
2006 Annual Report

Florida Workers' Compensation Insurance Guaranty Association, Inc.



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2006 OVERVIEW:

2006 was a year of opportunities for the Florida Workers' Compensation Insurance Guaranty Association ("FWCIGA" or "Association") due to the stability of the workers' compensation market in Florida. For the fourth year in a row, a rate decrease was realized from the legislative reforms of 2003. At this time, competition exists in this market and only one Texas insurance company writing Florida business was liquidated. During 2006, FWCIGA concentrated its efforts on settling outstanding claims and implementing technology enhancements. This claims initiative resulted in a reduction to 1,282 open claims, the lowest claim count since the inception of FWCIGA. Technology enhancements were made to automate manual processes and utilize electronic documents and filing systems to better position the Association for more effective handling of future insolvencies.

FWCIGA continued to realize cost savings through the cooperative Management Agreement with the Florida Insurance Guaranty Association, Inc. ("FIGA"). The Agreement stipulates a shared core management team. This team includes the Executive Director, Deputy Director, and their direct support staff, with each fund contributing equal sums to the salaries, benefits and related expenses.

On a national level, the Association continues to closely monitor the National Association of Insurance Commissioners ("NAIC") revisions to the Insurance Receivership Model Act ("IRMA") originally adopted in December of 2005. There are several changes favorable to guaranty funds in the adopted version; however, a provision regarding ownership of large deductible reimbursements was intentionally excluded and was referred to the Large Deductible Subgroup of the NAIC's Receivership and Insolvency Task Force. Throughout 2006, the Subgroup discussed how to address the challenges associated with large deductible policies in insolvencies. Those discussions resulted in the revision and adoption of a new Section 712 of IRMA, by the Receivership and Insolvency Task Force at the 2006 NAIC Winter Meeting. Because this revision treats the deductibles as a general estate asset rather than a reimbursement, this remains a key issue to the guaranty fund community as a whole. Over the past several years deductible policies represented a significant share of the claims transferred to the guaranty funds and the collection of the deductible reimbursements has decreased the need for assessments.

Also during 2006 the NAIC continued its work on rewriting the Property & Casualty Insurance Guaranty Association Model Act. At the 2006 NAIC Winter meeting, the Receivership and Insolvency Task Force exposed the revised Model and a summary of unresolved issues for a 60-day comment period. FWCIGA will continue to monitor and participate in discussions regarding potential changes to the Model Act.

In Florida, the Florida Office of Insurance Regulation approved a 15.7% decrease in workers' compensation rates for 2007. This rate decrease represents the fourth straight year of rate reductions totaling a cumulative decrease of 40.6%. The reductions have a comparable impact on the assessment capacity of the Association; however, large estate distributions and the lack of significant insolvencies during 2006 have again placed the Association in a favorable financial position. The Board of Directors determined for a second straight year that the Association did not need an assessment. There were no changes in the membership of the Board during 2006.

HISTORY AND PURPOSE

The FWCIGA was formed in 1997 as a result of the merger of the former Florida Self-Insurance Fund Guaranty Association ("FSIFGA") and the workers' compensation insurance account of FIGA. Upon the effective date of the merger, the predecessor organizations ceased to exist and were succeeded by FWCIGA.

FWCIGA was created and is governed by Part V of Chapter 631, Florida Statutes, as well as a Plan of Operation established by its Board of Directors. FWCIGA provides for the payment of covered claims for insurance companies or self-insurance funds that are declared insolvent and unable to continue making payment to injured workers. All insurance companies and self-insurance funds are members of the FWCIGA as a condition of their authority to offer workers' compensation coverage in the state of Florida. Individual self-insured entities are not entitled to coverage from the FWCIGA. Guaranty fund coverage for individual self-insured entities is governed by the Florida Self-Insurers Guaranty Association set forth in Section 440.385, Florida Statutes.

The FWCIGA Board of Directors is comprised of eleven (11) members who meet at least quarterly to discuss the operations of the Association. Board members are elected to four year terms and receive no compensation for their Board participation. Nine (9) of the members are elected from licensed insurers in the state of Florida; six (6) from member carriers, the remaining three (3) from self insurance funds. The elected members are confirmed by the state's Chief Financial Officer ("CFO") and joined by the Insurance Consumer Advocate and a CFO Appointee.

