



2860 Gateway Oaks Drive
Sacramento, CA 95833
(415) 263-5400
www.statefundca.com

Date: February 1, 2023

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Financial and President’s Report: 4Q 2022
II. NAME AND PROGRAM:	Vernon Steiner, President and CEO Peter Guastamachio, Chief Financial Officer
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

- Net premiums earned of \$1,175 million were 5% lower than prior year.
- Combined ratio of 134.4% was 9.2 points lower than the same period in the prior year.
- Net income of \$80 million was \$86 million lower than the same period last year.
- Policyholders’ surplus decreased by \$137 million since December 31, 2021.

VI. ANALYSIS /BACKGROUND:

- Statutory financial results are filed with the California Department of Insurance and the National Association of Insurance Commissioners on a quarterly basis.
- Highlights are also shared with the Board on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2022

The following summarizes our statutory financial results for the year ended December 31, 2022. Our results reflect decreases in premiums earned and in policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$1,175 million were 5.0% lower than prior year due to less new business written, partially offset by our filed rate increase of 8% effective January 1, 2022.
 - The 2022 loss and loss adjustment expense (LAE) ratios were 71.7% and 25.2%, respectively. Together these ratios were 4.9 points lower compared to last year. Our loss ratio was lower by 3.2 points mainly due to the 2022 rate increase and re-underwriting of our transportation book, specifically parcel delivery. These positive results were offset by a lower loss reserve release of \$133 million this year compared to \$224 million in prior year. The LAE ratio was lower by 1.7 points mainly due one-time expense resulting from the LAE portion of a legal case settlement accrual which occurred in the prior year.
 - The underwriting expense ratio of 37.6% was 4.2 points lower than the same period in the prior year mainly due to \$77 million favorable decrease in underwriting expenses, including \$5 million in premium deficiency reserve release this year.
 - The combined ratio of 134.4% was 9.2 points lower compared to the same period last year.

- Investment and other non-underwriting results
 - Net investment income of \$506 million was \$9 million lower than the prior year due to an increase in self-rent expenses resulting from a change in the functional allocation. The income from bonds purchased in prior years are yielding less income, and lower pay downs from mortgage-backed securities are contributing to less money available for reinvestment in a high rate environment. Reinvestment rates have increased and State Fund is purchasing bonds at yields higher than our current book yields. Realized capital gains of \$62 million were \$97 million lower than the prior year due to lower market values of stocks and bonds.
 - Other income of \$14 million this year is mostly due to charge-off recoveries.

- Net income and policyholders' surplus
 - Net income before dividends to policyholders of \$181 million was \$16 million higher than prior year mainly due to \$131 million decrease in underwriting loss, offset by \$115 million decrease in realized capital gains, investment income, and other income.
 - In 2022, State Fund declared regular dividends of \$54 million and \$55 million, large account safety dividend of \$4.5 million and \$4 million for policies that incepted from January 1, 2022 through December 31, 2022 and January 1, 2021 through December 31, 2021, respectively. In addition, State Fund released \$16.3 million of dividend reserve for policy year 2020 which netted dividends to \$101 million, and resulted in our net income of \$80 million.
 - Policyholders' surplus went down by \$137 million since December 31, 2021. This decrease is due to a decrease of \$151 million in unrealized capital gains as a result of the decrease of market value in stocks, and an unfavorable increase of \$67 million in non-admitted assets, offset by the net income of \$80 million and favorable decrease of \$1 million in provision for reinsurance.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 2022

Financial Results (\$ millions)	2022 Actual	2021 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	1,175	1,236	(61)	-5.0%
Losses	842	926	(84)	-9.1%
Loss adjustment expenses (LAE)	296	333	(37)	-11.0%
Underwriting (UW) expenses	443	520	(77)	-14.8%
Other underwriting deductions	(5)	(10)	5	46.9%
Underwriting results	(401)	(532)	132	24.7%
Net investment income	506	515	(9)	-1.8%
Realized capital gain (loss)	62	159	(97)	-61.1%
Other income (expense)	14	23	(9)	-39.2%
Income before dividends to policyholders	181	165	16	9.9%
Dividends to policyholders (credits)	101	(1)	102	n/a
Net income	80	166	(86)	-51.7%
Standard Industry Ratios				
Loss ratio	71.7%	74.9%		-3.2%
LAE ratio	25.2%	26.9%		-1.7%
Loss and LAE ratio	96.9%	101.8%		-5.0%
UW expense ratio	37.6%	41.8%		-4.2%
Combined ratio	134.4%	143.6%		-9.2%

Numbers or ratios may not foot due to rounding.

Dash (-) represents a null value.

Zero (0) represents a calculated zero or number which rounds to zero

Green represents better than plan and prior year.

Red represents worse than plan and prior year.