



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

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Dewey R. Preslar, Jr., ARM

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Variety Wholesalers

2020 Annual Report

April 21, 2021

Dear Member Self-Insurer:

During its thirty-five-year history, the North Carolina Self-Insurance Security Association (“Security Association”) remains steadfast to protect the interests of its member self-insurers (“Members”) and their employees. During 2020, we worked with many Members regarding the impact of the global pandemic on business operations. We trust conditions will continue to improve as we work collectively in furtherance of greater economic prosperity.

On December 31, 2020, there were 91 Members operating in diverse business sectors throughout North Carolina and across the United States. Security Association Members play a crucial role in the vibrancy of the North Carolina economy.

The North Carolina Workers’ Compensation Act sets the parameters for required statutory workers’ compensation coverage for North Carolina employees. Prior to 1986, if an employer filed for bankruptcy protection its employees were often relegated to file proofs of claim in court proceedings across the country.

The Security Association has addressed 87 individual and group insolvencies since its inception. On May 15, 2020, former Member, J.C. Penney Co. and its subsidiaries filed for bankruptcy protection. A list of Member insolvencies is detailed at www.ncsisa.org. In 2020, the Security Association received many additional latent occupational disease claims against several former Members. In some instances, claims were initiated by the estates of former employees who had not worked for a Member for more than 30 years.

The Security Association continues to work collaboratively with the North Carolina Department of Insurance (“Department”) on all relevant insurance regulatory issues including applications for self-insurance and appropriate statutory deposits.

2020 AASS

To ensure there are sufficient resources to pay claims against insolvent Members, the Security Association presented a strategic plan to the North Carolina General Assembly which enacted the Association Aggregate Security System (“AASS”) in 2006. 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 2020 AASS, individual Members that were not licensed effective December 1, 2019 were not eligible to participate in the 2020 AASS because of a one year waiting period. In addition, any Member that notified the Department before November 1, 2020 of the intent to terminate its license to self-insure did not participate in the 2020 AASS.

Member financial information was required so the Security Association could evaluate the creditworthiness of the aggregate portfolio. A secure portal was created to enable all Members to submit actuarial reports and financial information in a protected, efficient, and expeditious manner. Each actuarial report must include a calculation for unallocated loss adjustment expense (“ULAE”) as part of loss adjustment expense in accordance with North Carolina law.

The Board adopted the 2020 AASS Implementation Plan (“Plan”) which was the subject of a January 2021 communication with Members and is available at www.ncsisa.org. Each AASS participant paid a portion of the cost of the aggregate security based on its creditworthiness and outstanding workers’ compensation liabilities. The Security Association recognized 2020 was a very challenging year for many Members and assessment levels were reduced by 11% from the previous year.

The Security Association maintains a risk transfer policy to protect the aggregate portfolio and its Members. This cost-saving alternative security program ensures coverage for all Members during the three-year period of the insurance policy from December 1, 2019 through November 30, 2022.

As part of its statutory mandate, the Security Association determined it was prudent to obtain interim financials from private Members that do not produce public quarterly financials. In accordance with its statutory mandate, the Security Association must engage in ongoing financial evaluation of Members to provide the most effective and cost-efficient method to secure the aggregate portfolio.

Other Assessments

In 2020, the three Security Association group self-insurers were assessed based on their respective risk to the aggregate portfolio and there were no additional assessments of individual or group Members.

Security Association Financials

The Security Association commissioned a 2020 actuarial study of its projected liabilities arising from all insolvent former Members as well as an audit of its 2020 financial statements as of December 31, 2020. 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 which include incurred but not reported liabilities against insolvent former Members which have defaulted on the payment of their workers’ compensation claims.

In 2020, total projected reserves increased based upon increased incurred but not reported occupational disease and death claims against former Members. The Security Association actuaries estimated the respective exposures arising out of claims presented against several different former

Members. The Security Association has a strategic plan to address its increased exposure to ensure that all “covered claims” are paid in accordance with its statutory mandate.

The Security Association investment goals and objectives were outlined in its 2020 Investment Policy Statement which was approved by the North Carolina State Treasurer. The investment advisors responded effectively to the significant volatility in the financial markets and total net assets increased in 2020 which positions the Security Association to fulfill its statutory purpose.

