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# 2008 Annual Report

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## Florida Workers' Compensation Insurance Guaranty Association, Inc.



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### 2008 OVERVIEW:

Despite the turmoil in the financial markets and resulting economic downturn in 2008, the Florida workers' compensation market remained stable and competitive with no new insolvencies reported during the year. The Florida Workers' Compensation Insurance Guaranty Association ("FWCIGA" or "Association") continued to take advantage of the stable times with the implementation and completion of the 2007-2008 strategic plan streamlining administrative functions and advancing the use of technology.

A workers' compensation premium rate decrease was realized for the sixth consecutive year in Florida yielding a cumulative decrease over the period in excess of 60%. During 2008 the Office of Insurance Regulation (OIR) approved an 18.6% decrease effective January 1, 2009. Subsequent to that approval, the Florida Supreme Court rendered its opinion in the Emma Murray vs. Mariner Health case effectively nullifying the attorney fee limitations that were a critical element of the 2003 workers' compensation legislative reforms. In response, the NCCI made a rate filing requesting an increase of 6.4% that was approved by the OIR in January 2009 to be effective April 1, 2009.

The claims staff has continued to reach settlement on outstanding claims and the inventory stands at 659 open files as of December 31, 2008. Mid-2008 brought about major changes for one of our third party administrators. The Tallahassee office of Unisource Administrators, Inc. ("UAI") was acquired by North American Risk Services, ("NARS") a Maitland, Florida based third party administrator. Through the cooperative efforts of UAI and NARS, as well as in-house claim and data staff, a successful conversion to the NARS claim system was accomplished. NARS began processing claims effective October 2008.

The comprehensive management and administrative services arrangement between the Association and American Guaranty Fund Group ("AGFG") approved in 2007 was fully implemented in 2008. The new arrangement further leverages the cost savings and efficiencies of the cooperative arrangement with the Florida Insurance Guaranty Association, Inc. ("FIGA") through AGFG. The transition plan adopted in 2007 addressing shared services, staffing and office consolidation was also fully implemented in 2008. The transition brought about both challenges and opportunities as staffing was reduced. This

necessitated leveraging in-house technology skills and resources to reduce, or in some cases eliminate, the more routine and labor intensive processes. In-house data and claims teams have been able to identify and assess various manual processes and develop solutions to automate. The major component of the transition plan relating to the consolidation of our data center in Tallahassee was completed in January 2008. The next critical component relating to the imaging system and workflow was successfully implemented in January 2008 with the workflow component implemented in June 2008. Another component of the transition relating to office consolidation was completed with the orderly shut down of the FIGA's Jacksonville office in April 2008.

Staffing changes were minimal for 2008, however key administrative and information technology positions were filled. A critical staff enhancement was the addition of an in house Network Administrator in April 2008 to oversee the day-to-day operations of the Tallahassee data center as well as assist in IT strategic planning. A major change for the organization occurred in August 2008 when Deputy Director Michelle Lovern left to pursue new career challenges in the consulting arena. While Michelle's experience and knowledge will be missed, her duties have been effectively absorbed by senior staff.

On a national level, the Association continues to closely monitor the National Association of Insurance Commissioners ("NAIC") activities. To better serve the Florida consumers impacted by insurer insolvencies, FWCIGA takes an active role in contributing to the development and modernization of the state-based guaranty fund system through participation in committees and working groups of the National Conference of Insurance Guaranty Funds ("NCIGF"). Executive Director, Sandy Robinson, is currently a board member of NCIGF and has been engaged in the implementation of the organization's strategic plan throughout this year.

## **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 group self-insurance funds authorized under 624.4621 that are declared insolvent and unable to continue making payments to injured workers. All insurance companies and group self-insurance funds authorized under 624.4621 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 group 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 group 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 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 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.

### **BOARD ACTIVITIES**

The Board's 2008 quarterly meetings were held on March 10<sup>th</sup>, June 19<sup>th</sup>, September 29<sup>th</sup> and December 2<sup>nd</sup> as required by the Plan of Operation. No Board member terms expired in 2008. Vince Long was added to the Board as the CFO appointee in 2008 with an effective term beginning in October 2007. Mr. Long is new to the guaranty association arena but brings a wealth of knowledge and experience in government administration through his work in Leon County. In addition, as the new Insurance Consumer Advocate, Sean Shaw joined the Board in December 2008. As there were no new insolvencies in 2008 and the Board of Directors determined that financial resources were sufficient to cover cash flow and that an assessment was not needed for the fourth consecutive year.

