

# 2022 FINANCIAL SUMMARY

## RESULTS OF OPERATIONS

State Fund's results of operations for years ended December 31, 2022 and 2021 and its corresponding financial ratios are shown below:

<b>(In millions)</b>	<b>2022</b>	<b>2021</b>
Net premiums earned	\$ 1,175	\$ 1,236
Losses incurred	842	925
Loss adjustment expenses (LAE) incurred	296	333
Underwriting and administrative expenses	443	520
Premium deficiency	<u>(5)</u>	<u>(10)</u>
Net underwriting loss	(401)	(532)
Net investment and realized gain	568	674
Other income	<u>14</u>	<u>23</u>
Income before dividends	181	165
Dividends to policyholders	<u>(101)</u>	<u>1</u>
Net income	<u>\$ 80</u>	<u>\$ 166</u>
Loss ratio	71.7%	74.9%
LAE ratio	25.2%	26.9%
Underwriting expense ratio	<u>37.5%</u>	<u>41.8%</u>
Combined ratio	<u>134.4%</u>	<u>143.6%</u>

State Fund's premium decreased by \$61 in 2022 mainly due to less new business written, partially offset by filed rate increase of 8% effective January 1, 2022. Losses incurred went down by \$83 due to \$174 favorable decrease in losses incurred, partially offset by a lower loss reserve release of \$133 this year compared to \$224 in prior year. The favorable decline in losses incurred was attributed to the 2022 rate increase and less COVID-related claims. LAE incurred decreased by \$37 mainly due to a one-time expense resulting from the LAE portion of a legal case settlement accrual which occurred in the prior year. Underwriting and administrative expenses decreased by \$77 due to a favorable decrease of \$34 in legal and auditing due to a legal case settlement accrual in prior year, \$23 in commission & brokerage, \$13 in rental expense and \$3 in premium tax. Additionally, State Fund had a \$5 premium deficiency reserve release this year. State Fund had a \$401 underwriting loss in 2022 compared to a \$532 underwriting loss in prior year. The \$131 decrease in underwriting loss was mainly due to the total decreases in losses and LAE incurred, and underwriting expenses, being greater than the total decrease in premiums earned.

Net investment income of \$506 was \$9 lower than prior year due to an increase in rental expense resulting from a change in the functional allocation. Realized capital gains of \$62 were \$97 lower than the prior year due to lower market values of stocks and bonds. Other income of \$14 this year is mostly due to charge-off recoveries. Net income before dividends of \$181 was \$16 higher than prior year mainly due to a \$131 decrease in underwriting loss, offset by a total of \$115 decrease in realized capital gain, investment income, and other income.

In 2022, State Fund declared regular dividends of \$54 and \$55, plus large account safety dividends of \$5 and \$4 for policies that inceptioned from January 1, 2022 through December 31, 2022 and January 1, 2021 through December 31, 2021, respectively. In addition, State Fund released \$17 of dividend reserve for policy year 2020 which netted dividends to \$101, and resulted in our net income after dividends of \$80 in 2022 in comparison to \$166 in 2021.

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## FINANCIAL POSITION

State Fund's financial positions at December 31 are as follows:

<b>(In millions)</b>	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Admitted Assets</b>		
Bonds, at amortized cost	\$ 18,714	\$ 18,515
Common stocks	809	1,152
Real estate	289	294
Cash and short-term investments	241	141
Other invested assets	4	-
Receivable for securities	-	55
Total cash and invested assets	<u>20,057</u>	<u>20,157</u>
Other assets	<u>399</u>	<u>386</u>
Total admitted assets	<u><u>\$ 20,456</u></u>	<u><u>\$ 20,543</u></u>
<b>Liabilities and Policyholders' Surplus</b>		
Loss and LAE reserves net of reinsurance	\$ 11,270	\$ 11,337
Other liabilities	<u>2,546</u>	<u>2,699</u>
Total liabilities	<u>13,816</u>	<u>14,036</u>
Policyholders' surplus	<u>6,640</u>	<u>6,507</u>
Total liabilities and policyholders' surplus	<u><u>\$ 20,456</u></u>	<u><u>\$ 20,543</u></u>

State Fund maintained a balanced investment portfolio that was focused on both credit quality and investment yield (88% of the \$18,714 bond portfolio was rated NAIC 1, the NAIC's highest quality credit class). The weighted average credit quality of the overall bond portfolio was Aa3 and AA- by Moody's and Standard & Poor's, respectively. Book yield at December 31, 2022 was 3.1%, increased from 2.8% at December 31, 2021.

Management believes that its reserves are adequate, and State Fund's appointed Actuaries, Michael DeMattei and Guy Avagliano of Milliman, Inc., consulting actuaries, opined to the adequacy of State Fund's carried reserves as of December 31, 2022 and 2021, respectively.

State Fund operates in conformity with the California law imposed for risk-based capital (RBC). As of December 31, 2022 and 2021, policyholders' surplus exceeded the minimum RBC requirements.

Policyholders' surplus increased by \$133 compared to prior year. This increase was a result of a \$270 reclassification into special surplus to recognize the decrease in State Fund's share of Pension and OPEB liabilities in compliance with Statements of Statutory Accounting Principles (SSAP) No. 5R – "Liabilities, Contingencies and Impairment of Assets" and the net income of \$80. The increase was offset by a decrease of \$151 in unrealized capital gains as a result of the decrease of market value in stocks and an unfavorable increase of \$66 in non-admitted assets.

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## CASH FLOW

State Fund's statements of cash flow are summarized below:

### (In millions)

	<u>2022</u>	<u>2021</u>
Premiums collected net of reinsurance	\$ 1,125	\$ 1,146
Net investment income	550	615
Miscellaneous income	15	22
Benefits and loss related payments	(942)	(1,070)
Other underwriting expenses	(733)	(754)
Dividend paid to policyholders	<u>(70)</u>	<u>(47)</u>
Net cash used in operations	<u>(55)</u>	<u>(88)</u>
Proceeds from investments sold, matured, or repaid	3,015	4,294
Cost of investments acquired	<u>(2,836)</u>	<u>(3,954)</u>
Net cash provided by investments	<u>179</u>	<u>340</u>
Net cash used in financing and miscellaneous sources	<u>(24)</u>	<u>(165)</u>
Net change in cash, cash equivalents and short-term investments	100	86
Cash, cash equivalents and short-term investments, beginning of year	<u>141</u>	<u>55</u>
Cash, cash equivalents and short-term investments, end of year	<u><u>\$ 241</u></u>	<u><u>\$ 141</u></u>

Primary sources of cash included cash flow from premiums, investment income, and the sale or maturity of invested assets. Primary uses of cash included the purchase of long-term investments and the payments of benefits, loss related expenses, and other underwriting expenses.

Cash flow used in insurance operations decreased by \$33 from prior year mainly due to \$149 decrease in payment for loss, LAE and underwriting expenses, partially offset by \$93 decrease in premium collection, investment income, miscellaneous income, and \$23 increase in dividend payment.