



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

2015 Annual Report

April 28, 2016

Executive Director

Dewey R. Preslar, Jr., ARM

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Company System

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Duke University

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

Nathan Prater
Delhaize America

Tia Schweikert
Lowe's Companies, Inc.

Dear Member Self-Insurer:

For almost 30 years, the Security Association has been vigilant in following its statutory mandate to protect the interests of the self-insurance industry and pay covered claims against insolvent member self-insurers. For decades the Security Association has successfully rebuffed all challenges to its statutory mandate.

In 2015, the Security Association again successfully defended its statutory mandate in litigation initiated by the North Carolina Insurance Guaranty Association (“NCIGA”) which attempted to shift responsibility to the Security Association for payment of workers’ compensation claims that were liabilities of an insolvent insurance company. This litigation was the most recent in a number of disputes in which the Security Association has defended the integrity of its statutory mandate against challenges by NCIGA over the last 14 years.

On June 10, 2015, the North Carolina Supreme Court denied an NCIGA petition for discretionary review confirming that NCIGA was liable for certain workers’ compensation claims against an insolvent insurance company that had previously merged with a former group self-insurer. The North Carolina courts confirmed whether by merger or loss portfolio transfer from a former group self-insurer to an insurance company member of NCIGA, upon the insolvency of a carrier, NCIGA was liable for all the claims.

As a result of this litigation and other successful efforts by the Security Association to confirm its statutory mandate, potential exposure to the Security Fund has been reduced by more than \$10 million. Nevertheless the Security Association is proud of its role as the statutory safety net for employees of insolvent member self-insurers since its formation. The Security Association has addressed 81 individual and group self-insurer member insolvencies and has paid covered claims that were incurred as of the date of its creation on October 1, 1986.

The Security Association annually conducts the Association Aggregate Security System (“AASS”) to respond to member self-insurer insolvencies and provide a mechanism for individual member self-insurers to avoid the cost of statutory deposits. The Security Association has conducted an annual AASS since 2006.

The 2015 AASS afforded individual member self-insurers insolvency protection for its employees as the Security Association continued to purchase aggregate security for all individual self-insurers in lieu of individual company deposits, surety bonds or letters of credit.

2015 AASS

The 2015 AASS has continued to afford eligible individual self-insured employers the opportunity to pool their liabilities in a risk portfolio secured by the Security Association on an aggregate basis. The creditworthiness of each member self-insurer must be considered to determine eligibility in the AASS. The assessment rate for each individual member self-insurer is predicated on its 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 excluded from the AASS must submit an individual statutory deposit to the North Carolina Department of Insurance (“NCDOI”) that is based on its overall workers’ compensation liabilities.

All AASS participants must pay an annual assessment which is used to purchase aggregate coverage and to ensure the Security Fund has sufficient resources to pay claims against 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 is intended to avoid additional post-insolvency assessments and be less costly than providing individual statutory deposits.

In November 2015, the Security Association implemented the 10th annual AASS. Each member self-insurer that participated in the 2015 AASS paid a representative 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 2015 AASS, the aggregate security includes a comprehensive insurance policy to protect all member self-insurers.

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 and is authorized to monitor the financial condition and creditworthiness of its members. Member self-insurers that do not meet minimum participation requirements may be excluded from the AASS and must post an individual statutory deposit with the NCDOI.

For the 2015 AASS, the Security Association established an assessment matrix which afforded a 5% decrease for member self-insurers that posed the minimum risk to the aggregate portfolio and a 5% increase for member self-insurers that posed the greatest risk to the aggregate portfolio based upon their current financial condition.

There were 105 eligible participants in the 2015 AASS. One member self-insurer was excluded because the company had been licensed for less than one year. Additional information on the 2015 AASS is available on the Security Association website at www.ncsisa.org.

Separate from the 2015 AASS, 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, group self-insurers are assessed because the Security Association pays covered claims of employees against insolvent group self-insurers.

There were no special assessments to member self-insurers in 2015.

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 commissioned a 2015 actuarial study of its projected liabilities relating to all insolvent member self-insurers as well as an audit of its 2015 financial statements. The Security 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 Security Association.

NORTH CAROLINA SELF-INSURANCE SECURITY ASSOCIATION SELECTED FINANCIAL DATA

	Year ended		
	12/31/2015	12/31/2014	12/31/2013
	(audited)	(audited)	(audited)
Summary Income Statements:			
Income:			
Assessments	\$ 2,970,183	3,303,024	3,758,082
Gain on commutation of reinsurance contract	980,000	-	-
Proceeds from insolvencies	613,040	642,593	203,285
Investment return	(349,561)	974,858	1,158,767
	4,213,662	4,920,475	5,120,134
Expenses (Recoveries):			
Claims and related expenses	(2,189,918)	(743,270)	3,687,206
Management fees	78,000	78,000	78,000
Legal, accounting and actuary	262,491	416,382	711,829
Aggregate security system expenses	477,816	715,129	683,680
Other	61,895	57,139	51,805
	(1,309,716)	523,380	5,212,520
Net	\$ 5,523,378	4,397,095	(92,386)
Net change, excluding investment income	\$ 5,872,939	3,422,237	(1,251,153)

Summary Balance Sheets:

Assets:

Total cash and investments, fair value	\$ 29,564,125	19,228,184	20,572,379
Reinsurance premium deposit	-	7,840,000	5,880,000
Other assets	1,129,389	4,343,999	4,654,299
Total assets	\$ <u>30,693,514</u>	<u>31,412,183</u>	<u>31,106,678</u>

Liabilities:

Estimated future claims and related costs	3,941,812	7,498,485	10,308,819
Deferred revenue	2,118,403	2,580,519	2,943,925
Other liabilities	1,218,277	3,441,535	4,359,385

Total liabilities	7,278,492	13,520,539	17,612,129
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Net assets	23,415,022	17,891,644	13,494,549
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Total liabilities and net assets	\$ <u>30,693,514</u>	<u>31,412,183</u>	<u>31,106,678</u>
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2015 Member Insolvencies

In 2015, the Security Association addressed claims transferred from insolvent former member self-insurers, including: Allens, Inc., American Yarn Spinners Self-Insurance Fund, Beacon Manufacturing Company, Burlington Industries, Furniture Brands International, Joan Fabrics, Sanders Brothers, SCT Yarns, and Pillowtex Inc. The Security Association has also reviewed and responded to many incurred but not reported claims. A complete list of member self-insurer insolvencies with active claims is detailed on the Security Association website.

Other Activities

In 2015, 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 2015, economic conditions have resulted in 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 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

In accordance with its Plan of Operation, the Security Association will nominate candidates for the

Board of Directors to be elected at its 2016 Annual Meeting. Tia Schweikert of Lowe's Companies, Inc. is Chair of the Nominating Committee that is accepting nominations and 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. Schweikert **on or before June 3, 2016**:

Tia Schweikert
Lowe's Companies, Inc.
1000 Lowe's Boulevard
 Mooresville, NC 28117
(704) 758-3055
tia.l.schweikert@lowes.com

The Security Association will elect Directors at its Annual Meeting at the Washington Duke Inn & Golf Club in Durham, North Carolina on July 21, 2016 at 12:00 noon.

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**

A handwritten signature in black ink, appearing to read "Thomas R. Yarboro". The signature is fluid and cursive, with a large initial 'T' and 'Y'.

Thomas R. Yarboro
Chairman, Board of Directors