

**NORTH CAROLINA  
SELF-INSURANCE SECURITY ASSOCIATION**

**PLAN OF OPERATION**  
[July 25, 2012 Amended Restatement]

**Article 1**

**Adoption and Restatement**

This Plan of Operation is the Amended Restatement of the Plan of Operation (“Plan”) adopted July 25, 2012 by the North Carolina Self-Insurance Security Association. The North Carolina Self-Insurance Security Association became the North Carolina Self-Insurance Security Association on January 1, 2006 pursuant to Session Law 2005-400. This Amended Restatement of the Plan became effective upon adoption by the Board of Directors of the North Carolina Self-Insurance Security Association (“Association”) on July 25, 2012.

**Article 2**

**Definitions**

The Plan hereby incorporates the definitions set forth in N.C. Gen. Stat. § 97-130. The definition of a Member of the Association is also clarified by N.C. Gen. Stat. § 97-131(b). References to the “Security Act” refer to Article 4, Chapter 97, of the North Carolina General Statutes.

**Article 3**

**Statement of Purposes**

The Association is formed for the purposes set forth in N.C. Gen. Stat. § 97-131(a).

**Article 4**

**Amendment and Availability of Plan**

- A. Amendments to the Plan, as necessary or suitable to assure the fair, reasonable and equitable administration of the Association, shall be adopted by the Board.

- B. The Plan is posted for public review and may be downloaded from the Association website. ([www.ncsisa.org](http://www.ncsisa.org))

## **Article 5**

### **Annual Meeting**

- A. An Annual Meeting of the Members of the Association shall be held for the election of Directors at the time, day and place designated by the Chairman of the Board in a written notice to all Members of the Association.
- B. Notice of the Annual Meeting shall be transmitted to all Member detailing the time, day and place of the Annual Meeting of the Members at least thirty (30) days prior to the meeting..
- C. Directors of the Association shall be elected by the Members at the Annual Meeting.
- D. At Annual Meetings of the Members, if there are more nominees than vacancies, Directors shall be elected by receiving a majority of votes cast by the Members present. Each member present at the Annual Meeting shall have one (1) vote for each Director to be elected.

## **Article 6**

### **Board of Directors**

- A. There shall be a Board of Directors in accordance with the provisions of N.C. Gen. Stat. § 97-132.
  - 1. The Board shall consist of eleven (11) persons who are owners, employees, or officers of members, to be elected for staggered terms of three (3) years so that the terms of all Directors shall not expire in the same year. Elected Directors shall serve until their successors have been duly elected and qualified to serve. There is no limitation on the number of terms that a Director may serve.
  - 2. The Board of Directors shall:
    - a. Elect a Chairman, Vice Chairman, Secretary and Treasurer from among its members, and such other officers as it deems necessary. The offices of Secretary and Treasurer may be held by the same member. Each officer shall serve a term of one year or until a successor is elected.

- b. Appoint an Executive Committee from among its members. Such Committee shall have as its members the Chairman, the Vice Chairman, Secretary and Treasurer, and other such Directors, if any, as appointed by the Board. The Executive Committee shall have such powers as may be delegated by the Board, provided it shall not have the authority to act on matters requiring a majority vote of the full Board as provided in B.3. below.
- c. Appoint, from among its members, a Nominating Committee consisting of at least three Directors. The Nominating Committee shall select a nominee to succeed each Board member whose term expires at each Annual Meeting of the members. The Nominating Committee shall annually solicit recommendations for Director candidates from Members by written notice through the transmission of the Association Annual Report. Prior to making its report to the Board, the Nominating Committee shall select potential nominees from the Members. The nominees shall be made known to the Members through the Notice of the Annual Meeting which shall be transmitted, by electronic mail, at least thirty (30) days prior to the Annual Meeting. The Notice of the Annual Meeting shall also be posted on the Association website at [www.ncsisa.org](http://www.ncsisa.org)

Additional nominees may be eligible for election to the Board of Directors upon the petition of a Member signed by at least five Members and submitted to the Secretary of the Association not less than ten calendar days prior to the Annual Meeting.