### **CLAIMS ACTIVITY**

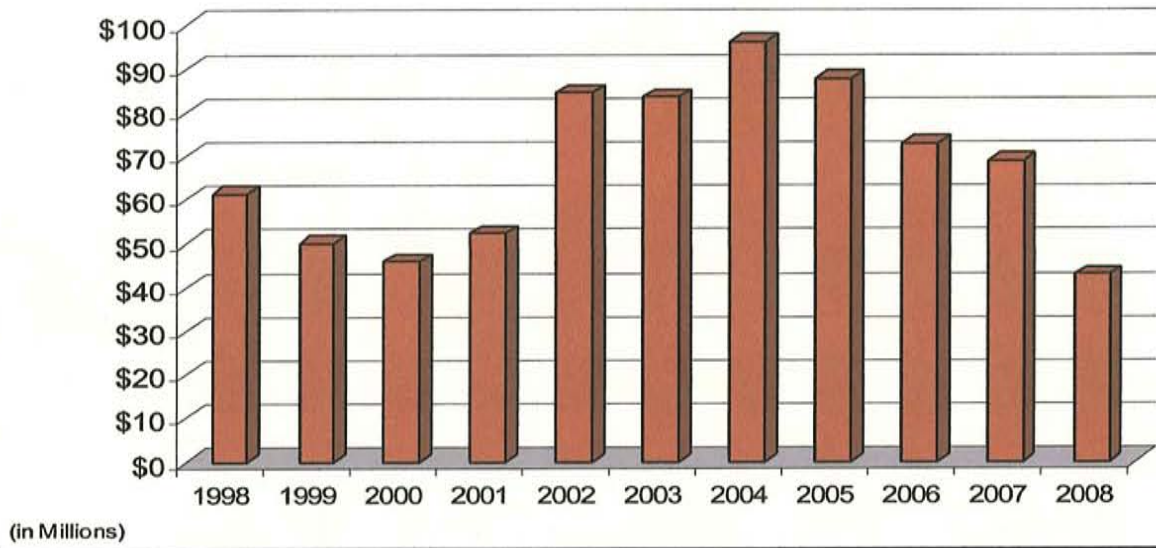
At year end, the Association was at a record low for open claims with a total pending claim count of 659 open files, a 33% reduction from 2007. Outstanding reserves stood at \$246,452,756 which was down 21% from year-end 2007. The fact that FWCIGA had no new insolvencies during the year contributed to the reduction. FWCIGA also continues to be very aggressive in our settlement efforts. A concerted effort from our third party administrators, Director of Claims and our Claim Committee resulted in an increase in the number of settlements of higher exposure cases. In 2007, the average settlement cost was \$210,500 compared to our 2008 average cost to settle a case of \$190,798. The association firmly believes that the settlement of the high exposure cases, when economically feasible, will result in positive long term benefits.

The total net paid on claims for 2008 was \$44,326,249 compared to \$68,756,000 in 2007. Payments were made on fifty-four (54) estates during the year, the same number of estates with payments in 2007. Forty-four (44) estates remain active at year-end.

As in the past, FWCIGA concentrated on closing out estates and in 2008 we were successful in closing four estates. Personal contact with injured workers has resulted in the settlement and closure of some of our older cases. We are optimistic that this trend will continue in 2009.

