



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

## **2019 Annual Report**

### **April 23, 2020**

Executive Director

**Dewey R. Preslar, Jr.,**  
**ARM**

Board of Directors

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

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

**Alice West**  
Secretary  
Alex Lee, Inc.

**Neal Cope**  
Ahold Delhaize USA

**Melissa Culbreth**  
Duke Energy

**Christopher N. Dekle**  
Extended Stay America

**Patrick Eglinton**  
First Citizens

**Julie Groves**  
Wake Forest University

**Charles C. Kyles**  
Duke University

**Scott Myers**  
Novant Health, Inc.

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

Dear Member Self-Insurer:

During these unprecedented times, the North Carolina Self-Insurance Security Association (“Security Association”) continues to respond to the needs and interest of the self-insurance industry. Thank you for your ongoing commitment to self-insurance. Although we were very pleased with the results and developments in 2019, we are very aware that all of commerce has been deeply affected by the Coronavirus pandemic. We stand ready to respond to any inquiries and to help any of our member self-insurers (“Members”) relating to insurance regulatory matters during these difficult times.

As you are aware, the North Carolina General Assembly created the Security Association in October 1986 as the statutory safety net for all its North Carolina Members and their employees. For 33 years, the Security Association has worked diligently to respond to Member needs and to fulfill its statutory mandate.

As of December 31, 2019, there were 95 Members operating in diverse us channels of trade throughout North Carolina and beyond. Members report billions of dollars in payroll and serve as an economic force of commerce in North Carolina. Self-insurance remains an important business strategy affording Members the flexibility to directly manage and fulfill its obligation to provide statutory worker’s compensation coverage to its employees. Herc Holdings, Inc. is the most recent Member of the Security Association.

Throughout its history, the Security Association has addressed 86 Member or former Member insolvencies. In 2019, there were no additional insolvencies that were reported to the Security Association. However, in 2019 there was an increase of latent occupational disease claims which were reported to the Security Association. A complete list of Member insolvencies is detailed at [www.ncsisa.org](http://www.ncsisa.org).

We continue to work in partnership with the North Carolina Department of Insurance (“Department”) to enhance and streamline regulatory review and protect the interests of all Members.

## **2019 AASS**

To ensure the Security Association would always have sufficient resources to pay claims against insolvent Members, in 2006, the North Carolina General Assembly enacted the Association Aggregate Security System (AASS). The AASS affords Members the opportunity to pool their outstanding workers' compensation liabilities in an aggregate risk portfolio secured by the Security Association. 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 with the Department.

For the 2019 AASS, individual Members that were not licensed as of December 1, 2018 were not eligible to participate in the 2019 AASS because of a one year waiting period. Further, any Member that notified the Department about an intent to terminate its license to self-insure on or about November 1, 2019 did not participate in the 2019 AASS.

All Members were able to submit their actuarial reports via a secure portal which enabled efficient and expeditious review of the actuarial reports. Each actuarial report must include unallocated loss adjustment expense ("ULAE") as part of loss adjustment expense in accordance with North Carolina law. The Security Association continues to consider innovations to its online portal to provide its Members with a more streamlined submission process for all financial information.

The Board adopted the 2019 AASS Implementation Plan ("Plan") which was previously provided to all individual Members and is available on the Security Association website at [www.ncsisa.org](http://www.ncsisa.org). Each AASS participant paid a portion of the cost of the aggregate security based on its creditworthiness and aggregate outstanding workers' compensation liabilities. The assessment levels for the 2019 AASS did not increase from the previous year.

In order to maintain a cost-effective alternative security program to protect the interests of all Member self-insurers, the Security Association purchased three-year risk transfer policy above a retention level on the aggregate portfolio of all participating members in the AASS. The new policy was effective December 1, 2019 and will terminate on November 30, 2022.

## **Other Assessments**

In 2019, the three Security Association 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 2019 actuarial study of its projected liabilities relating to all insolvent Members as well as an audit of its 2019 financial statements as of December 31, 2019. The Security Association uses a cash accounting method for its operations throughout the year but converts to an accrual basis for preparation of the audited financial statements. 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 2019, total projected reserves increased significantly from the previous year based upon existing open claims and several new incurred but not reported occupational disease claims against former Members. The Security Association continues to strategically evaluate any discernible trends and pursue all opportunities to reduce claim exposures against insolvent Members.