- d. Appoint an Audit and Investment Committee, which shall consist of at least three Directors. The Audit and Investment Committee shall recommend the selection of the independent outside auditor and facilitate the annual audit of the Association by an independent outside auditor. The Audit and Investment Committee shall also review and report to the Board regarding any financial reporting or operational issues reported by the independent outside auditors. The Audit and Investment Committee shall be responsible for all financial matters of the Association.
- e. Appoint a Credit and Risk Management Committee, a Claims Committee, and any additional committees that the Board determines are appropriate.
- f. The powers delegated by the Board to the Committees shall be set forth in written Committee Charters that shall be reviewed and approved by the Board on an annual basis.

3. Vacancies occurring on the Board between Annual Meetings of the Members shall be filled by a majority vote of the remaining Directors. Vacancies occurring in Board offices between the Annual Meetings shall be filled by majority vote of the Directors.
- B.
1. At any meeting of the Board of Directors, each Director shall have one vote.
  2. A majority of the Board shall constitute a quorum for the transaction of business and the acts of the majority of the Board members present at a meeting at which a quorum is present shall be the acts of the Board, except as provided in Paragraph 3 below.
  3. An affirmative vote of a majority of the full Board is required to:
    - a. Approve a contract with a Servicing Facility for claims administration. The oversight of claims functions shall be subject to review by the Claims Committee pursuant to its Charter and does not require an affirmative vote of a majority of the full Board;
    - b. Assess members or provide for a refund to members;
    - c. Borrow money or establish or amend a line of credit;
    - d. Approve reinsurance contracts, bonds, financial guarantees, or related financial instruments; or
    - e. Adopt amendments to the Plan of Operation.
    - f. Retain or contract with any business entity to provide the services of an Executive Director
- C.
- The Board shall meet at least quarterly and may hold regular or special meetings at such times and with such frequency as it deems appropriate to conduct the business of the Association. Board meetings may be held by telephone or by videoconference. Any Board member not present may consent in writing to any specific action taken by the Board, but this consent shall not permit Board members to act through other Board members by proxy. Any action approved by the required number of Board members, including those consenting in writing, shall be a valid Board action.
- D.
- Special meetings of the Board may be called by the Chairman and/or upon the written request of any two Directors. At a special meeting the Board may consider and decide any matter deemed necessary for the proper administration of the Association. Not less than five (5) days electronic notice must be given to

each Director of the time, place and purpose of any special meeting, provided that the Directors may waive notice by unanimous consent. .

- E. Directors may be reimbursed from the assets of the Association for reasonable expenses incurred by them as Directors pursuant to a written reimbursement policy adopted by the Board that may be amended from time to time, but Directors shall not be compensated by the Association for their services as Directors.
- F. Establish procedures for records to be kept of all financial transactions of the Association, its agents, and the Board of Directors.

## **Article 7**

### **Statutory Powers and Duties of the Association**

The Board exercises all of the powers and performs all of the duties of the Association.

#### A. Association Aggregate Security System

1. The Board shall annually design and operate an Association Aggregate Security System pursuant to N.C. Gen. Stat. § 97-133(2a)a., through a combination of cash on deposit in the Fund, securities, surety bonds, irrevocable letters of credit, reinsurance, insurance or other financial instruments or guarantees owned or entered into by the Association.
2. The Association in accordance with N.C. Gen. Stat. §97-133 (a)(13) and N.C. Gen. Stat. §97-185(a)(1) shall require each individual self-insurer to annually determine its total undiscounted workers' compensation claims liability and to notify the Association of this determination and to provide sufficient financial information so that the Association may determine the creditworthiness of each individual self-insurer . The Board shall determine on an annual basis if any individual self-insurer will be excluded from participation in the Association Aggregate Security System pursuant to N. C. Gen. Stat §97-185(a)(1). The Board shall also determine the aggregate total undiscounted outstanding claims liabilities of the individual self-insurers that are eligible to participate in the Association Aggregate Security System. The Board shall develop the methodology to be used by the Association to assess and collect the Association Aggregate Security System assessments. The Association will assess the individual self-insurers that participate in the Association Aggregate Security System, pursuant to Paragraph B.1. below. The Association will notify the Commissioner of any individual self-insurer that has been excluded from participation in the annual Association Aggregate Security System and will notify the excluded self-insurer in order for the Commissioner to require the excluded self-insurer to deposit a statutory

deposit with the Commissioner in the amount required by N. C. Gen. Stat. §97-185(b2).