Assessments are levied based upon the premiums written by member companies in the state of Florida. Beginning in 2003, the assessment base was modified to include full policy premiums, which represents premiums written without taking into account discounts and credits resulting from large deductible policies. Assessments are limited to 2% annually for insurance companies and 1.5% for self-insurance funds. However, in the event assessments are insufficient to fund all required payments, an additional assessment of 1.5% per year may be levied. To date FWCIGA has never utilized the additional assessment.

Another responsibility of the FWCIGA is to monitor significant insurers that are in "run-off" phases under various regulatory controls in several jurisdictions. Participation in the National Conference of Insurance Guaranty Funds ("NCIGF") has facilitated the oversight process for troubled companies. Collaborating with regulators and receivers is critical in preparing guaranty associations for their responsibilities in the event the companies are placed into liquidation. FWCIGA also has a close working relationship with the Florida Office of Insurance Regulation as well as the Division of Rehabilitation and Liquidation. Maintaining open communication between guaranty associations

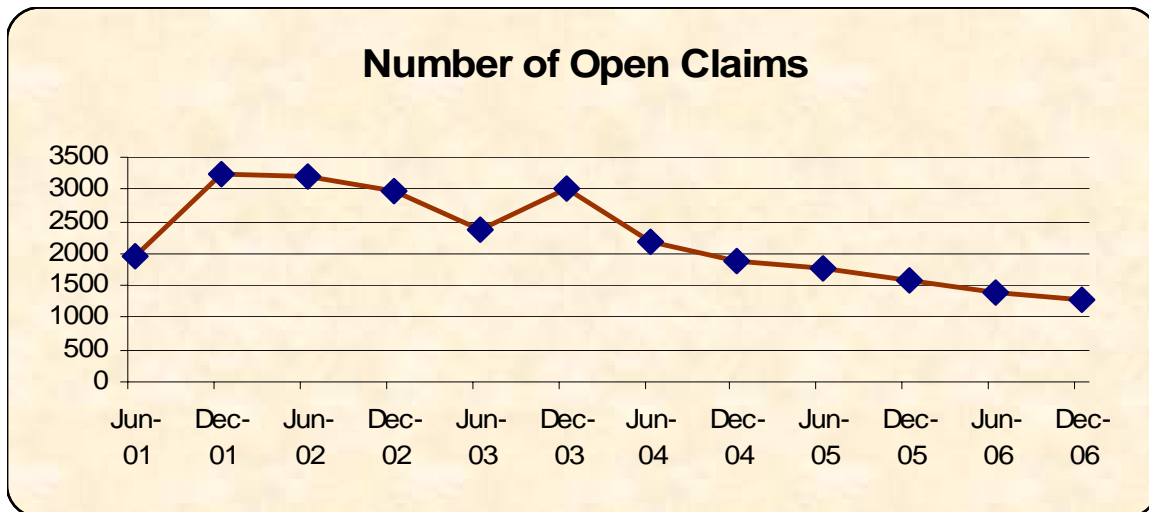
and the regulatory community is key in the overall success and efficient operation of the guaranty association system nationwide.

NEW INSOLVENCY ACTIVITY

Shelby Insurance Company, a Texas domiciled carrier, was the only new insolvency for the FWCIGA during 2006. The Association took over 14 claims from this carrier effective August 1st. As of December 31, 2006, claim payments totaled \$110,328, with remaining reserves of \$1,576,325.

