



**North Carolina Self-Insurance Security Association**

1620 South MLK Jr. Avenue, Suite 167  
Salisbury, North Carolina 28144

**Executive Director**

**Dewey R. Preslar, ARM**

**2013 Annual Report**

**May 1, 2014**

**Board of Directors**

**Thomas R. Yarboro,  
Chairman of the Board**  
Maxwell Family Holding  
Company System

**Kevin F. Walsh,  
Vice-Chairman**  
RTI International

**Diane Harrington,  
Secretary/Treasurer**  
Duke Energy

**Christine Carroll**  
Piedmont Natural Gas Company

**Delphine D. Goines**  
Duke University

**John Hughes**  
Alex Lee, Inc.

**Mary Kossel**  
Food Lion, LLC

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

**Tia Schweikert**  
Lowe's Companies, Inc.

**Carla J. Stevens**  
WakeMed

Dear Member Self-Insurer:

In 2013, members of the North Carolina Self-Insurance Security Association (“Association”) included 111 individual employers including major national universities, hospitality, utilities, retail, food production, grocery stores, and hospitals together with four diverse group self-insurance funds.

Member self-insurers report billions of dollars in employee payroll and remit millions of dollars in premium tax payments to the State of North Carolina. The decision to self-insure workers’ compensation liabilities in North Carolina remains an important business decision affording member self-insurers the flexibility to directly manage and control cost and manage significant business risks.

During the history of the Association, it has served as the statutory safety net for the insolvencies of member self-insurers. In 27 years, the Association has addressed more than 69 individual and group insolvencies, including four petitions in bankruptcy in 2013.

To better address the proliferation of member insolvencies the North Carolina General Assembly enacted the Association Aggregate Security System (AASS) in 2006. In 2013, the Association designed and implemented the 2013 AASS which provided insolvency protection for individual member self-insurers in lieu of individual company deposits, surety bonds or letters of credit. The Association continues its fiscal stewardship of the Security Fund. In 2013, total revenues were approximately \$5.1 million and expenses were approximately \$5.2 million based on an increase in estimated future liabilities.

A synopsis of the 2013 Association activities is detailed below:

**2013 AASS**

The 2013 AASS continued to afford eligible individual self-insured employers the opportunity to pool their liabilities in a risk portfolio that was secured by the Association on an aggregate basis. The creditworthiness of each member self-insurer was reviewed to determine eligibility for the AASS. The assessment rate for each individual member self-insurer was predicated on creditworthiness and outstanding workers’ compensation liabilities. In 2013, three individual member self-insurers were excluded from participation in the

AASS on the basis of creditworthiness.

The Board of Directors has determined that newly licensed individual self-insurers must be a member of the Association for a period of one year before they are eligible to participate in the AASS. Any member self-insurer that is excluded from the AASS must submit an individual statutory deposit to the North Carolina Department of Insurance. (NCDOI)

All AASS participants must pay an annual assessment which is used to purchase aggregate coverage and to ensure that the Security Fund has sufficient resources to pay claims against all insolvent members of the Association. By pooling their liabilities, the participating individual self-insurers spread the aggregate risk and reduce the cost of the aggregate security. The annual AASS Implementation Plan is intended to avoid additional assessments to members and be less costly than providing individual statutory deposits.

In November 2013, the Association implemented the eighth annual AASS. Each member self-insurer that participated in the AASS paid a portion of the cost of the aggregate security based on its credit rating and its pro-rata share of the aggregate workers' compensation liabilities. For the fourth year, aggregate reinsurance was the primary AASS security instrument and the Association and its members continued to be protected by a multi-year reinsurance agreement.

Participation in the AASS is mandated by N.C. Gen. Stat. § 97-185(a1). In addition, the Board of Directors of the Association has discretion to establish a minimum threshold for participation in the AASS. Member self-insurers that do not meet minimum participation requirements may be excluded from the AASS and must post an individual statutory deposit. In 2013, the Board of Directors established a threshold credit rating for participation in the annual AASS resulting in the exclusion of three former member self-insurers.

For the 2013 AASS, the Association reduced assessment rates from 2012 levels by five percent (5%) for member self-insurers with the highest credit ratings. Member self-insurers with the lower credit ratings paid a higher assessment rate. The 2013 AASS Implementation Plan provided for participation at decreased costs for certain member self-insurers and increased the costs of participation for those member self-insurers that posed the greatest risk to the aggregate portfolio.

The 2013 AASS included 107 individual licensed member self-insurers. Three member self-insurers were excluded based on creditworthiness and one member self-insurer was excluded because the company had been licensed for less than one year. [For additional details of the 2013 AASS please visit the Security Association website at [www.ncsisa.org](http://www.ncsisa.org).]

Group self-insurers were also assessed based on their projected risk to the aggregate portfolio. Although, group self-insurers do not participate in the AASS, the Association assesses these member self-insurers because the enabling legislation provides that the Association will be the statutory safety net for insolvent group self-insurance funds.

There were no additional assessments to member self-insurers in 2013.

### Security Association Financials

The Association commissioned a 2013 actuarial study of its projected liabilities relating to all insolvent member self-insurers as well as an audit of its 2013 financial statements. The approved audited financial statements will be submitted to the NCDOI on or before June 1, 2014. The Association audited financial statements are presented on an accrual basis and its claims liabilities are based on actuarially determined estimates that include incurred but not reported (“IBNR”) liabilities for insolvencies that have transferred claims to the Association.