3. Pursuant to N.C. Gen. Stat. § 97-133(a)(2a)e, for any year that the Board determines that the Association Aggregate Security System is not feasible or practical, the Association shall notify the Commissioner at least 90 days prior to the termination of a particular plan year. The Association shall also inform individual self-insurers that the Commissioner will require each individual self-insurer to deposit a statutory deposit with the Commissioner in the amount required by N.C. Gen. Stat. § 97-185(b3) in the manner prescribed by N.C. Gen. Stat. § 97-185(a).
4. Group self-insurers shall not participate in the Association Aggregate Security System.

B. Assessments

1. Association Aggregate Security System Assessments

The Association shall assess each individual self-insurer participating in the annual Association Aggregate Security System pursuant to N.C. Gen. Stat. §97-133 (a)(3a)a.

2. Special Post-Insolvency Assessments

a. If, at any time, the Board determines that the Fund is not sufficient to pay the anticipated obligations of the Association during a reasonable period of time, the Board may authorize a special post-insolvency assessment pursuant to N.C. Gen. Stat. § 97-133(a)(3a)b.

b. In making its determination pursuant to Paragraph 2.a. above, the Board will consider the analysis and reports of any or all of its actuaries, attorneys, accountants, consultants and the Department establishing and forecasting the funds necessary to pay Covered Claims for insolvent Members, the Association's expense, and forecasting the assets and anticipated investment income of the Fund available to pay claims and expenses.

c. The amount of the special post-insolvency assessment for each Member will be the product of each Member's respective undiscounted claims liability divided by the aggregate undiscounted claims liability of all Members multiplied by the total assessment.

3. Initial Assessment of New Members –
  - a. Pursuant to N.C. Gen. Stat. § 97-133(a)(3a)c., the Board assesses and collects an initial assessment from new Members that are individual self-insurers that do not participate in the Association Aggregate Security System or are group self-insurers. Initial Assessments will be determined by the Board and will be based on the considerations set forth in N.C. Gen. Stat. § 97-133(a)(3a)a.1, 2 and 3.
  - b. The Board will periodically adopt a resolution or policy establishing the initial assessment rate for new Members.
  - c. In addition to the payment of initial assessments, new Members are also subject to special post-insolvency assessments pursuant to N.C. Gen. Stat. § 97-133(a)(3a)b.

4. Assessment of Group Self-Insurers -

Group self-insurers may be assessed on an annual basis in an amount not to exceed 2% of the group self-insurer's annual gross premium for the preceding calendar year in accordance with N. C. Gen §97-133(a)(3a)f.

5. The Association will issue assessment invoices to Members that will be afforded thirty (30) days following the date of the invoice to remit payment to the Association.
6. In accordance with N.C. Gen. Stat. § 97-133(a)(3a)e, the Board will assess and collect interest on delinquent unpaid assessments at an interest rate established by the Board.
7. If a Member fails to pay any assessment made by the Association when due, the Association will recommend that the Commissioner revoke the delinquent Member's self-insurance license.

- C. Administration of the Fund

1. The Board will invest the Fund in a prudent manner and may engage an investment advisor to advise the Board. The Board may invest the Fund in interest-bearing accounts, financial investment instruments, equities or a combination of these investments. The Board will establish a written investment policy and will submit the policy to the State Treasurer for review and approval on an annual basis. The Audit and Investment Committee of the Board will meet on a quarterly basis to review investment, investment performance and the investment policy for possible revision. The Board will receive reports on the performance of

Fund investments during its regular meetings. The investment policy adopted by the Board will take into account liquidity requirements for the payment of claims. All earnings derived from Fund assets will be credited to or placed in the Fund. The costs of administration of the Association will be paid from the Fund.

