



FLORIDA WORKERS' COMPENSATION INSURANCE
GUARANTY ASSOCIATION, INC.

ANNUAL REPORT 2016

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EXECUTIVE SUMMARY

THE GUARANTY FUND PURPOSE

Guaranty Fund legislation was enacted in Florida in 1970 to ensure that insurance contracts would be honored, even when an insurance company fails. In 1997, the Florida Workers' Compensation Insurance Guaranty Association Act created a stand-alone workers' compensation guaranty fund to "avoid financial loss to claimants because of the insolvency of a member insurer" (Member insurer is defined in Florida Statute 631.904(5) as an insurance carrier or self-insurance fund authorized to insure under chapter 440). Most injured workers have very little input into the purchase of their employer's workers compensation policy; yet they are the ones who depend on this insurance safety net to continue to provide for their care and benefits. The Merriam-Webster dictionary defines "safety net" as "something that helps someone who is in a difficult situation". The **Florida Workers' Compensation Insurance Guaranty Association** ("FWCIGA" or "Association") continues to strive to do just that - help injured workers by stepping in to pay claims when their employer's workers' compensation insurance company has become insolvent.

Around the country, insolvency activity remains low with only two liquidations in both 2015 and 2016. None of the 2015 insolvencies and only one of the 2016 insolvencies impacted the Florida Workers' Compensation Insurance Guaranty Association. The Association continued its efforts to resolve the open claims from prior insolvencies and prepare for future activities.

Historically, there have been ebbs and flows in workload and there is no way of knowing when the next insurance insolvency may occur. CastlePoint National Insurance was placed in conservation by the California Department of Insurance in 2016 and they have indicated that they will petition the court for a liquidation in early 2017. Our goal is to work now to prepare for this and other potential insolvency activity. FWCIGA ended the year with 454 open claims, a slight increase over 2015 which had the lowest open claim count since the inception of the separate workers' compensation insurance guaranty fund in 1997. Distributions received from the liquidated entities often are delayed many years while the Receiver marshals the assets by selling off real estate, collecting reinsurance and pursuing other sources of potential recoveries. The Board of Directors determined that no assessment was needed to fund the cash needs for the upcoming calendar year. It has been eleven years since an assessment was needed to fund the claims payments of the Association.

As activity levels are difficult to predict and insolvencies can occur with little notice, an important role of the Association is to be prepared to meet a variety of challenges. The Board of Directors and staff believe we have created an organization to do just that. We continue to work to protect claimants and policyholders by stepping in to pay claims of insolvent insurers.

HISTORY & OVERVIEW

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 the Florida Insurance Guaranty Association ("FIGA"). Upon the effective date of the merger, the predecessor organizations ceased to exist and were succeeded by FWCIGA.

This consumer safety net 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 Section 624.4621, Florida Statutes that are declared insolvent and unable to continue making payments to injured workers. All insurance companies and group self-insurance funds authorized under Section 624.4621, Florida Statutes, 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 as set forth in Section 440.385, Florida Statutes.

The **FWCIGA Board of Directors** is comprised of **eleven** (11) members who meet at least semi-annually to discuss the operations of the Association. Board members are elected to four year terms. Eight (8) of the members are elected from licensed insurers in the state of Florida; six (6) from member carriers, the remaining two (2) 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, a CFO Appointee and a Governor's 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 both insurance companies and 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.

Prior to 2016, insurance companies paid the assessment to FWCIGA and a factor was built into rates filed by the National Council on Compensation Insurance (NCCI) to allow insurance companies to recoup the assessment. However, in 2016 the Florida Legislature amended the assessment statute for FWCIGA (F.S. 631.914) to provide additional flexibility in its assessment process. The legislation retained FWCIGA's ability to obtain funds quickly but also introduced an option for insurers to collect and remit assessments in installments over 12 months. Additional information about the change to the assessment process can be obtained at: www.fwciga.org by clicking on the link for "assessments".

FWCIGA monitors 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 has a close working relationship with the Florida Office of Insurance Regulation as well as the Florida 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.

ORGANIZATIONAL PROFILE

NEW INSOLVENCIES

Missouri domiciled with Liquidation Date of May 23, 2016

Lumbermen's Underwriting Alliance – The insolvency of this carrier generated 125 claims to date with an expected loss and expense claim payout of approximately \$15 million. There were no policies in force at the time of liquidation as they were in rehabilitation for the past year.

BOARD ACTIVITIES

The Board's 2016 meetings, as required by the Plan of Operation, were held on **March 1st, May 17th**, and **November 17th**.

