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Date: August 5, 2021

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 4 – Financial and President’s Report: 2Q 2021
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 \$582 million were 24.4% higher than prior year.
- Combined ratio of 140.7% was 5 points lower than the same period in the prior year.
- Net income of \$88 million was \$10 million lower than the same period last year.
- Policyholders’ surplus increased by \$132 million since December 31, 2020.

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
Six Months Ended June 30, 2021

The following summarizes our statutory financial results for the six months ended June 30, 2021. Our results reflect an increase in premiums earned and policyholders' surplus.

- Underwriting results
 - Net premiums earned of \$582 million were 24.4% higher than prior year mainly due to an increase in reported payroll policies resulting from reopening of businesses and due to a \$45 million reduction in estimated audit premium last year.
 - The 2021 loss and loss adjustment expense (LAE) ratios were 74.3% and 26.3%, respectively. Together these ratios were 0.8 point higher compared to last year. Loss ratio was higher by 4.3 points because of COVID claims, medical legal fees schedule and increased reserves in transportation more specifically parcel delivery. LAE ratio was lower by 3.5 points mainly due to State Fund's reduction in the assumed cost per claim resulting from pension contributions effective September 2020, partially offset by the increase in salary and other claims adjustment cost.
 - Underwriting expense ratio of 40.1% was 5.8 points lower than the same period in the prior year mainly due to the increase in premium written compared to last year and a small decrease to underwriting expense.
 - The combined ratio of 140.7% was 5 points lower compared to the same period last year mainly due to the decrease of underwriting expense ratio.
- Investment and other non-underwriting results
 - Net investment income of \$265 million was \$36 million lower than the prior year mainly due to lower interest rates and increased amortization expense.
 - Realized capital gains of \$41 million were \$2 million higher than prior year.
 - Other income of \$16 million this year represents charge-off recoveries and a change in the charge-off policy that became effective this year.
- Net income and policyholders' surplus
 - Net income of \$88 million was \$10 million lower than the same period in the prior year due to \$36 million decrease in net investment income, offset by \$21 million increase in other income and realized capital gain and \$5 million decrease in underwriting loss.
 - Policyholders' surplus went up by \$132 million since December 31, 2020. This increase was attributed to the net income of \$88 million, an increase of \$60 million in unrealized capital gains, offset by an unfavorable increase of \$16 million in non-admitted assets.

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Financial Results (\$ millions)	2020 Actual	2021 Actual	Actual vs. Prior Year \$ Diff	Actual vs. Prior Year % Diff
Net premiums earned (NPE)	468	582	114	24.4%
Losses	327	432	105	32.0%
Loss adjustment expenses (LAE)	139	153	14	9.8%
Underwriting (UW) expenses	240	231	(9)	-3.9%
Underwriting results	(239)	(234)	5	2.1%
Net investment income	301	265	(36)	-12.0%
Realized capital gain (loss)	39	41	2	4.0%
Other income (expense)	(3)	16	20	623.7%
Net income (loss)	98	88	(10)	-9.9%
Standard Industry Ratios				
Loss ratio	70.0%	74.3%		4.3%
LAE ratio	29.8%	26.3%		-3.5%
Loss and LAE ratio	99.8%	100.6%		0.8%
UW expense ratio	45.9%	40.1%		-5.8%
Combined ratio	145.7%	140.7%		-5.0%

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.