



North Carolina Self-Insurance Security Association
1620 South MLK Jr. Avenue, Suite 107
Salisbury, North Carolina 28144

2017 Annual Report

April 26, 2018

Executive Director

Dewey R. Preslar, Jr.,
ARM

Board of Directors

Thomas R. Yarboro,
Chairman
Maxwell Family
Holding Company
System

Kevin F. Walsh,
Vice-Chairman
RTI International

Alice West,
Secretary/Treasurer
Alex Lee, Inc.

Melissa Culbreth
Duke Energy

Neal Cope
Delhaize America, LLC

Christopher N. Dekle
Extended Stay America

Patrick Eglinton
First Citizens

Delphine D. Goines
Duke University

Thomas R. Krebs
Blue Cross and Blue
Shield of North
Carolina

Tia Schweikert
Lowe's Companies,
Inc.

Mary B. Silver
Mission Health, Inc.

Dear Member Self-Insurer:

Thank you for your membership in the North Carolina Self-Insurance Security Association (the "Security Association"). The North Carolina General Assembly created the Security Association in October 1986 as the statutory safety net for all North Carolina licensed self-insurers and their employees. In the event of an insolvency, employees of North Carolina member self-insurers ("Members") were no longer relegated to file a proof of claim in bankruptcy proceedings across the country. Instead for almost 32 years, the Security Association has paid covered claims against insolvent Members and it has addressed 83 Member insolvencies. The Security Association has been resolute to protect the integrity of its statutory mandate as it has championed the interests of Members and their employees.

It was an exciting and productive year for the Security Association. In 2017, the leadership met with Insurance Commissioner Mike Causey on a few occasions and he was very interested to learn about the significant role that self-insurance plays in North Carolina. We continued our work with the relevant administrative agencies including the North Carolina Department of Insurance ("Insurance") and the North Carolina Department of Revenue ("Revenue") which reviews the corporate finance records of all Members. Under North Carolina law, all Members must provide financial information to Insurance and must provide relevant payroll information to Revenue.

In 2017, we commenced several initiatives for the convenience of our Members including the development of a website portal to facilitate the submissions of actuarial information to the Security Association as well as a study of our Initial Assessment policy to better serve the self-insurance industry.

Under the North Carolina insurance regulatory law, all Members must provide financial information not only to Insurance and Revenue, but to the Security Association as well. In 2017, the Security Association reviewed the audited financials of all Members together with their respective actuarial reports and actuarial opinions to determine eligibility for the alternate security system, Association Aggregate Security System ("AASS"). The AASS has been mandated under North Carolina law since 2006 to protect stakeholders in the self-insurance

industry from member insolvencies and to provide a mechanism for individual Members to avoid the cost of posting a statutory deposit with Insurance. The Security Association evaluates the creditworthiness of individual Members on an annual basis. If an individual Member is excluded from participation in the AASS, under North Carolina law, a statutory deposit must be posted with Insurance based on the Member's actuarially determined outstanding workers' compensation liabilities.

All participants in the alternate security system pay an AASS assessment which has been used to purchase aggregate coverage and to ensure the Security Fund has sufficient resources to pay covered claims against insolvent Members. Pooling workers' compensation liabilities allows the Security Association to spread the risk and to reduce the cost of aggregate security for Members. The goal of the AASS is to avoid individual statutory deposits and to preclude additional assessments in the event of other Member insolvencies.

The 2017-2018 AASS ("2017 AASS") afforded protection for Members and their respective employees as the Security Association continued its multi-year aggregate security for individual Members obviating the need for these Members to post statutory deposits with Insurance in the form of cash, surety bonds or letters of credit.

2017 AASS

The 2017 AASS evaluated the workers' compensation liabilities of individual Members on a portfolio basis and the Security Association purchased security for those liabilities on an aggregate basis. The Security Association leadership determined all Members licensed by Insurance for a period of one year were eligible to participate irrespective of credit rating.

All participating Members in the 2017 AASS paid a portion of the cost of the aggregate security based on creditworthiness and its respective share of the aggregate outstanding workers' compensation liabilities. The aggregate security for the 2017 AASS was predicated on the premium due for the second year of a multi-year insurance policy with XL Catlin which will pay covered claims against former Members once the Security Association retention has been reached over a three-year period.

Members of the Security Association must participate in the AASS in accordance with N.C. Gen. Stat. §97-185(a1) unless a Member is excluded by the Security Association Board of Directors ("Board"). Members may be excluded from the AASS based on an evaluation of creditworthiness, if a Member license is revoked, if a Member defaults on the payment of its workers' compensation liabilities or if there is a failure to submit sufficient information to allow the Security Association to evaluate the financial condition of a Member.

The Board has discretion to establish a minimum creditworthiness threshold for AASS participation. Under North Carolina law, the Security Association must monitor the financials and creditworthiness of Members and has discretion to exclude a Member if it does not meet minimum participation requirements. In that instance the Member would be required to post an individual statutory deposit with Insurance.

There were 100 participants in the 2017 AASS and most Member costs were reduced. Additional information on the 2017 AASS is available on the Security Association website at www.ncsisa.org.

Group self-insurers were also assessed based on their respective risk to the aggregate portfolio. Throughout its 32-year history the Security Association has paid hundreds of covered claims against four insolvent group self-insurers.

There were no special assessments of Members in 2017.

Security Association Financials

In 2017, as is detailed below our investment advisors achieved outstanding results on behalf of the Security Association. Careful discernment and analysis resulted in diversification of the portfolio as well as the implementation of various risk mitigation strategies as a hedge against volatile economic conditions. In consultation with its seasoned advisors, the Security Association invested its assets in conformity with its 2017 Investment Policy Statement which is submitted and must be reviewed annually by the North Carolina State Treasurer. The Security Association investment decisions continue to grow the Security Fund to protect and ensure there are sufficient resources to address all contingencies affecting Members and their employees.