2. The Board may open one or more bank accounts for use in Association business. Reasonable delegation of deposit and withdrawal authority to such accounts for Association business may be made consistent with prudent fiscal policy. The Board may borrow money from or establish a line of credit with any banking or lending institution as the Board may deem appropriate. The Board may pledge all or a portion of the Fund to secure loans or lines of credit.
3. In accordance with N.C. Gen. Stat. § 97-133(a)(1a), the Association may purchase reinsurance, bonds and financial guarantees and may purchase primary excess insurance from an insurer licensed in North Carolina.
4. The financial statements of the Association will be maintained on an accrual basis, or any other basis that is acceptable to the Commissioner, will be audited annually, and an audit report will be rendered annually by a certified public accountant selected by the Board. The audited financial statements will be provided to the Commissioner of Insurance by June 1 of each year after it is received and approved by the Board of Directors. The Association is subject to examination and regulation by the Commissioner pursuant to N.C. Gen. Stat. § 97-137.

#### D. Claims

##### 1. Processing Covered Claims

###### a. Initial Action Plan

Upon the determination of a member's insolvency pursuant to N.C. Gen. Stat. § 97-135, the Board will make such investigation of the affairs of the insolvent member as it deems necessary and will adopt a written action plan for processing such workers' compensation claims as may be determined to be Covered Claims pursuant to its investigation. The written action plan includes:

1. For the purposes of determining whether incurred claims are Covered Claims, the period of time that the insolvent member was self-insured and the date of the member's insolvency.
2. The Board's determination of the consultants or service providers, if any, to be used to assist the Association in processing and adjudicating

the claims. The Association will enter into written contracts with all retained consultants and service providers.

3. The initial strategy for action to be taken, if any, in federal bankruptcy court to preserve any claims or defenses of the Association.
4. The procedures to be used to obtain and store the insolvent self-insurer's claims and/or personnel records.

b. Claims Administration

Upon receiving the insolvent member's claims files and records, the Association will notify the North Carolina Industrial Commission of the Association's role, if any, in any pending workers' compensation cases before the Commission; and, for Covered Claims, make an appearance in each case through its designated legal counsel.

For Covered Claims involving the payment of indemnity to Claimants, the Association will verify the correct payment amount, the Claimant's correct address and will begin bi-weekly indemnity payments, in the appropriate amount for the required amount of time.

The Board is empowered to investigate, adjust, compromise and settle claims as it deems appropriate. The Board has delegated the administration of all Association claims to its Claims Committee or through its Servicing Facility. The Claims Committee authorizes claims payment and makes settlement decisions and grants specific settlement authority limits in litigated and other appropriate cases to its legal counsel. Periodic indemnity payments and medical expenses are authorized by the Claims Committee and are paid by the Association, directly from Association claims account or through its Servicing Facility.

In every Member insolvency, the Association's objective is to liquidate all Covered Claims against the insolvent Member as quickly as is reasonably possible through settlement or expedited mediation or litigation. The Claims Committee or through its Servicing Facility may negotiate and settle claims for medical and claims-related services in a timely manner. In administering claims, the Association pays Covered Claims in a fair and fiscally responsible manner in order to minimize the assessment of solvent members to pay Covered Claims and related costs resulting from member insolvencies.

c. Pre-Association Claims

Pre-Association Claims means any claims against an insolvent member that relates to a compensable event that occurred prior to October 1986.

Pre-Association Claims are not Covered Claims and the Association does not pay Pre-Association Claims.

## 2. Proofs of Claim

The proof of claim process involves the filing of a proof of claim with the Association for a claim against the insolvent member that is subject to statement as a sum certain.

