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# SEG Self-Insurers Workers' Compensation Fund

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**Financial Report  
with Supplemental Information  
June 30, 2020**

# SEG Self-Insurers Workers' Compensation Fund

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## **Independent Auditor's Report**

To the Board of Trustees  
SEG Self-Insurers Workers' Compensation Fund

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of SEG Self-Insurers Workers' Compensation Fund (the "Fund") as of and for the years ended June 30, 2020 and 2019 and the related notes to the basic financial statements, which collectively comprise SEG Self-Insurers Workers' Compensation Fund's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of SEG Self-Insurers Workers' Compensation Fund as of June 30, 2020 and 2019 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
SEG Self-Insurers Workers' Compensation Fund

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of claims development be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of operations by policy year, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of operations by policy year has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Plante & Moran, PLLC*

August 31, 2020

## SEG Self-Insurers Workers' Compensation Fund

### Management's Discussion and Analysis

#### **Using This Annual Report**

This annual report consists of the statement of net position; the statement of revenue, expenses, and changes in net position; and the statement of cash flows. Along with the notes, they provide detailed financial information concerning SEG Self-Insurers Workers' Compensation Fund (the "Fund"). This section, the management's discussion and analysis, is intended to provide an overview of the Fund's financial condition, results of operations, and other key information.

#### **Financial Overview**

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplemental information.

The basic financial statements, which follow this section, provide both long-term and short-term information about the Fund's financial status. The Fund uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

In analyzing the Fund's financial position, it is important to recognize the mission of the Fund. From a financial perspective, the Fund's general objectives are to formulate, develop, and administer, on behalf of the members, a program of insurance to obtain lower costs for that coverage and to develop a comprehensive loss prevention program. As of June 30, 2020, 519 educational institutions within the state of Michigan participate in the Fund.

The key financial statistics for the Fund would be based on total anticipated claims to be paid in a specific policy year compared to the contributions received from members, otherwise known in the industry as a loss ratio.

	Policy Year Ended June 30		
	2020	2019	2018
Total premiums	\$ 22,431,803	\$ 22,754,930	\$ 24,916,065
Total estimated claim payments	13,076,282	12,674,810	11,637,274
Loss ratio	58.3 %	55.7 %	46.7 %

Total estimated claim payments for each policy year consist of claim payments, an estimate of unsettled claims by a third-party administrator, and an estimate of claims incurred but not reported by an independent actuary. The methods of making such estimates are continuously reviewed by management, and, according to industry practice, any changes to these estimates will have an impact on reported results of future periods. Claim payments can change significantly from period to period because the ultimate amount paid for claims is dependent on the frequency of claims filed, as well as other events, such as jury decisions, court interpretations, legislative changes, and changes in the physical or medical condition of claimants.

To reduce the Fund's exposure to large specific claims, the Fund enters into excess insurance contracts to recover specific claim losses in excess of stated amounts in the excess insurance contract. Effective July 1, 2013, the per claim limit was increased from \$500,000 to \$750,000.

## SEG Self-Insurers Workers' Compensation Fund

### Management's Discussion and Analysis (Continued)

Approximately 99 percent of assets in 2020, 2019, and 2018, consist of cash, cash equivalents, and investments. As a result of being regulated by the Michigan Department of Labor and Economic Opportunity - Workers' Disability Compensation Agency (the "Agency"), the Fund is limited to investing surplus cash in investments allowed by the Agency's general rules. Approximately 97, 96, and 96 percent of liabilities in 2020, 2019, and 2018, respectively, consist of reserves for claims. Due to the nature of workers' compensation claims and the related reporting and settlement processes of claims, it is anticipated, based on historical averages of the Fund, that approximately 24 percent of the estimated reserves for claims will be settled within one year. The analysis below presents a comparison of the Fund's current year financial position to the prior years:

