



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

2014 Annual Report May 7, 2015

Executive Director

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ARM**

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Company System

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Food Lion, LLC

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

Tia Schweikert
Lowe's Companies, Inc.

Alice West
Alex Lee, Inc.

Dear Member Self-Insurer:

For 28 years, the Security Association has been dedicated to the interests of the self-insurance industry as we pay covered claims incurred against insolvent member self-insurers. We continue to monitor all regulatory developments to insure that our member needs are protected and our statutory mandate is fulfilled. The financial strength of the Security Association is based on the commitment to all stakeholders in the self-insurance industry.

During 2014, the Security Association included 109 individual licensed self-insurers including but not limited to major national North Carolina universities, utilities, hospitality, retail, food production, financial institutions, grocery stores, and hospitals together with three group self-insurers.

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.

Throughout its 28 year history, the Security Association has served as a safety net for employees of insolvent member self-insurers. The Security Association has addressed 71 individual and group member insolvencies.

In 2006, the North Carolina General Assembly enacted the Association Aggregate Security System (AASS) to respond to increasing member self-insurer insolvencies and provide a mechanism for individual member self-insures to avoid the cost of individual statutory deposits. The Security Association has conducted an annual AASS implementation plan since 2006.

The 2014 AASS afforded individual member self-insurers insolvency protection for its employees as the Security Association continued to purchase aggregate security for the total portfolio in lieu of individual company deposits, surety bonds or letters of credit.

The Security Association is vigilant about fiscal stewardship of the Security Fund. The Security Association has responded to attempts to place an undue burden on the Security Association and its current and former members for claims incurred prior to the creation of the Security Association or that arose against a group self-insurer after it ceased to exist and became a member insurer of the Insurance Guaranty Association. The Security Association has responded to these types of coverage disputes for more than 13 years.

2014 AASS

The 2014 AASS continued to afford eligible individual self-insured employers the opportunity to pool their liabilities in a risk portfolio that was secured by the Security 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 their respective creditworthiness and outstanding workers' compensation liabilities.

The Board of Directors has determined that newly licensed individual self-insurers must be a member of the Security 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 Security 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 2014, the Security Association implemented the ninth 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 fifth year, aggregate reinsurance was the primary AASS security instrument and the Security 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 Security 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.

For the 2014 AASS, the Security Association established an assessment matrix which continued the 2013 assessment levels for most member self-insurers. There was a 5% increase

for those member self-insurers that posed the greatest risk to the aggregate portfolio based on their current financial condition.

There were 106 eligible participants in the 2014 AASS. One member self-insurer was excluded because the company had been licensed for less than one year. Additional information on the 2014 AASS is available on the Security Association website at 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 Security Association assesses these member self-insurers because the enabling legislation provides that the Security Association will be the statutory safety net for insolvent group self-insurance funds.

There were no additional assessments to member self-insurers in 2014.

Security Association Financials

The Security Association assets are invested pursuant to an investment policy that is reviewed and approved annually by the North Carolina State Treasurer. The Security Association has commissioned a 2014 actuarial study of its projected liabilities relating to all insolvent member self-insurers as well as an audit of its 2014 financial statements. The Security Association audited financial statements will be presented on an accrual basis and its claims liabilities will be based on actuarially determined estimates that include incurred but not reported (“IBNR”) liabilities for insolvencies that have transferred claims to the Security Association. That due diligence is ongoing and a summary report of the Security Association financials will be available on the Security Association website at www.ncsisa.org in the coming months.

2014 Member Insolvencies

During 2014, the Security Association addressed claims transferred from insolvent former member self-insurers, including but not necessarily limited to: Allens, Inc., American Yarn Spinners Self-Insurance Fund, Beacon Manufacturing Company, Dan River, Fleetwood Enterprises, Furniture Brands International, Joan Fabrics, National Workers’ Compensation Fund, Pillowtex Inc., and Vintage Enterprises. The Security 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 Security Association website.

Other Activities

In 2014, the Security Association filed proofs of claim, sought recoveries and addressed bankruptcy issues arising out of former member self-insurer insolvencies in bankruptcy courts across the country. The Security Association continues to monitor the financial condition of current member self-insurers and to ensure that terminating deposits are received by NCDOI as well as to facilitate the necessary transfer of any statutory deposit to the Security Association upon the insolvency of a former member self-insurer.

In 2014, because of economic conditions, there has been increased merger and acquisition activity across the country including North Carolina member self-insurers. The Security Association is mindful that certain corporate transactions can have a significant impact on liabilities that were incurred during a member's period of self-insurance. The Security Association continues to work with NCDOI to ensure that all necessary regulatory filings are submitted so that the interests of the Security Association and its member self-insurers are protected.

Request for Nominations for the Security Association Board of Directors

Pursuant to the Plan of Operation, the Security Association will nominate candidates for the Board of Directors to be elected at its 2015 Annual Meeting at 12:00 noon on July 30, 2015. Diane Harrington of Duke Energy is Chair of the Nominating Committee that is reviewing candidates to serve on the Security Association Board of Directors. If you are interested in serving or want to recommend a candidate for the Board of Directors, please contact Ms. Harrington **on or before June 5, 2015** at:

Diane Harrington
Duke Energy
410 S. Wilmington Street, NCRH 15
Raleigh, NC 27601
(919) 546-4982
diane.harrington@duke-energy.com

The Security Association will elect Directors at its Annual Meeting at 12:00 noon on July 30, 2015.

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

Sincerely,

**NORTH CAROLINA SELF-INSURANCE
SECURITY ASSOCIATION**



Thomas R. Yarboro
Chairman, Board of Directors