



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

2016 Annual Report

April 20, 2017

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/Treasurer
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Neal Cope
Delhaize America, LLC

Melissa Culbreth
Duke Energy

Delphine D. Goines
Duke University

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

Tia Schweikert
Lowe's Companies, Inc.

Mary B. Silver
Mission Health, Inc.

Dear Member Self-Insurer:

For more than 30 years, the North Carolina Self-Insurance Security Association (the "Security Association") has paid covered claims against insolvent North Carolina member self-insurers ("members"). The Security Association has remained steadfast in its commitment to the interests of all stakeholders in the self-insurance industry.

Since October 1, 1986, the Security Association has addressed 82 member insolvencies and has served as a safety net for their employees. The Security Association has been resolute in defense of its statutory mandate and has championed the interests of self-insurance.

In 2016, the Security Association worked with the various administrative agencies to resolve all remaining details after prevailing in two lawsuits in 2015 after protracted litigation. The litigation resulted in the significant reduction of Security Association potential liabilities.

Under North Carolina law, the Security Association has conducted an annual alternate security system or Association Aggregate Security System ("AASS") since 2006 to protect stakeholders in the self-insurance industry from member insolvencies and to provide a mechanism for individual members to avoid the cost of posting a statutory deposit with the North Carolina Department of Insurance ("NCDOI"). The Security Association has evaluated the creditworthiness of individual members on an annual basis.

If an individual member is excluded from participation in the AASS, under North Carolina law, a statutory deposit is required to be submitted to NCDOI based upon the member's actuarially determined outstanding workers' compensation liabilities.

All participants in the alternate security system are required to pay an annual AASS assessment which has been used to purchase aggregate coverage and to ensure the Security Fund has sufficient resources to pay claims against insolvent member of the Association. Pooling member workers' compensation liabilities allows the Security Association to spread the risk and to reduce the cost of aggregate security for members. The goal of the AASS is to avoid individual statutory deposits and to avoid additional member assessments in the event of other member insolvencies.

The 2016-2017 AASS ("2016 AASS") afforded members protection for their companies and their respective employees as the Security Association purchased multi-year aggregate security for individual members obviating the need for these members to post statutory deposits with NCDOI in the form of cash, surety bonds or letters of credit.

2016 AASS

The 2016 AASS provided that workers' compensation liabilities of individual members were combined and the Security Association purchased security for those liabilities on an aggregate basis. The Security Association leadership determined that all members licensed by NCDOI for one year were eligible to participate.

All participating members in the 2016 AASS paid a portion of the cost of the aggregate security based on creditworthiness and its respective share of the aggregate outstanding workers' compensation liabilities. The aggregate security for the 2016 AASS was premised on a multi-year insurance policy that will pay workers' compensation claims after the Security Association retention has been reached over a period of three years.

Members of the Security Association must participate in the AASS in accordance with N.C. Gen. Stat. §97-185(a1), unless a member is excluded by the Security Association Board of Directors ("Board"). Members may be excluded from the AASS based on an evaluation of creditworthiness, if a member license is revoked, if a member defaults on the payment of its workers' compensation liabilities or if there is a failure to submit sufficient information to allow the Security Association to evaluate the financial condition of a member.

The Board has discretion to establish a minimum creditworthiness threshold for AASS participation. Under North Carolina law, The Security Association must monitor the financials and creditworthiness of its members. If a member does not meet minimum participation requirements, the member will be excluded and must post a statutory deposit with NCDOI.

Most member costs were reduced for participation in the 2016 AASS. There were 103 participants in the 2016 AASS. Three members were not eligible to participate because they had not been licensed self-insurers for one year. Additional information on the 2016 AASS is available on the Security Association website at www.ncsisa.org.

Group self-insurers were also assessed based on their respective risk to the aggregate portfolio. Throughout its 30 year history the Security Association has paid hundreds of covered claims against four insolvent group self-insurers.

There were no special assessments of members in 2016.

Security Association Financials

In 2016, the Security Association concluded a successful transition of its investment portfolio to a prominent investment manager that advises institutions, endowments and foundations worldwide. In consultation with its seasoned advisors, the Security Association has invested its assets in accordance with an Investment Policy Statement which is approved annually by the North Carolina State Treasurer. The Security Association investment decisions have grown the Security Fund to better protect the interests of all stakeholders of the self-insurance industry.

The Security Association commissioned a 2016 actuarial study of its projected liabilities relating to all insolvent members as well as an audit of its 2016 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 that have been transferred to the Security Association.

