



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

January 3, 2019

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**TO: North Carolina Member Self-Insurers**

**FROM: Dewey R. Preslar, Jr., Executive Director  
North Carolina Self-Insurance Security Association  
("Association")**

**RE: 2018-2019 Association Aggregate Security System  
("2018 AASS")**

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The Association successfully concluded the 2017-2018 AASS ("2017 AASS") Implementation Plan on November 30, 2018. During the AASS plan year, the Association paid "covered claims" in accordance with its statutory mandate against both former group and individual member self-insurers which had defaulted on payment of their workers' compensation claims. In addition, the Association was involved in many insurance regulatory, bankruptcy and workers' compensation issues arising out of the insolvencies of certain former member self-insurers including Bi-Lo, Winn-Dixie, Joan Fabrics, WestPoint Stevens, Caldwell Freight and most recently Sears Holding Company.

Through effective resource management and alternative risk management strategies, the Association has taken the necessary steps to preserve and protect the financial resources of the Association ("Security Fund") to ensure there are sufficient funds to respond to member insolvencies and pay "covered claims". The Association is vigilant in responding and supporting the needs of member self-insurers and advancing the interests of the self-insurance industry. The

Association stands ready to respond to inquiries from member self-insurers and continues to address all relevant insurance regulatory issues as they are presented.

For the 2018 AASS, all actuarial reports were submitted through the online portal which streamlined the review of member outstanding liabilities. Each member may update their actuarial report efficiently and expeditiously because of the new platform created by the Association for the ease of all member self-insurers. In fact, as your actuarial reports become available, please use the following link to submit your most current actuarial report to the Association. <https://form.jotform.com/jglewis/ncsisa-actuarial-form-2018>.

With the implementation of the online portal for actuarial reports, it is evident that actuaries for several member self-insurers do not report exposure for unallocated loss adjustment expense ("ULAE"). Other actuaries do designate for ULAE and the Association has determined in the year ahead, all member self-insurers should include an amount for ULAE as part of its loss adjustment expense. Please let us know if you have any questions about this additional reporting requirement of the actuarial submission.

In completing its financial evaluation process, the Association reviewed the audited financials of all individual member self-insurers and also determined the total aggregate portfolio included approximately \$336,000,000 in outstanding workers compensation liabilities. Group self-insurers are not included in the annual AASS but are assessed by the Association in accordance with North Carolina law.

Once again, the Association discerned the most effective and cost-efficient method to protect member self-insurers and their employees in the event of insolvency and default by a member self-insurer. The Association Board of Directors established the parameters for the 2018 AASS affording all individual member self-insurers the opportunity to participate in the 2018 AASS and to secure their outstanding workers' compensation liabilities on an aggregate basis, rather than posting an individual statutory deposit.

Each individual member received an assessment invoice which was predicated on its most recent debt rating issued by the S&P Rating Service or Moody's Investor Service. If an individual member self-insurer did not have a public debt rating, an equivalent rating was established through a separate quantitative analysis based upon financial information provided by the individual member self-insurer.

Each individual member self-insurer was required to pay its allocated portion of the cost of the aggregate security based on its debt rating and its pro-rata share of the total outstanding workers' compensation liabilities.

For the 2018 AASS, the aggregate portfolio continues to be secured by a risk transfer through a multi-year comprehensive insurance policy purchased in 2016. This three-year insurance policy continues to protect the Association and all member self-insurers.

The Board determined it would not increase the assessment levels for the 2018 AASS. All member assessments were issued on or before December 1, 2018.

Any individual member self-insurer licensed for less than one year prior to December 1, 2018 was not eligible to participate in the 2018 AASS. In accordance with North Carolina law, any individual member self-insurer excluded from the AASS is required to post a statutory deposit with the North Carolina Department of Insurance (the “Department”). Statutory deposits are released by the Department upon notification by the Association that annual assessment payments have been made in the year that follows.

We are pleased the 2018 AASS maintains a comprehensive alternative security program to protect member self-insurers and affords the Association the necessary means to fulfill its wide-ranging statutory mandate.