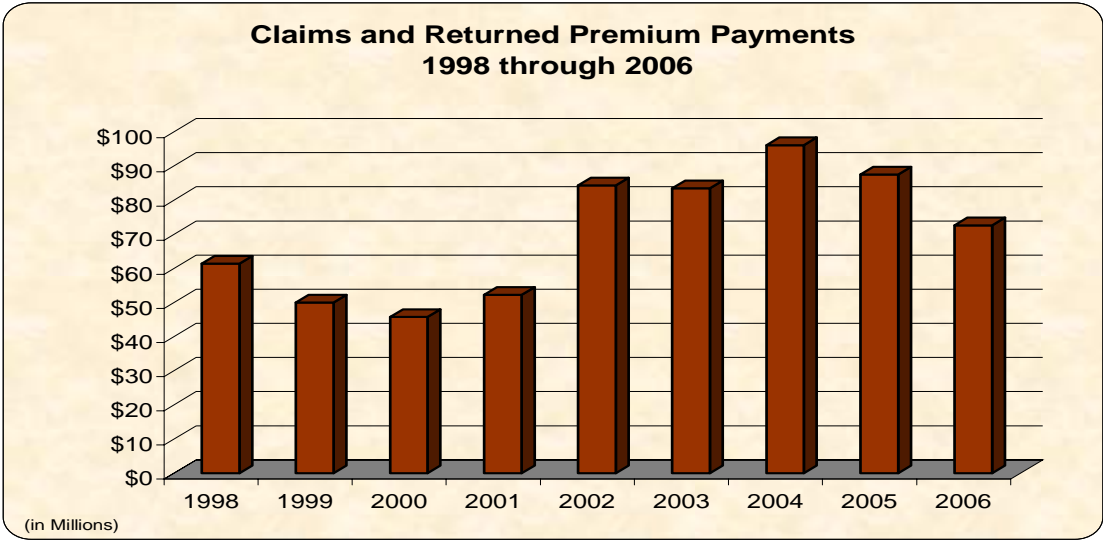
CLAIMS ACTIVITY

Total outstanding claims in 2006 were reduced by 18% with three of the largest estates, Reliance, Legion and Aries, accounting for the majority of the reductions. This reduction was primarily a result of the Association's continued philosophy of aggressively pursuing the settlement of claims. During 2006, the Association negotiated 270 settlements totaling \$45,449,776. The average settlement cost increased from \$107,349 in 2005 to \$168,933. The reason for this increase is twofold: The more difficult and expensive claims are now being settled and the mandate that requires Medicare Set Asides. Effective January 1, 2006, prescription drugs must be included in the Medicare Set Asides assessment.