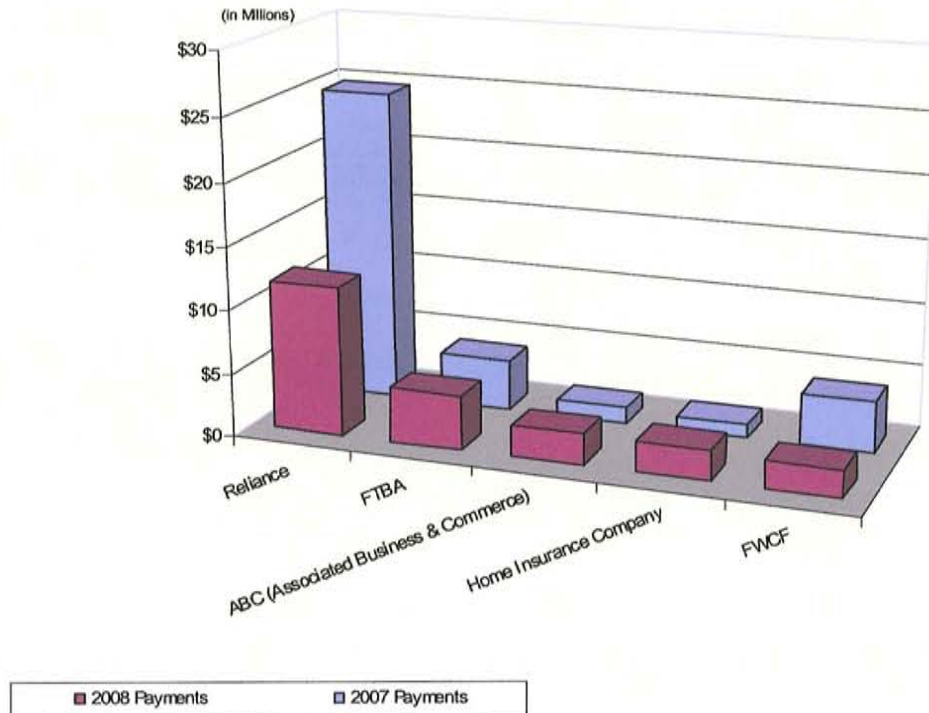


### Claims and Returned Premium Payments 1998 through 2008



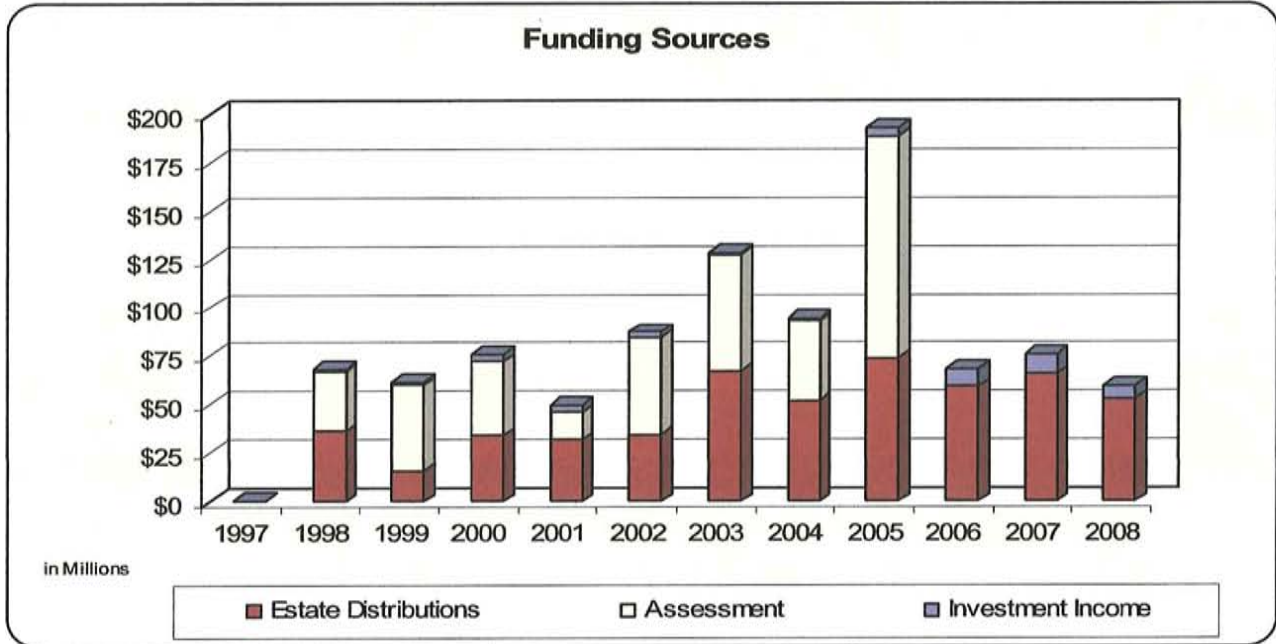
The graph below depicts estates in which 2008 claims payments exceeded \$2 million.

