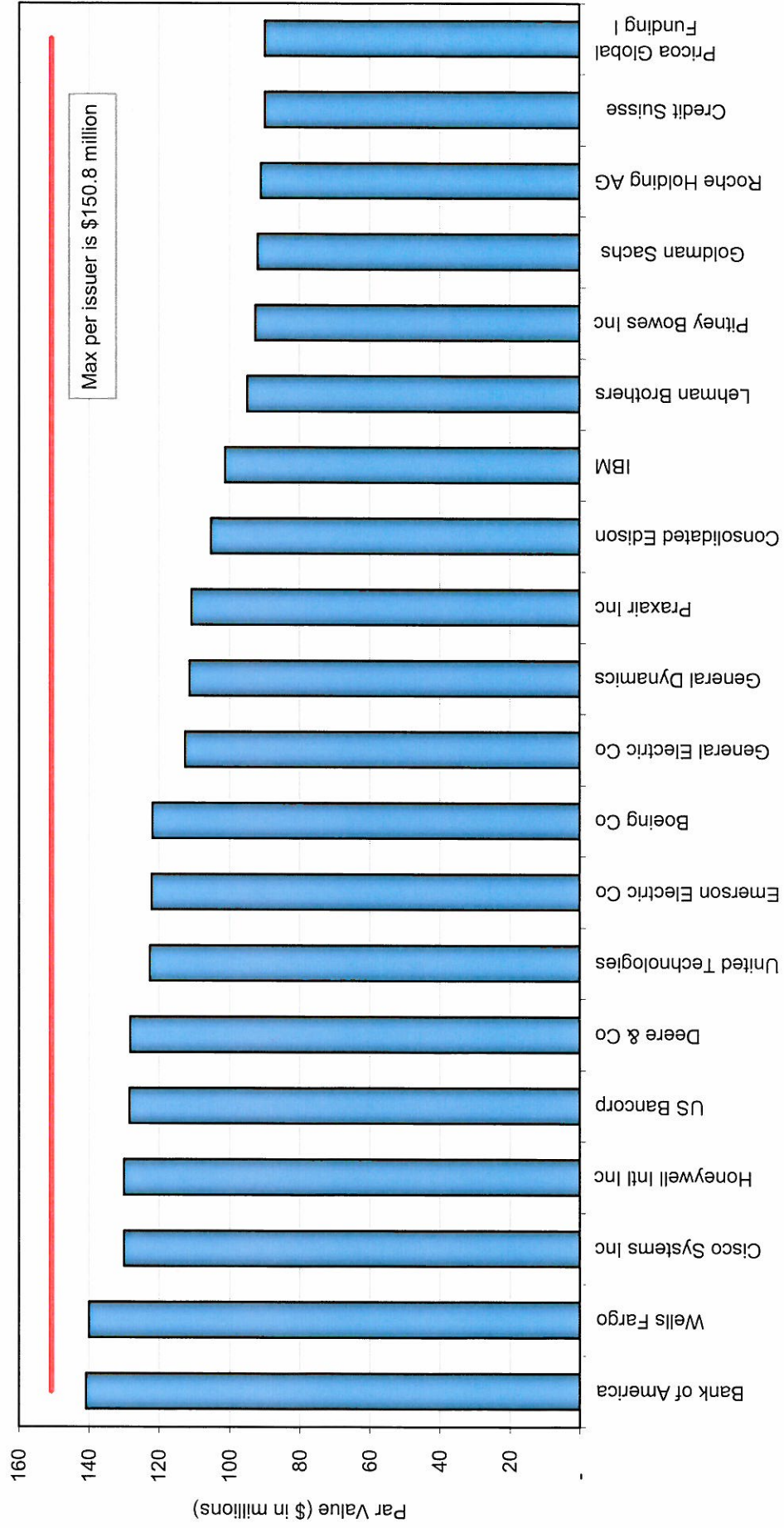
Investment Income

State Compensation Insurance Fund of California
Income and Gains vs. Book Yield



Top Twenty Holdings

Top Twenty Holdings
As of March 31, 2009



Net Written Premiums

Quarter Ended, 3/31/09

- \$318M vs. budget of \$388M. \$70M or 17.9% below budget thru 3 months, due primarily to continued competitive market-place, sharp increase in policyholder bankruptcies, and staffing disruptions.
- This is down \$119M or 27.2% from \$437M same quarter prior year.