Effective April 1, 2016 Matthew Brooks was appointed by Governor Rick Scott to the Board of Directors. Mr. Brooks is the first Governor's appointee since the legislature replaced one of the self-insurance fund member positions with an appointed member.

At the Annual Meeting held November 17th, 2016, the **\$1,429,236** general and administrative budget for 2017 was approved. Administrative expenses represented less than **6%** of the loss and unearned premium costs of the Association for 2016.

As reported in 2015, the Board recommended changing the assessment process effective in 2016 and Florida Statute 631.914 was amended during the 2016 legislative session. The proposed change removed the guaranty fund assessment from being included in rates and instead provides for the assessment to be reported separately as a surcharge to the policy.

In addition changes to the Association's Plan of Operation were approved at the May 17th Board meeting and were approved by the Florida Department of Financial Services on June 27, 2016. Changes to the Plan included updates for the new assessment process, changes to the sections relating to meetings, committee structures and other related issues. A copy of the current Plan of Operation can be found on the Association's web site.

The Audit Committee Charter requires completion of a financial audit each year. The 2016 audit commenced in November 2016 with interim field work and is expected to be completed in the first quarter of 2017. The unaudited Financial Statements as of **December 31, 2016** are included in this report.

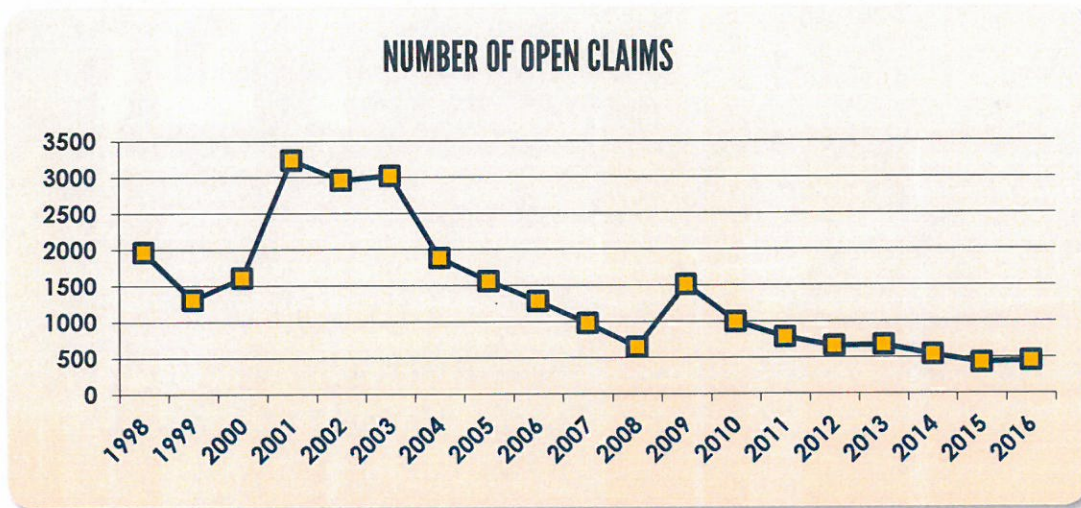
CLAIMS INFORMATION

CLAIM ACTIVITY

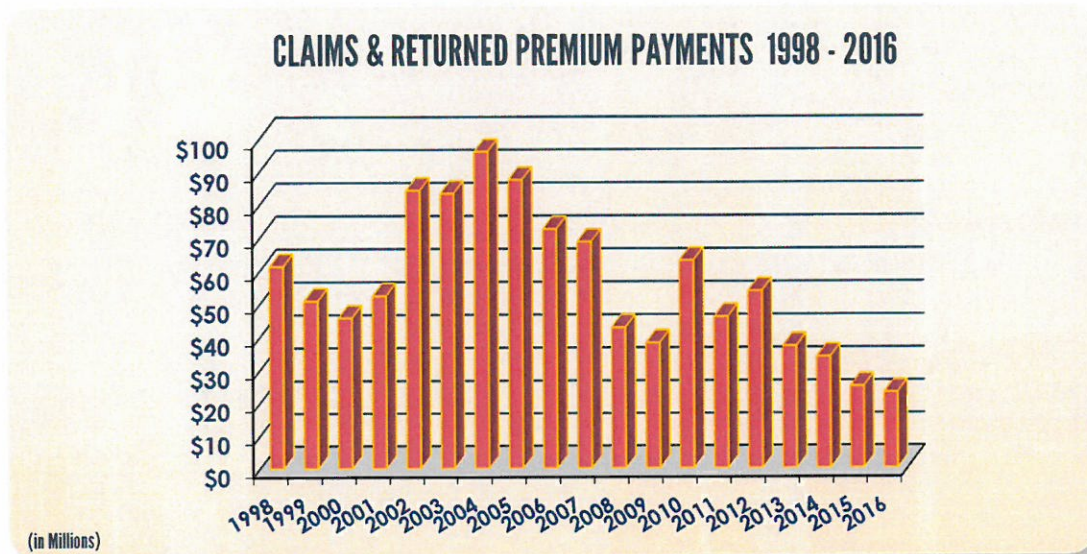
At the beginning of the year, the Association reported a total pending claim count of **427** open files. There were **214** new or reopened claims received during the year and **187** claims were closed. The open claim count at year end was at **454**. Outstanding reserves totaled **\$140,192,461**.