NORTH CAROLINA SELF-INSURANCE SECURITY ASSOCIATION SELECTED FINANCIAL DATA

	Year ended		
	12/31/2016	12/31/2015	12/31/2014
	(audited)	(audited)	(audited)
Summary Income Statements:			
Income:			
Assessments	\$ 2,490,751	2,970,183	3,303,024
Gain on commutation of reinsurance contract	-	980,000	-
Proceeds from insolvencies	181,888	613,040	642,593
Investment return	988,458	(349,561)	974,858
	<u>3,661,097</u>	<u>4,213,662</u>	<u>4,920,475</u>
Expenses (Recoveries):			
Claims and related expenses	608,442	(2,189,918)	(743,270)
Management fees	78,000	78,000	78,000
Legal, accounting and actuary	274,387	262,491	416,382
Aggregate security system expenses	673,362	477,816	715,129
Other	58,318	61,895	57,139
	<u>1,692,509</u>	<u>(1,309,716)</u>	<u>523,380</u>
Net	<u>\$ 1,968,588</u>	<u>5,523,378</u>	<u>4,397,095</u>
Net change, excluding investment income	\$ 980,130	5,872,939	3,422,237

	Year ended		
	12/31/2016	12/31/2015	12/31/2014
Summary Balance Sheets:	(audited)	(audited)	(audited)
Assets:			
Total cash and investments, fair value	\$ 32,050,658	29,564,125	19,228,184
Reinsurance premium deposit	-	-	7,840,000
Other assets	<u>635,412</u>	<u>1,129,389</u>	<u>4,343,999</u>
Total assets	<u>\$ 32,686,070</u>	<u>30,693,514</u>	<u>31,412,183</u>
Liabilities:			
Estimated future claims and related costs	4,298,893	3,941,812	7,498,485
Deferred revenue	1,810,412	2,118,403	2,580,519
Other liabilities	<u>1,193,155</u>	<u>1,218,277</u>	<u>3,441,535</u>
Total liabilities	7,302,460	7,278,492	13,520,539
Net assets	<u>25,383,610</u>	<u>23,415,022</u>	<u>17,891,644</u>
Total liabilities and net assets	<u>\$ 32,686,070</u>	<u>30,693,514</u>	<u>31,412,183</u>

2016 Claims Activities and Member Insolvencies

In 2016, the Security Association addressed claims against former members including American Yarn Spinners Self-Insurers Fund, Pillowtex, Inc., Burlington Industries and Interstate/Hostess Brands. The Association continued to receive incurred, but not reported claims related to former members including Pillowtex and Interstate/Hostess Brands. The complete list of member insolvencies is detailed at www.ncsisa.org.

On May 31, 2016, the Security Association responded to the bankruptcy petition of Vertellus Specialties, Inc., (“Vertellus”) and addressed several issues regarding its subsequent sale of assets. Vertellus ultimately terminated its license to self-insure on October 31, 2016. The Security Association pursued several claims in the Vertellus bankruptcy proceedings.

Other Security Association Priorities

In 2016, the Security Association was involved in several bankruptcy proceedings across the country to protect its rights as a creditor and to negotiate with Debtors’ Estates and U. S. Trustees to confirm that all issues relating to self-insurance were properly addressed in the bankruptcy proceedings. The Security Association worked to obtain insurance recoveries from numerous carriers that had provided ancillary coverages to former members.

The Security Association reviewed the financial condition of current and former members and endeavored to ensure that NCDOI collected terminating deposits and transferred statutory deposits to the Security Association upon the insolvency of a former member.

The Security Association continued to monitor merger and acquisition activity which might impact liabilities incurred during the period of self-insurance. The Association continued its vigilance with NCDOI to ensure each member submitted the necessary regulatory and financial filings to preserve and protect the interests of members and the Security Association.

Vertellus was the only member to terminate its license to self-insure in 2016.

Request for Nominations for the Security Association Board

In accordance with the Plan of Operation, members of the Security Association may nominate candidates for the Board to be elected at the 2017 Annual Meeting. Tia Schweikert, of Lowe's Companies, Inc., 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. Schweikert **on or before May 26, 2017**:

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

Members of the Security Association will elect Directors at the Annual Meeting at the Washington Duke Inn & Golf Club in Durham, North Carolina on July 20, 2017 at 12:00 noon.

Again, thank you for your continued commitment to self-insurance. As always, on behalf of the Board, we welcome your recommendations and involvement.

Sincerely,

**NORTH CAROLINA SELF-INSURANCE
SECURITY ASSOCIATION**



Thomas R. Yarboro
Chairman, Board of Directors