The 2013 actuarial study reflects estimated claims liabilities of approximately \$10.3 million based upon insolvencies referred to the Association as of December 31, 2013 which is approximately \$3 million more than the projected liabilities as of December 31, 2012. A summary of the Association audited financial statements for the years ended December 31, 2011-2013 is detailed below.

Association assets are invested pursuant to an investment policy that is reviewed and approved annually by the North Carolina State Treasurer. The Association had investment income of approximately \$1.2 million in 2013 and the net assets decreased by approximately \$92,000. [The Association 2013 audited financial statements and the 2013 IRS Form 990 are available upon request.]

### ***NORTH CAROLINA SELF-INSURANCE SECURITY ASSOCIATION*** **SELECTED FINANCIAL DATA**

	Year ended		
	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
	(audited)	(audited)	(audited)
<b>Summary Income Statements:</b>			
Income:			
Assessments	\$ 3,758,082	4,181,284	4,590,495
Proceeds from insolvencies	203,285	67,030	477,197
Investment income	1,158,767	1,484,091	490,067
	<u>5,120,134</u>	<u>5,732,405</u>	<u>5,557,759</u>
Expenses:			
Claims and related expenses	3,687,206	659,957	1,899,000
Management fees	78,000	134,000	168,450
Legal, accounting and actuary	711,829	228,291	248,534
Aggregate security system expenses	683,680	1,068,731	1,362,119
Other	51,805	54,750	43,828
	<u>5,212,520</u>	<u>2,145,729</u>	<u>3,721,931</u>
Net	\$ <u>(92,386)</u>	<u>3,586,676</u>	<u>1,835,828</u>
Net change, excluding investment income	\$ <u>(1,251,153)</u>	<u>2,102,585</u>	<u>1,345,761</u>

**Summary Balance Sheets:**

Assets:

Total cash and investments, fair value	\$ 20,572,379	20,224,256	19,749,890
Reinsurance premium deposit	5,880,000	3,675,000	1,715,000
Other assets	4,654,299	4,050,575	3,216,772
Total assets	\$ <u>31,106,678</u>	<u>27,949,831</u>	<u>24,681,662</u>

Liabilities:

Estimated future claims and related costs	10,308,819	7,012,004	7,261,490
Deferred revenue	2,943,925	3,307,778	3,554,260
Other liabilities	4,359,385	4,043,114	3,865,653
Total liabilities	17,612,129	14,362,896	14,681,403

Net assets	13,494,549	13,586,935	10,000,259
Total liabilities and net assets	\$ <u>31,106,678</u>	<u>27,949,831</u>	<u>24,681,662</u>

**2013 Member Insolvencies**

The following former member self-insurers filed for bankruptcy protection in 2013. Each of the referenced debtors was afforded relief from the automatic stay during 2013 to pay their respective workers' compensation liabilities incurred during the period of self-insurance. Furniture Brands International, Inc., Broyhill Furniture Industries, Inc. and Lane Furniture Industries, Inc. defaulted on payment of their respective workers' compensation liabilities as of November 25, 2013. Allen's, Inc. defaulted on its workers' compensation claims on or about February 28, 2014.

<b><u>Insolvent Company</u></b>	<b><u>Filing Date</u></b>	<b><u>Bankruptcy Court</u></b>
Furniture Brands International, Inc.	9/9/13	District of Delaware
Broyhill Furniture Industries, Inc.	9/9/13	District of Delaware
Lane Furniture Industries, Inc.	9/9/13	District of Delaware
Allen's Inc.	10/28/13	Western District of Arkansas

During 2013, the Association addressed claims transferred from insolvent former member self-insurers, including but not necessarily limited to: American Yarn Spinners Self-Insurance Fund, Beacon Manufacturing Company, Dan River, Fleetwood Enterprises, Joan Fabrics, National Workers' Compensation Fund, Pillowtex Inc., Townsends, Inc., and Vintage Enterprises. The Association has also reviewed and responded to many incurred but not reported claims that have been presented. A complete list of member self-insurer insolvencies with active claims is detailed on the Association website.

**Other Activities**

In 2013, the Association has filed proofs of claim, has sought recoveries and has addressed issues arising out of former member insurer insolvencies in various bankruptcy courts across the country including the District of Delaware, the Southern District of New York, the

Western District of Arkansas and the Western District of North Carolina. The Association continues to work with the NCDOI to review the financial condition of member self-insurers, to ensure that terminating deposits are received by the NCDOI and to facilitate the necessary transfer of the statutory deposits to the Association.

**Solicitation for Board of Directors**

Pursuant to the Plan of Operation, the Association will nominate candidates for the Board of Directors to be elected at its 2014 Annual Meeting at 12:00 noon on July 31, 2014. Board member, Christine Carroll of Piedmont Natural Gas Company is Chair of the Nominating Committee that is reviewing candidates to serve on the Association Board of Directors. If you are interested in serving or want to recommend a candidate for the Board of Directors, please contact Ms. Carroll **on or before June 4, 2014** at:

Piedmont Natural Gas Company  
P.O. Box 33068  
Charlotte, NC 28223-3068  
[christine.carroll@piedmontng.com](mailto:christine.carroll@piedmontng.com)  
(704) 731-4132

The Security Association will elect Directors at its Annual Meeting at 12:00 noon on July 31, 2014.

Again, thank you for your continued involvement in the self-insurance industry. As always, on behalf of the Association Board of Directors, we welcome your insight and involvement.

Sincerely,

**NORTH CAROLINA SELF-INSURANCE  
SECURITY ASSOCIATION**



Thomas R. Yarboro  
Chairman, Board of Directors

***NORTH CAROLINA SELF-INSURANCE SECURITY ASSOCIATION***  
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