### Comparison of Estates with Total 2008 Payments Exceeding \$2 million

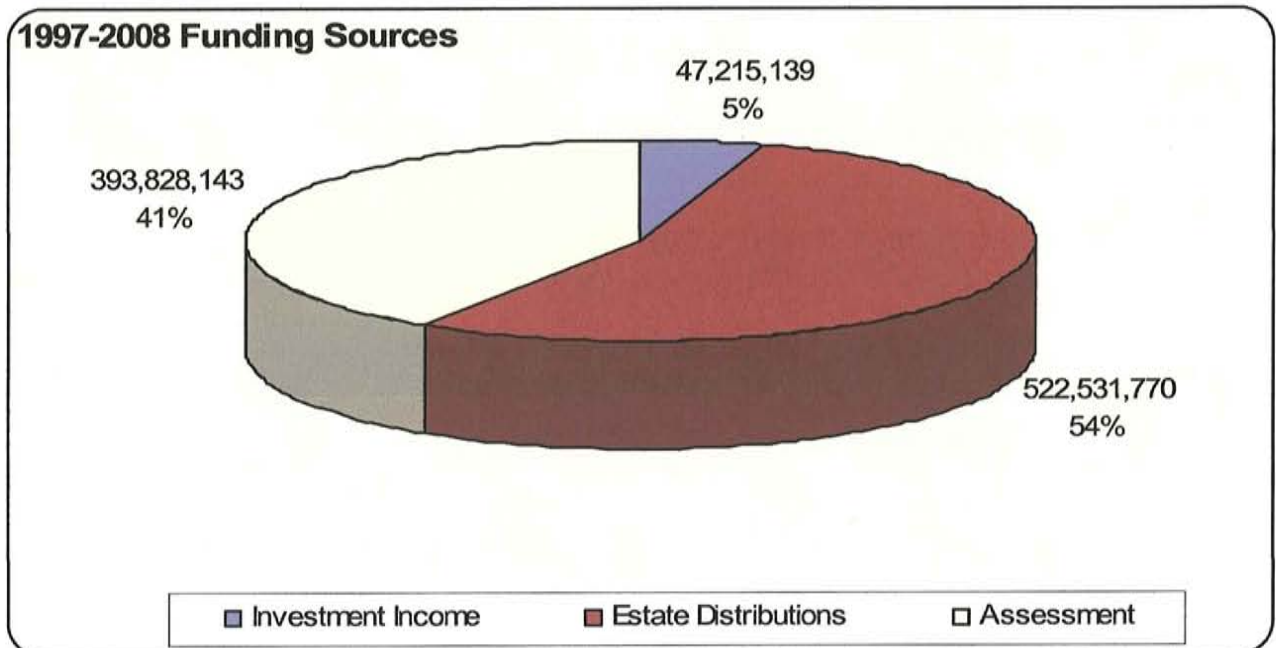


## FUNDING

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



During 2008, estate distributions totaled \$53,029,874, the fifth largest in the Association's history. The graph below demonstrates the funding sources since inception.



## **OPERATIONAL BUDGET**

At the Annual Meeting held in December, the \$1,488,693 general and administrative budget for 2009 was approved. This budget represents a 4.1% reduction from the prior year, a direct result of the cost sharing efficiencies through the shared services agreement with AGFG and FIGA. Administrative expenses represent approximately three (3) percent of the anticipated claims payment of the Association and are less than the national averages for guaranty fund expenses.

## **BOARD AND COMMITTEES**

### **2008 Board of Directors and Committees**

Tom Stahl, Chairman - Workers' Compensation Carriers of Florida  
John J. Tickner, Vice Chairman – Zenith Insurance Company Affiliated Representative  
Charles Bachand – FCCI Affiliated Representative  
Jim Costa – Travelers  
Vince Long – CFO Appointee  
Richard W. Palczynski - Comp Options Affiliated Representative  
Sean Shaw – Insurance Consumer Advocate  
Mark Stephenson – AequiCap, Inc  
Brett Stiegel – FRSA Self Insurers Fund  
Earl R. Thomas – Florida Hospitality Mutual Insurance Company Affiliated Representative  
William Willingham – Florida Rural Electric Self-Insurer's Fund