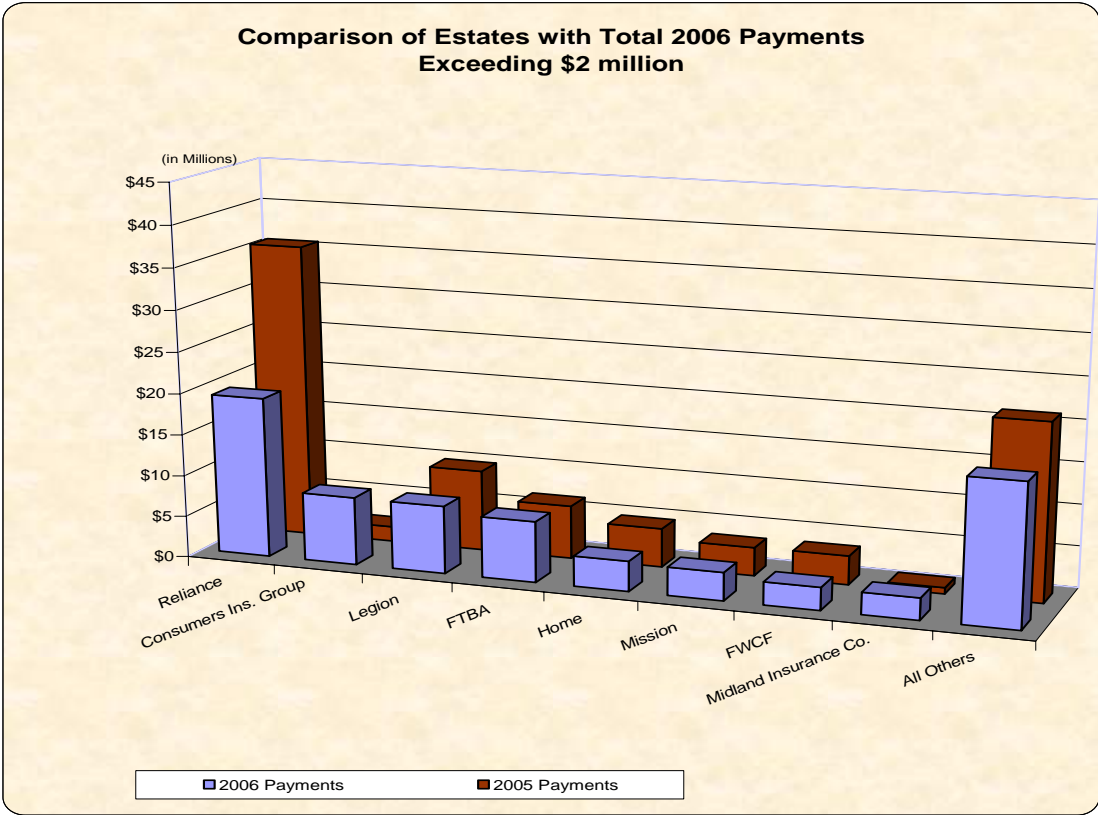


In 2006, we again made it a priority to focus on smaller estates in an effort to close them out. Personal contact with the injured workers was made to explain the benefit of settling their case with an annuity. This has resulted in closing out the remaining claims in one estate. We also concentrated on the Mission and Mission National estates because FWCIGA has received a final distribution from the liquidator for both of these estates. During the year, open claims for these estates were reduced by 13% and claim reserves were reduced by 19%. Efforts in this area will continue in 2007.

Payments were made on claims representing sixty (60) insolvent entities during 2006. Fifty-four (54) of those estates remained active at year-end. The largest claim counts are the result of the 2001 liquidation of Reliance Insurance Co. (439 open claims - 34%) and the 2003 liquidation of The Home Insurance Co. (115 open claims - 9%).

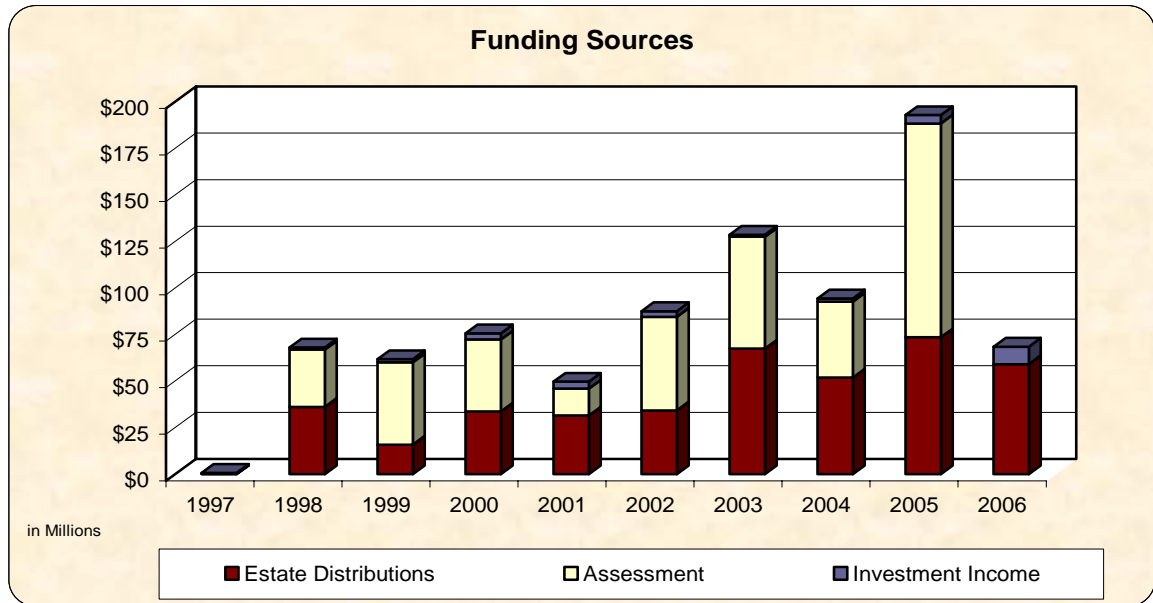


The graph below depicts estates in which 2006 claims payments exceeded \$2 million, with all remaining estate activity aggregated into the "All Others" category.