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)
NORTH CAROLINA SELF-INSURANCE SECURITY ASSOCIATION

	Year ended		
	12/31/2020	12/31/2019	12/31/2018
Summary Income Statements:			
Income:			
Assessments	\$ 1,558,537	1,665,453	1,804,575
Proceeds from insolvencies	32,044	147,478	281,970
Investment return	4,471,565	5,064,935	(1,299,680)
	<u>6,062,146</u>	<u>6,877,866</u>	<u>786,865</u>
Expenses (Recoveries):			
Claims and related expenses	1,200,384	1,214,782	255,561
Management fees	100,380	98,004	98,004
Legal, accounting and actuary	210,458	216,708	161,954
Aggregate security system	422,265	456,780	429,344
Other	58,485	63,169	59,530
	<u>1,991,972</u>	<u>2,049,443</u>	<u>1,004,393</u>
Change in net assets	\$ <u>4,070,174</u>	<u>4,828,423</u>	<u>(217,528)</u>
Net change, excluding investment return	\$ <u>(401,391)</u>	<u>(236,512)</u>	<u>1,082,152</u>
Summary Balance Sheets:			
Assets:			
Total cash and investments, fair value	\$ 45,312,276	40,744,468	34,733,807
Other assets	1,033,074	727,658	1,014,851
Total assets	<u>\$ 46,345,350</u>	<u>41,472,126</u>	<u>35,748,658</u>
Liabilities:			
Estimated future claims and related costs	4,919,125	3,990,199	3,143,058
Deferred revenue	1,284,647	1,394,738	1,453,773
Other liabilities	1,221,462	1,237,247	1,130,308
Total liabilities	<u>7,425,234</u>	<u>6,622,184</u>	<u>5,727,139</u>
Net assets	38,920,116	34,849,942	30,021,519
Total liabilities and net assets	<u>\$ 46,345,350</u>	<u>41,472,126</u>	<u>35,748,658</u>

2020 Claims Activities

In 2020, the Security Association addressed claims against former Members including American Yarn Spinners Self-Insurers Fund, Burlington Industries, Fieldcrest Cannon, Inc./Pillowtex Corporation, Furniture Brands International and Hostess Brands, Inc./Interstate Brands. The Security Association investigated all inquiries about potential claims against former Members.

In accordance with its statutory mandate, the Security Association is required to pay “covered claims” against its current and former Members which were incurred during their respective period of self-insurance. Any claim that was not a “covered claim” should not be paid by the Security Association in accordance with North Carolina law.

Other Security Association Priorities

In 2020, the North Carolina General Assembly approved House Bill 308 which provided greater flexibility for the initial assessment of new Members. The Security Association was worked with various bankruptcy trustees, successors to bankruptcy estates, and issuers of statutory deposits to protect its ongoing interests.

Request for Nominations for Directors

In accordance with the Plan of Operation, the Security Association welcomes nominations of candidates for the Board who are subject election by the Members at the 2021 Annual Meeting. Julie Groves is Chair of the Nominating Committee and is accepting nominations and the Committee will review candidates to serve on the Board. If you are interested in serving or want to recommend a candidate, please contact Ms. Groves **on or before May 21, 2021**:

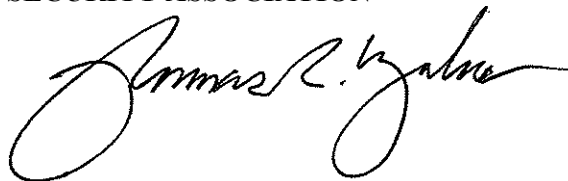
Julie Groves
Wake Forest University
P.O. Box 7201
Winston-Salem, NC 27109
Phone: (336) 758-4197
grovesjl@wfu.edu

The Association continues to monitor all federal, state, and local guidelines regarding the pandemic as it prepares for the 2021 Annual Meeting. We hope you will join us for the 2021 Annual Meeting. We will transmit the Notice of the 2021 Annual Meeting in June which will specify the date, time, and location.

Thank you for your continued commitment to self-insurance. 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