Staff - Sandra J. Robinson, Secretary  
Staff – Thomas D. Streukens, Treasurer

### **Executive Committee**

Tom Stahl, Chair  
John J. Tickner  
Richard W. Palczynski

### **Audit Committee**

Richard W. Palczynski, Chair  
Jim Costa  
Vince Long  
William Willingham

### **Claims Committee**

Earl R. Thomas, Chair  
Brett Stiegel

### **Investment Committee**

Charles Bachand, Chair  
Brett Stiegel  
William Willingham

## **ANNUAL AUDIT**

The Audit Committee Charter requires completion of an annual financial audit. The 2008 audit commenced in October 2008 with interim field work and is expected to be completed by the second quarter 2009 Board meeting. The unaudited Financial Statements as of December 31, 2008 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](http://www.fwciga.org).

**FLORIDA WORKERS' COMPENSATION INSURANCE GUARANTY ASSOCIATION, INC.**

STATEMENT OF ASSETS AND LIABILITIES

12/31/2008

MODIFIED CASH BASIS (UNAUDITED)

	<u>CURRENT YEAR TO DATE</u>	<u>PREVIOUS YEAR TO DATE</u>
ASSETS		
CASH ON HAND AND ON DEPOSIT	101,409,808	42,777,361
SHORT TERM INVESTMENTS	5,911,244	25,636,421
ST-INVESTMENTS HELD FOR E/A CONTINGENCY	1,922,225	1,187,947
TOTAL CASH AND S/T INVESTED ASSETS	<u>109,243,277</u>	<u>69,601,729</u>
LONG TERM INVESTMENTS	92,477,291	116,138,548
LT-INVESTMENTS HELD FOR E/A CONTINGENCY	2,696,521	3,234,482
ACCOUNTS RECEIVABLE	7,204	96,974
ACCRUED INTEREST INCOME	900,709	2,014,880
FIXED ASSETS (Net of Depreciation)	152,090	99,127
BUILDING (Net of Depreciation)	845,708	919,267
LAND	310,000	310,000
OTHER ASSETS	355,500	5,500
TOTAL ASSETS	<u>206,988,299</u>	<u>192,420,507</u>
LIABILITIES AND ACCOUNT BALANCE		
ACCOUNTS PAYABLE	0	0
ACCRUED EXPENSES	0	0
EARLY ACCESS CONTINGENT LIABILITY	4,660,989	4,469,378
FUND/ACCOUNT BALANCE	202,327,310	187,951,129
TOTAL LIABILITIES AND ACCOUNT BALANCE	<u>206,988,299</u>	<u>192,420,507</u>

**FLORIDA WORKERS' COMPENSATION INSURANCE GUARANTY ASSOCIATION, INC.**

STATEMENT OF OPERATIONS  
 FOR THE 12 MONTH(S) ENDED 12/31/2008  
 MODIFIED CASH BASIS (UNAUDITED)

	<u>CURRENT YEAR TO DATE</u>	<u>PREVIOUS YEAR TO DATE</u>
REVENUE		
ASSESSMENT RECEIPTS	0	(1,301,372)
EARLY ACCESS	53,029,874	65,615,876
EARLY ACCESS CONTINGENT LIABILITY	(191,611)	(210,864)
REIMBURSEMENTS	1,354,053	1,049,118
INTEREST INCOME	6,522,142	10,578,628
OTHER RECEIPTS	31,737	39,071
TOTAL REVENUE	<u>60,746,196</u>	<u>75,770,458</u>
EXPENSES		
CLAIMS EXPENSES		
CLAIMS FUNDING	44,326,249	69,567,358
CLAIMS UNEARNED PREMIUM	0	0
DIRECT ESTATE EXPENSES	141,846	231,020
CLAIMS HANDLING FEES	461,630	234,890
TOTAL CLAIMS EXPENSES	<u>44,929,725</u>	<u>70,033,268</u>
GENERAL AND ADMINISTRATIVE EXPENSES	1,440,290	1,540,324
TOTAL EXPENSES	<u>46,370,015</u>	<u>71,573,592</u>
INCREASE (DECREASE) IN NET ASSETS	14,376,181	4,196,866
NET ASSETS - BEGINNING OF PERIOD	<u>187,951,129</u>	<u>183,754,263</u>
NET ASSETS - END OF PERIOD	<u>202,327,310</u>	<u>187,951,129</u>