	2020	2019	2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 284,776	\$ 47,122	\$ 181,235
Investments	86,542,580	86,536,579	86,854,759
Receivables	354,280	497,896	493,099
Prepaid expenses	55,988	33,042	24,884
Total current assets	87,237,624	87,114,639	87,553,977
Noncurrent assets - Refundable deposit	268,000	298,000	324,588
Total assets	87,505,624	87,412,639	87,878,565
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	351,088	349,281	503,353
Checks issued in excess of bank balance	103,817	45,817	-
Current portion of reserves for claims	5,014,000	5,197,000	5,738,000
Premiums received in advance	170,154	566,458	569,496
Total current liabilities	5,639,059	6,158,556	6,810,849
Noncurrent liabilities - Reserves for claims - Net of current portion	16,193,156	16,361,315	17,742,677
Total liabilities	21,832,215	22,519,871	24,553,526
<b>Net Position - Unrestricted</b>	<b>\$ 65,673,409</b>	<b>\$ 64,892,768</b>	<b>\$ 63,325,039</b>

## SEG Self-Insurers Workers' Compensation Fund

### Management's Discussion and Analysis (Continued)

The following table shows the major components of income from operations for the current year compared to the prior years. Total provision for claims, as noted above, is dependent on many factors and will change from year to year based on these factors.

	2020	2019	2018
<b>Operating Revenue</b>			
Earned premiums	\$ 11,896,647	\$ 12,344,181	\$ 14,324,580
Premium reduction applied	10,549,899	10,551,519	10,433,464
Total operating revenue	22,446,546	22,895,700	24,758,044
<b>Operating Expenses</b>			
Provision for claims	9,384,473	8,896,132	5,270,519
Excess insurance premiums	1,068,898	1,068,291	1,105,726
Service agent fees	1,260,688	1,268,265	1,225,090
Administrative fees	2,867,500	2,762,502	2,557,500
Levy paid	131,629	152,963	195,830
Errors and omissions	42,617	55,168	45,144
Other	449,189	357,399	323,473
Total operating expenses	15,204,994	14,560,720	10,723,282
<b>Operating Income</b>	7,241,552	8,334,980	14,034,762
<b>Nonoperating Revenue (Expense)</b>			
Investment earnings	1,506,306	1,558,356	1,608,150
Realized and unrealized gain (loss) on investments	3,032,783	2,674,393	(390,311)
Premium and investment earnings surplus returned to members	(11,000,000)	(11,000,000)	(10,500,000)
Total nonoperating expense	(6,460,911)	(6,767,251)	(9,282,161)
<b>Change in Net Position</b>	<b>\$ 780,641</b>	<b>\$ 1,567,729</b>	<b>\$ 4,752,601</b>

Operating revenue decreased 2.0 percent from approximately \$22.9 million in 2019 to approximately \$22.4 million in 2020 and decreased 7.5 percent from approximately \$24.8 million in 2018 to approximately \$22.9 million in 2019. Earned premiums decreased approximately 3.6 percent from approximately \$12.3 million in 2019 to approximately \$11.9 million in 2020 and decreased 13.8 percent from approximately \$14.3 million in 2018 to approximately \$12.3 million in 2019. Earned premium revenue in 2020 was impacted by an average 3.9 percent reduction in premium rates. Premiums generated by the addition of seven new members during 2020 helped offset reductions related to premium rates and performance modifications. Total provision for claims, as noted above, is dependent on many external and internal factors and changes from year to year. The Fund's estimated claim losses increased in 2020 primarily due to claim losses exceeding historical averages.

#### ***Economic Factors and Next Year's Rates***

The expected rates charged by the Fund for member premiums for the next fiscal year are not expected to change significantly. All other operating expenses are expected to remain consistent with amounts reported in 2020. The provision for claim payments is expected to be consistent with historical trends, and we are unaware of any economic events or legislative events that would have a significant impact on the operations of the Fund.

