



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

2018 Annual Report

April 25, 2019

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
Ahold Delhaize USA

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.

Dear Member Self-Insurer:

As you are undoubtedly aware, the North Carolina General Assembly created the North Carolina Self-Insurance Security Association (“Security Association”) in October 1986 as the statutory safety net for all North Carolina member self-insurers (“Members”) and their employees. For 32 years, the Security Association has fulfilled its statutory mandate by protecting all stakeholders in the self-insurance industry.

In 2018, 101 Members continue to thrive in various channels of trade throughout North Carolina and beyond. Members report billions of dollars in payroll and serve as an economic engine for commerce in our state. Self-insurance remains an important business strategy affording Members the flexibility to directly manage and control this statutory business risk. The Security Association welcomed Saber Healthcare Holdings LLC and Advance Auto Parts as new Members in 2018.

Throughout its history, the Security Association has addressed 86 Member or former Member insolvencies. In 2018, former Members Bi-Lo, LLC and Sears Holding Corporation filed for bankruptcy protection. Both debtors continue to pay the respective workers’ compensation liabilities incurred during their period of self-insurance and those claims have not been transferred to the Security Association. For your reference a complete list of member insolvencies is detailed at www.ncsisa.org.

We continue to work in partnership with the North Carolina Department of Insurance (“Department”) in furtherance of enhanced and streamlined insurance regulatory review of the self-insurance industry as well as to protect all Members.

2018 AASS

To ensure the Security Association would have sufficient resources to pay claims against insolvent Members, the North Carolina General Assembly enacted the Association Aggregate Security System (AASS) in 2006. The AASS affords Members the opportunity to pool their liabilities in a risk portfolio which is secured

by the Security Association on an aggregate basis. Participation in the AASS is mandated by North Carolina law. The Security Association Board of Directors (“Board”) has discretion to establish a minimum threshold for participation in the AASS. Members that do not meet the minimum participation requirements are excluded from the AASS and must post an individual statutory deposit.

Newly licensed Members must be a member of the Security Association for a period of one year before they are eligible for participation in the AASS. Accordingly, two Members were excluded from the 2018 AASS.

The AASS Implementation Plan adopted the same rate structure for assessments as the prior year. All Members were able to upload their actuarial reports via a secure portal which enabled efficient and expeditious review of the actuarial reports. Each actuarial report should include unallocated loss adjustment expense (“ULAE”) as part of loss adjustment expense (“LAE”) in accordance with North Carolina law.

Each AASS participant paid a portion of the cost of the aggregate security based on its creditworthiness and aggregate outstanding workers’ compensation liabilities. Participant assessments were reduced in 2018.

Additional information about the 2018 AASS is available on the Security Association website at www.ncsisa.org.

Other Assessments

In 2018, group self-insurers were assessed based on their respective risk to the aggregate portfolio and there were no special assessments of either individual or group Members.

Security Association Financials

The Security Association commissioned a 2018 actuarial study of its projected liabilities relating to all insolvent Members as well as an audit of its 2018 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 which have transferred claims to the Security Association. In 2018, outstanding reserves were reduced by \$360,000. The Security Association continues to strategically evaluate and pursue all opportunities to reduce claim exposures against insolvent Members.

In 2018, the Security Association investment advisors focused on maximizing return on the Security Association portfolio and maintaining a balanced asset class allocation in accordance with the 2018 Investment Policy Statement approved by the North Carolina State Treasurer. Despite ongoing market volatility, the Security Association continues to be a careful steward of its available resources in order to protect the interests of Security Association Members.

A summary and comparison of Security Association financial information over the last three years is detailed below for your review and consideration.

NORTH CAROLINA SELF-INSURANCE SECURITY ASSOCIATION
SELECTED FINANCIAL DATA (AUDITED)

	Year Ended		
	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Summary Income Statements:			
Income:			
Assessments	\$ 1,804,575	2,023,749	2,490,751
Proceeds from insolvencies	281,970	736,879	181,888
Investment return	<u>(1,299,680)</u>	<u>2,885,357</u>	<u>988,458</u>
	<u>786,865</u>	<u>5,645,985</u>	<u>3,661,097</u>
Expenses (Recoveries):			
Claims and related expenses	255,561	(32,352)	608,442
Management fees	98,004	80,167	78,000
Legal, accounting and actuary	161,954	228,934	274,387
Aggregate security system	429,344	454,419	673,362
Other	<u>59,530</u>	<u>59,380</u>	<u>58,318</u>
	<u>1,004,393</u>	<u>790,548</u>	<u>1,692,509</u>
Change in net assets	\$ <u>(217,528)</u>	<u>4,855,437</u>	<u>1,968,588</u>
Net change, excluding investment return	\$ <u>1,082,152</u>	<u>1,970,080</u>	<u>980,130</u>
Summary Balance Sheets:			
Assets:			
Total cash and investments, fair value	\$ 34,733,807	35,698,876	32,050,658
Other assets	<u>1,014,851</u>	<u>807,862</u>	<u>663,019</u>
Total assets	\$ <u>35,748,658</u>	<u>36,506,738</u>	<u>32,713,677</u>
Liabilities:			
Estimated future claims and related costs	3,143,058	3,623,370	4,298,893
Deferred revenue	1,453,773	1,546,034	1,810,412
Other liabilities	<u>1,130,308</u>	<u>1,098,287</u>	<u>1,220,762</u>
Total liabilities	<u>5,727,139</u>	<u>6,267,691</u>	<u>7,330,067</u>
Net assets	30,021,519	30,239,047	25,383,610
Total liabilities and net assets	\$ <u>35,748,658</u>	<u>36,506,738</u>	<u>32,713,677</u>

2018 Claims Activities

In 2018, the Security Association addressed claims against former Members including American Yarn Spinners Self-Insurers Fund, Fieldcrest Cannon, Inc./Pillowtex Corporation, Dominion Yarn, Burlington Industries, Interstate/Hostess Brands and Vertellus Specialties Inc. Throughout the year the Security Association received inquiries about the payment of claims which the Security Association investigated and determined they were not “covered claims” in accordance with its statutory mandate.

Other Security Association Priorities

The Security Association continues to participate in various bankruptcy proceedings involving former and current Members. The Security Association filed several proofs of claim assert its statutory rights against insolvent debtors and continued to work closely with Liquidating Trustees to secure distributions from the bankruptcy estates. Given the ongoing activity relating to corporate mergers and acquisitions, the Security Association remains vigilant to ensure it obtains current parental guaranty and subsidiary information for all Members.

Request for Nominations

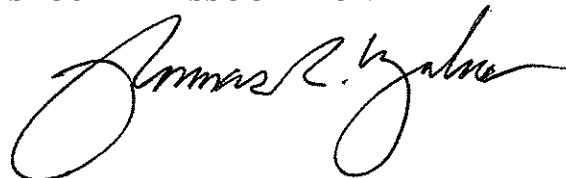
In accordance with the Plan of Operation, Members of the Security Association may nominate candidates for the Board to be elected at the 2019 Annual Meeting. Melissa Culbreth of Duke Energy is Chair of the Nominating Committee and is accepting nominations and reviewing candidates to serve on the Board. If you are interested in serving or want to recommend a candidate for the Board, please contact Ms. Culbreth **on or before May 26, 2019:**

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

On July 18, 2019 at 12:00 noon, Members will elect Directors at the 2019 Annual Meeting which will be held at the Washington Duke Inn & Golf Club in Durham, North Carolina. The Notice of the Annual Meeting will be transmitted in June. Thank you for your continued commitment to the self-insurance industry. As always, we welcome your recommendations and involvement. Please feel free to contact me or 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