Net Losses

Quarter Ended, 3/31/09

- \$239M vs. budget of \$293M, Down 18.3% in \$'s but as a % of earned premium up slightly from budget at 75.5% vs. budget of 75.0%.
- Loss ratio lower than same quarter prior year. 75.5% vs. 76.7%.

Loss Adjustment Exp.

Quarter Ended, 3/31/09

- Higher than budget thru 3 mo at 50.9% of earned premium vs. 41.3%, due primarily to lower earned premium but same level of claims adjustment expense.
- Higher than same quarter prior year, 50.9% of earned premium vs. 34.5%, again driven primarily by lower earned premium.

Underwriting Expense

Quarter Ended, 3/31/09

- Thru 3 mo., the underwriting expense is down 16.1%, \$114M vs. budget of \$135M. The expense ratio is slightly over budget at 35.7% vs. 34.9%.
- It is down in \$'s over last year, \$114M vs. \$140M, or 18.6% but up as a % of net premium written, 35.7% vs. 32.0%.

Underwriting Expense Cont.

Quarter Ended, 3/31/09

- Taxes, licenses and fees down \$20.6M or 68.6% from prior year first quarter.
- Salary and related expense down \$5.8M or 15.4% from prior year first quarter.
- Employee relations and welfare increase of \$11.4M offset by decreases in surveys, group admin fees, and commissions of \$4.3M, \$4.2M, and \$3.1M, respectively.

Underwriting Gain or Loss

Quarter Ended, 3/31/09

- Underwriting loss was slightly less than budget, \$(197M) vs. a budget of \$(199M).
- The loss was \$11M more than the prior year quarter, \$(199M) vs. \$(188M).

Net Investment Income

Quarter Ended, 3/31/09

- Investment income up 10.2% over budget for 1st quarter 2009, \$234M vs. a budget of \$213M.
- Investment income down 9.1% over same quarter prior year, \$234M vs. prior year quarter of \$258M.
- Yield net of expense for the 1st quarter was 1.1%, or 4.4% annualized vs. 2008 annual yield of 4.7%.

- Net realized capital gain of \$151K thru 3 months vs. prior year net realized capital loss of \$1.8M.
- No significant impairments occurred during the first three months of 2009.

Premium Charge-offs

Quarter Ended, 3/31/09

- Thru 3 months, we have written-off \$7M in premium as uncollectible vs. a budget of \$13M.
- Compared to same quarter prior year, \$7M vs. \$21M, charge-offs are down 66.9%.

- Net income thru 3 months is \$30M vs. a budget of \$1M, due primarily to higher investment income than budgeted.
- Net income for the quarter vs. same quarter prior year, \$30M vs. \$47M is down primarily due to lower investment income this year.
- Net income excluding post retirement benefit expense amounts to \$50M thru 3 months which is slightly higher than last year's net income thru 3 months.

Combined Ratio

Quarter Ended, 3/31/09

- Combined ratio at 3/31/09 is 164.4% vs. budget of 154.4%.
- Combined ratio at 3/31/09 compared to same quarter prior year is 164.4% vs. 148.1%.
- Excluding post retirement benefits which are not in prior year quarter, combined would have been approx. 158.0% vs. a budget of 148.1%.

- Total admitted assets are \$21.1B
- Cash & invested assets are \$20.4B
- Total liabilities are \$15.9B
- Loss reserves are \$15.5B
- Assets exceed liabilities by approximately \$5.1B