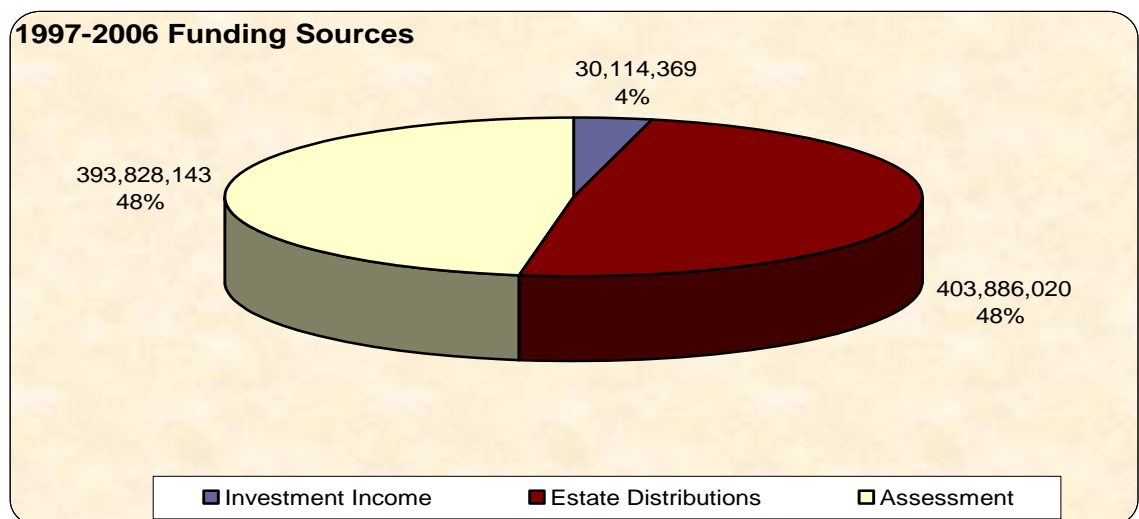


FUNDING

Funding for FWCIGA comes primarily from three sources: Assessments levied on member insurers, distributions obtained from the estates of insolvent insurers and investment income. Estate distributions are an essential funding source for the Association; the greater the level and frequency of distributions from receiverships, the smaller the need for assessing member companies.



During 2006, estate distributions totaled \$59,097,482, the third largest in the Association's history. The figure below demonstrates the funding sources since inception.



OPERATIONAL BUDGET

At the Annual Meeting held in December, the budget for 2007 was approved. Administrative expenses of \$1,593,822 represent less than two percent of the annual budget.

BOARD AND COMMITTEES

2006 Board of Directors and Committees

Tom Stahl, Chairman - Workers' Compensation Carriers of Florida
John Tickner, Vice Chairman - Zenith Insurance Company Affiliated Representative
Charles Bachand – FCCI Affiliated Representative
Jim Costa – St. Paul Travelers
Kelly Horton – Heffley & Associates
Stephen C. Burgess – Insurance Consumer Advocate
Richard W. Palczynski - Comp Options Affiliated Representative
Brett Stiegel – FRSA Self Insurers Fund
Earl R. Thomas – Florida Hospitality Mutual
Laura Wehrle – Liberty Mutual Insurance Affiliated Representative
William Willingham – Florida Rural Electric Self-Insurer's Fund

Staff - Sandra J. Robinson, Treasurer
Staff - Michelle N. Lovern, Secretary

Executive Committee

Tom Stahl, Chair
John Tickner
Richard W. Palczynski

Audit Committee

Richard W. Palczynski, Chair
Kelly Horton
Laura Wehrle
William Willingham

Claims Committee

Earl R. Thomas, Chair
Brett Stiegel

Investment Committee

Charles Bachand, Chair
Brett Stiegel
William Willingham

Reinsurance Committee

John Tickner, Chair
Richard W. Palczynski
Earl R. Thomas

ANNUAL AUDIT

The Audit Committee Charter requires completion of an Annual Financial Audit. The 2006 audit commenced in October 2006 with interim field work and is expected to be completed by the second quarter 2007 Board meeting. The unaudited Financial Statements as of December 31, 2006 are included in this report.

The Board of Directors and the FWCIGA staff will continue to work to improve the Association. Participation at our quarterly meetings is always welcome. For additional information please call the Association at (850) 386-9200 or visit our web site at www.fwciga.org.