The total net paid on claims for 2016 was **\$23,049,691** compared to \$24,924,594 in 2015. Payments were made on forty-four (**44**) different insolvent estates during the year.

Open Claims



Claims & Returned Premium Payments

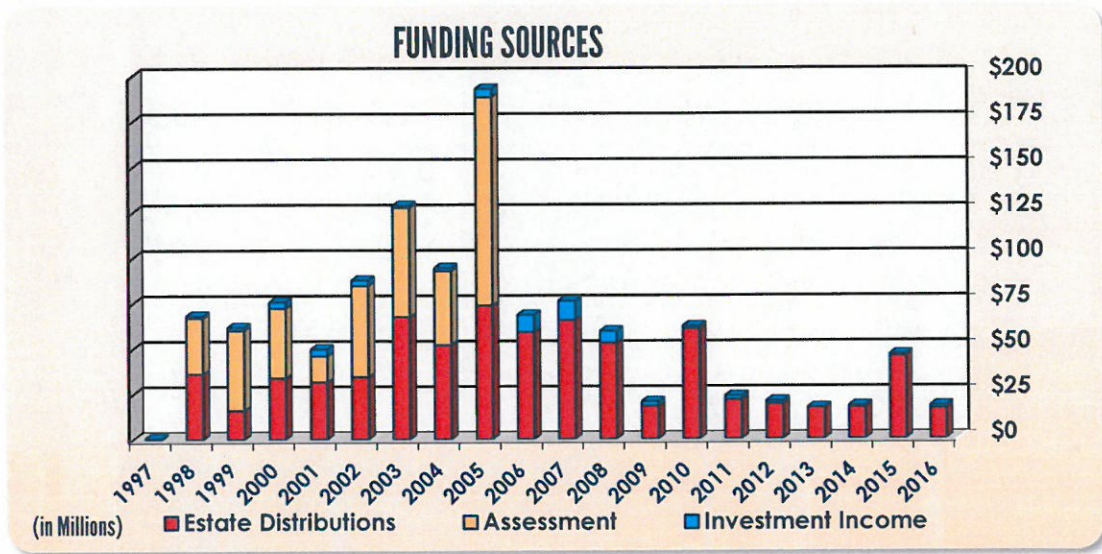


FUNDING SOURCES

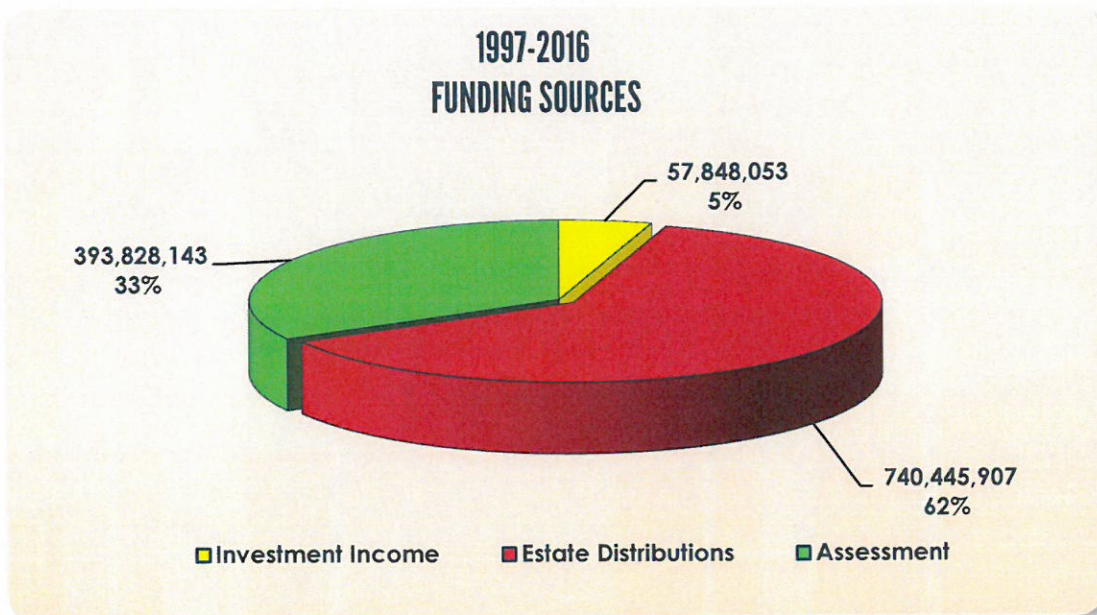
FUNDING

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. As noted in the chart below, the last assessment levied was in 2005.