The Association also processes claims for medical expenses and other claim related expenses for Covered Claims on an as-billed basis. However, if the Association and a medical or claims services provider that provided services for the insolvent member prior to the determination of the member's insolvency cannot agree on the amount of payment, the medical or claims services provider may file a proof of claim with the Association and the Board will determine the amount of payment to be made to the service provider. Proof of claim forms have been promulgated by the Association, are posted on the Association's internet website and require, at a minimum, the following information:

- a. The name and address of the insolvent self-insurer;
- b. If known by Claimant, the date on which insolvency was judicially determined or bankruptcy proceedings instituted together with the name and address of the Court in which determination was made or proceedings begun;
- c. A description of the alleged compensable injury and the circumstances surrounding the occurrence of the injury;
- d. Any medical records relating to the injury and any statement or invoice for medical treatment received as the result of injury.

## E. Member Asset and Security Recoveries

### 1. Member Security Deposits and Surety Bonds

In accordance with N.C. Gen. Stat. § 97-143, upon the determination of a member's insolvency, the Association accepts assignment of the member's deposit from the Department. The deposit may be in the form of cash, securities, surety bond(s) or letter of credit. The deposit, bond, or letter of credit proceeds are deposited in the Fund by the Association and are designated as restricted funds, available only for payment of Covered Claims against and Association expenses attributable to that Member. An accounting of the use of the restricted fund is prepared quarterly and provided to the Department.

2. Recovery of Member Assets, Reinsurance Recoveries and other Causes of Action

The Association files proofs of claim, when appropriate, in the insolvent Member's bankruptcy proceeding. The Association pursues Member subrogation claims against third parties, if applicable and appropriate. The Association pursues reimbursement for payment of Covered Claims from the member's reinsurance and excess insurance providers when appropriate. The Association pursues the reimbursement of attorneys' fees when appropriate.

F. Operations

1. The Association's mailing address is 1620 South MLK Jr. Avenue, Suite 107, Salisbury, North Carolina 28144. The Board maintains an internet website at [www.ncsisa.org](http://www.ncsisa.org) that includes communication links.
2. The Board may employ or contract for the services of an Executive Director or additional persons to serve as staff for the Association. If an Executive Director is employed, the Board may delegate, by resolution, any of its authority under the Act other than matters specifically requiring Board approval, to the Executive Director.
3. The Board may employ legal counsel, public accountants, actuaries, consultants, claims administrators or any other persons, firms or corporations to perform such administrative services and functions as are necessary for the Board's performance of the duties imposed on the Association and may negotiate and execute contracts for these purposes. The functions of administering and adjusting of claims shall not be performed by the same entity that provides legal representation to the Association for claims.
  - a. The Board or the Executive Director may authorize the filing of an action or actions on behalf of and in the name of the Association in any court, administrative agency or other tribunal to effectuate any of its statutory powers.

G. Exercise of Other Statutory Powers and Duties

Pursuant to the Act, the Board will exercise any and all of its statutory powers and duties under the Act that are not specifically enumerated in this Plan of Operation.

**Article 8**

## **Indemnification**

- A. The Board, its individual Directors, its Executive Director, as well as any agents or employees of the Association together with any member self-insurer acting on behalf of the Association, will be indemnified by the Association against all expenses incurred in the defense of any act or omission taken by the above-referenced individuals in the performance of his powers and duties under the Act, unless such person will be finally adjudicated by a court of competent jurisdiction to have committed a breach of duty involving gross negligence, bad faith, dishonesty, willful malfeasance or reckless disregard of responsibilities of his office. In the event of settlement before final adjudication, such indemnity will be provided only if the Association is advised by independent counsel that such person did not, in the opinion of the independent counsel, commit such a breach of duty.
- B. The expense of the above-referenced indemnification will be paid by the Fund.
- C. This indemnification is intended to operate as a supplement and an additional safeguard to the immunity set forth by N.C. Gen. Stat. § 97-139.

## **Article 9**

### **Conformity to Statute**

The Act and any subsequent amendments thereto, is incorporated herein and made a part of this Plan; and, any portion of this Plan which may be found to be in violation of or inconsistent with that Article will not render the remainder of the Plan invalid or unenforceable.

## **Article 10**

### **Appeal to Commissioner**

In accordance with N.C. Gen. Stat. § 97-134(3)h., any member self-insurer that is aggrieved by any final action or decision of the Board may appeal such action or decision to the Commissioner within thirty (30) days after the action or decision by the Board.