



# ANNUAL — MEETING —

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Hilton Hawaiian Village  
Waikiki Beach Resort

# “Strategic” Reserving Process

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# Agenda

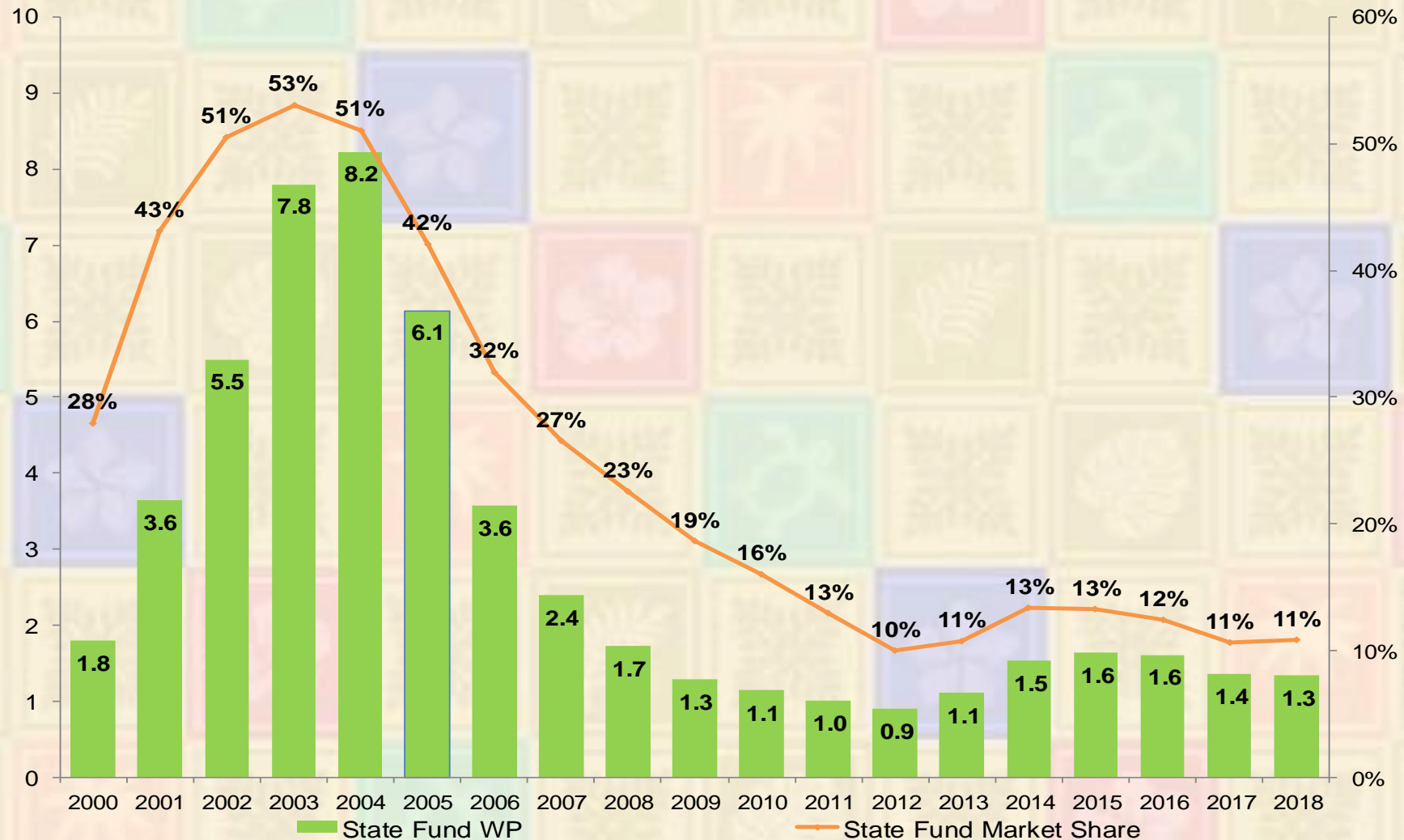
- Situation Analysis
- Solution
- Benefit
- Q&A



# State Fund of California

- Established in 1914 by the state legislature, State Fund's purpose is to provide fairly priced workers' compensation insurance, help make workplaces safe, and restore injured workers.
- Completely self supporting, State Fund plays a stabilizing role in California's economy by maintaining an open door policy that ensures that all employers have a strong and stable option for their workers' compensation needs.

# The “bubble” of 2001-2005 was significant



# Traditional ULAE Reserve Analysis

## INDICATED CLASSICAL ULAE RESERVE

Year	(a) Calendar Year Paid Losses	(b) Calendar Year Paid ULAE	(c) Paid to Paid Ratio
1977	\$ 17,341	\$ 9,459	0.545
1978	51,969	13,715	0.264
1979	111,898	19,886	0.178
1980	215,746	29,023	0.135
1981	292,559	42,355	0.145
1982	396,168	64,071	0.162
1983	522,313	78,898	0.151
1984	694,288	138,600	0.200
1985	934,070	214,991	0.230
1986	1,265,029	281,593	0.223
Total/ Average	\$4,501,379	\$892,590	0.198
(d) Estimated Loss Reserve:			\$12,458,095
(e) Estimated IBNR Reserve:			\$ 7,575,485
(f) Indicated Classical ULAE Reserve:			\$ 1,986,255

- Traditional paid to paid method applies well in short-tailed, stable lines of business
- Particular issues State Fund faced
  - Long-tailed line of business
  - High volume of legacy claims
  - Rely solely on internal resources
  - Change of State Fund's Vision

# 3-Year Strategic Plan

- Capacity model is built to plan for proper staffing in each function for the next 3 years
- Strategic initiatives focus on closing legacy claims and improving operational efficiencies

Legacy closing initiative

Operational efficiencies

Inventory Segment	Current Inventory (A)	Caseload (B)	FTEs Needed (C) = (A)/(B)
MCO			
Claims Intake			
Fast Track			
Return to Work			
L&H			
Legacy			
Maintenance			
Post C&R			
CBA			
Unassigned			
<b>TOTAL w/o TNR</b>			

**Capacity Model**

Accident Year	Forecasted Premium	Selected Indemnity Reported per \$100M	Selected Med-Only Reported per \$100M	Accident Year Indemnity Ultimate Reported	Accident Year Med-Only Ultimate Reported	Accident Year Total Ultimate Reported
2019						
2020						
2021						
2022						

**TNR Projection**

# Now putting everything together...

1. Project Claim Counts for the next 30 years
2. Use capacity model to project staffing levels
3. Select inflation rates by expense category
4. Add up projected CY Total ULAE Payments for the next 30 years

	Claims FTE	Legal FTE	Total FTE	Salaries & Benefits (4) =Claim Salaries & Benefits by Function x (1) +Legal Salaries & Benefits by Function x (2) Then apply CY wage inflation	Real Estate Expenses (5) = 120 sqft * (3)*Rent per sqft Then apply CY Rent increase %	Overhead Expenses (6) Apply CPI Change %	Total ULAE Payments (7) = (4) + (5) + (6)
	(1)	(2)	(3) = (1) + (2)				
2020							
2021							
2022							
.							
.							
.							
2047							
2048							
2049							
<b>Total</b>						<b>Total Reserve as of 12/31/19&gt;&gt;&gt;</b>	



# Benefits

- Integrated Strategic Planning process, ERM process and Reserving process
- Discussion with finance & business owners
- Discussion with external actuaries and auditors