Funding Sources



Inception to Date Funding



BOARD OF DIRECTORS

BOARD OF DIRECTORS

FWCIGA Board of Directors as of December 31, 2016

In accordance with the provisions of Florida Statute 631.912, FWCIGA is governed by a Board of Directors, which acts on behalf of the member insurers. At the November 17th Board meeting, Tom Stahl was elected Chairman, and Brett Stiegel was elected Vice Chairman to serve for 2017. The year end 2016 Board members are listed below:

Tom Stahl, Chairman
Florida United Businesses Association

Brett Stiegel, Vice Chairman
FRSA Self Insurers Fund

David Conway
Summit Consulting

Jim Costa
Travelers

Tony Grippa
CFO Appointee

Alan Hair
FFVA Mutual Insurance Company

Richard W. Palczynski
Guarantee Insurance Company Representative

John Weber
Zenith Insurance Company

Cina Welch
FCCI Mutual Insurance Company

Matthew Brooks
Governor's Appointee

Shà Ron James
Insurance Consumer Advocate

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.

FINANCIAL STATEMENTS

FLORIDA WORKERS' COMPENSATION INSURANCE GUARANTY ASSOCIATION, INC. STATEMENTS OF ASSETS AND LIABILITIES

As of 12/31/2016 and 12/31/2015
MODIFIED CASH BASIS (UNAUDITED)

	<u>12/31/2016</u>	<u>12/31/2015</u>
ASSETS		
CASH ON HAND AND ON DEPOSIT	9,302,662	7,901,062
SHORT TERM INVESTMENTS	1,612,204	5,129,278
<i>TOTAL CASH AND S/T INVESTED ASSETS</i>	<u>\$10,914,866</u>	<u>\$13,030,340</u>
LONG TERM INVESTMENTS	94,198,797	98,135,096
ACCRUED INTEREST INCOME	411,541	359,345
FIXED ASSETS (Net of Depreciation)	24,002	33,975
BUILDING (Net of Depreciation)	664,485	687,138
LAND	310,000	310,000
OTHER ASSETS	143,429	152,934
<i>TOTAL ASSETS</i>	<u>\$106,667,120</u>	<u>\$112,708,827</u>
LIABILITIES AND ACCOUNT BALANCE		
ACCOUNTS PAYABLE	782	811
EARLY ACCESS CONTINGENT LIABILITY	4,500,000	4,500,000
FUND/ACCOUNT BALANCE	102,166,338	108,208,015
<i>TOTAL LIABILITIES AND ACCOUNT BALANCE</i>	<u>\$106,667,120</u>	<u>\$112,708,827</u>

FINANCIAL STATEMENTS

FLORIDA WORKERS' COMPENSATION INSURANCE GUARANTY ASSOCIATION, INC. STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED 12/31/2016 AND 12/31/2015
MODIFIED CASH BASIS (UNAUDITED)

	12/31/2016	12/31/2015
REVENUE		
EARLY ACCESS	12,148,259	45,680,131
REIMBURSEMENTS	2,893,231	131,310
INTEREST INCOME	1,500,456	851,082
OTHER RECEIPTS	1,847,786	0
TOTAL REVENUE	\$18,389,733	\$46,662,523
EXPENSES		
<i>CLAIMS EXPENSES</i>		
CLAIMS FUNDING	22,732,863	24,603,650
CLAIMS UNEARNED PREMIUM	0	0
DIRECT ESTATE EXPENSES	91,102	162,583
CLAIMS HANDLING FEES	225,725	158,361
TOTAL CLAIMS EXPENSES	23,049,691	24,924,594
<i>GENERAL AND ADMINISTRATIVE EXPENSES</i>		
	1,381,720	1,367,457
TOTAL EXPENSES	\$24,431,410	\$26,292,051
<i>INCREASE (DECREASE) IN NET ASSETS</i>	(6,041,677)	20,370,472
NET ASSETS - BEGINNING OF PERIOD	\$108,208,015	\$87,837,543
NET ASSETS - END OF PERIOD	\$102,166,338	\$108,208,015