In 2019, the Security Association investment advisors focused on maximizing return on the Security Association portfolio which yielded a strong positive change. Efforts to maintain a balanced asset class allocation were also successful in accordance with the 2019 Investment Policy Statement approved by the North Carolina State Treasurer. During these challenging and uncertain economic times, the Security Association remains committed 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.

### SELECTED FINANCIAL DATA (AUDITED)

	Year ended		
	12/31/2019	12/31/2018	12/31/2017
<b>Summary Income Statements:</b>			
Income:			
Assessments	\$ 1,665,453	1,804,575	2,023,749
Proceeds from insolvencies	147,478	281,970	736,879
Investment return	<u>5,064,935</u>	<u>(1,299,680)</u>	<u>2,885,357</u>
	<u>6,877,866</u>	<u>786,865</u>	<u>5,645,985</u>
Expenses (Recoveries):			
Claims and related expenses	1,214,782	255,561	(32,352)
Management fees	98,004	98,004	80,167
Legal, accounting and actuary	216,708	161,954	228,934
Aggregate security system	456,780	429,344	454,419
Other	<u>63,169</u>	<u>59,530</u>	<u>59,380</u>
	<u>2,049,443</u>	<u>1,004,393</u>	<u>790,548</u>
Change in net assets	\$ <u>4,828,423</u>	<u>(217,528)</u>	<u>4,855,437</u>
Net change, excluding investment return	\$ <u>(236,512)</u>	<u>1,082,152</u>	<u>1,970,080</u>
<b>Summary Balance Sheets:</b>			
Assets:			
Total cash and investments, fair value	\$ 40,744,468	34,733,807	35,698,876
Other assets	<u>727,658</u>	<u>1,014,851</u>	<u>807,862</u>
Total assets	<u>\$ 41,472,126</u>	<u>35,748,658</u>	<u>36,506,738</u>
Liabilities:			
Estimated future claims and related costs	3,990,199	3,143,058	3,623,370
Deferred revenue	1,394,738	1,453,773	1,546,034
Other liabilities	<u>1,237,247</u>	<u>1,130,308</u>	<u>1,098,287</u>
Total liabilities	6,622,184	5,727,139	6,267,691

### 2019 Claims Activities

In 2019, the Security Association addressed claims against former Members including American Yarn Spinners Self-Insurers Fund, Burlington Industries, Fieldcrest Cannon, Inc./Pillowtex Corporation, Furniture Brands and Interstate/Hostess Brands. The Security Association investigates all inquiries regarding claims which may have been incurred against current or former Members. The Security

Association must determine whether or not they are “covered claims” have been presented to the Association which will be paid in accordance with its statutory mandate.

### **Other Security Association Priorities**

The Security Association continues to monitor all bankruptcy proceedings involving former and current Members and remains steadfast in working with various Liquidating Trustees to secure distributions from the bankruptcy estates to satisfy its proofs of claims. 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. The Security Association also continues to work closely with the Department to transfer any statutory deposit proceeds that become the property of the Security Association upon the termination of a former member self-insurer in accordance with applicable state law.

### **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 2020 Annual Meeting. Patrick Eglinton of First Citizens 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 Mr. Eglinton **on or before May 24, 2020**:

Patrick Eglinton  
First Citizens  
4300 Six Forks Road  
Raleigh, NC 27609  
Phone: (919) 716-8021

[Patrick.Eglinton@firstcitizens.com](mailto:Patrick.Eglinton@firstcitizens.com)

Due to the current circumstances regarding the COVID-19 situation, the 2020 Annual Meeting will be finalized once more information is made available. In accordance with the Security Association Bylaws, Directors will be elected by the Members at the 2020 Annual Meeting. Please look forward to the Notice of the Annual Meeting will be transmitted in June for the date, time and location of the 2020 Annual Meeting. 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](mailto:dpreslar@ncsisa.org).

Sincerely,

**NORTH CAROLINA SELF-INSURANCE  
SECURITY ASSOCIATION**



Thomas R. Yarboro  
Chairman, Board of Directors