The Security Association commissioned a 2017 actuarial study of its projected liabilities relating to all insolvent Members as well as an audit of its 2017 financial statements. The audited financial statements are presented on an accrual basis and claims liabilities are based on actuarially determined estimates that included incurred but not reported liabilities for insolvent estates that have been transferred to the Security Association. In 2017, projected reserves were reduced by more than \$600,000 because of successful insurance coverage litigation and the resolution of longstanding disputes against the Security Association.

A summary and comparison of Security Association financial data over the last three years has been prepared for your review and consideration.

Selected Financial Data

	Year ended		
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Summary Income Statements:	(audited)	(audited)	(audited)
Income:			
Assessments	\$ 2,023,749	2,490,751	2,970,183
Gain on commutation of reinsurance contract	-	-	980,000
Proceeds from insolvencies	736,879	181,888	613,040
Investment return	<u>2,885,357</u>	<u>988,458</u>	<u>(349,561)</u>
	<u>5,645,985</u>	<u>3,661,097</u>	<u>4,213,662</u>
Expenses (Recoveries):			
Claims and related expenses	(32,352)	608,442	(2,189,918)
Management fees	80,167	78,000	78,000
Legal, accounting and actuary	228,934	274,387	262,491
Aggregate security system expenses	454,419	673,362	477,816
Other	<u>59,380</u>	<u>58,318</u>	<u>61,895</u>
	<u>790,548</u>	<u>1,692,509</u>	<u>(1,309,716)</u>
Net	<u>\$ 4,855,437</u>	<u>1,968,588</u>	<u>5,523,378</u>
Net change, excluding investment income	<u>\$ 1,970,080</u>	<u>980,130</u>	<u>5,872,939</u>

Summary Balance Sheets:

Assets:

Total cash and investments, fair value	\$	35,698,876	32,050,658	29,564,125
Other assets		807,862	635,412	1,129,389
Total assets	\$	<u>36,506,738</u>	<u>32,686,070</u>	<u>30,693,514</u>

Liabilities:

Estimated future claims and related costs		3,623,370	4,298,893	3,941,812
Deferred revenue		1,546,034	1,810,412	2,118,403
Other liabilities		1,098,287	1,193,155	1,218,277
Total liabilities		<u>6,267,691</u>	<u>7,302,460</u>	<u>7,278,492</u>

Net assets		30,239,047	25,383,610	23,415,022
Total liabilities and net assets	\$	<u>36,506,738</u>	<u>32,686,070</u>	<u>30,693,514</u>

2017 Claims Activities and Member Insolvencies

In 2017, the Security Association addressed all known as well as incurred but not reported claims against former Members including American Yarn Spinners Self-Insurers Fund, Fieldcrest Cannon, Dominion Yarn, Burlington Industries and Interstate/Hostess Brands and Vertellus Specialties Inc. The complete list of member insolvencies is detailed at www.ncsisa.org. In addition, the Security Association responded and investigated all inquiries about claim which allegedly involved a North Carolina licensed self-insurer. The Security Association statutory mandate requires payment of all covered claims which includes claims incurred during a Member's period of self-insurance.

In 2017, all outstanding issues were resolved in the Vertellus Specialties Inc. and Dan River bankruptcy proceedings.

Other Security Association Priorities

In 2017, the Security Association continued its involvement in various Member bankruptcy proceedings across the country to protect its rights as a creditor and to negotiate with Debtors' Estates and U. S. Trustees to ensure all issues relating to self-insurance were properly addressed in the bankruptcy proceedings. The Security Association worked to obtain insurance recoveries from numerous carriers which had provided ancillary coverages to insolvent former Members.

We continued to review the financial condition of current and former Members and to ensure that terminating deposits were collected by Insurance and that all statutory deposits were transferred to the Security Association upon the insolvency of a former Member in accordance with North Carolina law.

We monitored corporate finance records as well as merger and acquisition activity which might include liabilities incurred during a period of self-insurance. The Security Association continued its vigilance with Insurance to ensure all relevant corporate financial records are provided to the Security Association including parental guarantees.

In 2017, we completed a study of all Member actuarial reports and concluded the Security Association has not received all the necessary components of loss adjustment expense. The new website portal will enable that information to be provided in an efficient and expeditious manner.

Request for Nominations for the Security Association Board of Directors

In accordance with the Plan of Operation, Members of the Security Association may nominate candidates for the Board to be elected at the 2018 Annual Meeting. Melissa Culbreth of Duke Energy is Chair of the Nominating Committee and is accepting nominations and reviewing candidates to serve on the Board. If you are interested in serving or want to recommend a candidate for the Board, please contact Ms. Culbreth **on or before May 26, 2018:**

Melissa Culbreth
Duke Energy
410 S. Wilmington Street
NCRH - 5
Raleigh, NC 27601
Phone: (919) 546-4311
melissa.culbreth@duke-energy.com

Members of the Security Association will elect Directors at the 2018 Annual Meeting at the Washington Duke Inn & Golf Club in Durham, North Carolina on July 19, 2018 at 12:00 noon. We will transmit a Notice of the Annual Meeting to you in June.

Again, thank you for your continued commitment to the self-insurance industry. As always, we welcome your recommendations and involvement. Please let us know if you have any questions. You can reach our Executive Director, Dewey Preslar at (704) 636-8933 or at dpreslar@ncsisa.org.

Sincerely,

**NORTH CAROLINA SELF-INSURANCE
SECURITY ASSOCIATION**



Thomas R. Yarboro
Chairman, Board of Directors