#### ***Contacting the Fund's Management***

This financial report is intended to provide our members and regulators with a general overview of the accountability for the money the Fund receives. If you have questions about this report or need additional information, we welcome you to contact Dennis J. Rogoszewski, CPA, chief financial officer, SEG Self-Insurers Workers' Compensation Fund at (517) 482-0871.

## SEG Self-Insurers Workers' Compensation Fund

### Statement of Net Position

	June 30, 2020 and 2019	
	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 284,776	\$ 47,122
Investments (Notes 3 and 4)	86,542,580	86,536,579
Receivables:		
Expected recovery under excess insurance contracts	3,302	130,080
Accrued interest receivable	350,978	367,816
Prepaid expenses	55,988	33,042
Total current assets	87,237,624	87,114,639
Noncurrent assets - Refundable deposit (Note 5)	268,000	298,000
Total assets	87,505,624	87,412,639
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	351,088	349,281
Checks issued in excess of bank balance	103,817	45,817
Current portion of reserves for claims (Note 6)	5,014,000	5,197,000
Premiums received in advance	170,154	566,458
Total current liabilities	5,639,059	6,158,556
Noncurrent liabilities - Reserve for claims - Net of current portion (Note 6)	16,193,156	16,361,315
Total liabilities	21,832,215	22,519,871
<b>Net Position - Unrestricted (Note 7)</b>	<b>\$ 65,673,409</b>	<b>\$ 64,892,768</b>



## SEG Self-Insurers Workers' Compensation Fund

### Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2020 and 2019

	2020	2019
<b>Operating Revenue</b>		
Earned premiums (Note 8)	\$ 11,896,647	\$ 12,344,181
Premium reduction applied (Note 7)	10,549,899	10,551,519
Total operating revenue	22,446,546	22,895,700
<b>Operating Expenses</b>		
Provision for claims: (Note 6)		
Claims paid	9,735,632	10,818,494
Change in reserve for claims	(351,159)	(1,922,362)
Total provision for claims	9,384,473	8,896,132
Excess insurance premiums (Note 9)	1,068,898	1,068,291
Service agent fees	1,260,688	1,268,265
Administrative fees (Note 5)	2,867,500	2,762,502
Levy paid	131,629	152,963
Errors and omissions	42,617	55,168
Other	449,189	357,399
Total operating expenses	15,204,994	14,560,720
<b>Operating Income</b>	7,241,552	8,334,980
<b>Nonoperating Revenue (Expense)</b>		
Investment earnings	1,506,306	1,558,356
Realized and unrealized gain on investments	3,032,783	2,674,393
Premium and investment earnings surplus returned to members (Note 7)	(11,000,000)	(11,000,000)
Total nonoperating expense	(6,460,911)	(6,767,251)
<b>Change in Net Position</b>	780,641	1,567,729
<b>Net Position - Beginning of year</b>	64,892,768	63,325,039
<b>Net Position - End of year</b>	<b>\$ 65,673,409</b>	<b>\$ 64,892,768</b>

## SEG Self-Insurers Workers' Compensation Fund

### Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Cash received from members and others	\$ 11,627,121	\$ 12,333,057
Cash paid to suppliers and others	(5,712,261)	(5,729,482)
Cash paid for claims	(9,735,632)	(10,818,494)
Net cash used in operating activities	(3,820,772)	(4,214,919)
<b>Cash Flows Used in Noncapital Financing Activities - Cash paid to members</b>	(521,500)	(500,000)
<b>Cash Flows from Investing Activities</b>		
Investment income received	1,523,144	1,561,645
Purchases of investment securities	(71,195,214)	(73,768,933)
Proceeds from sale and maturities of investment securities	74,251,996	76,788,094
Net cash provided by investing activities	4,579,926	4,580,806
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	237,654	(134,113)
<b>Cash and Cash Equivalents - Beginning of year</b>	47,122	181,235
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 284,776</b>	<b>\$ 47,122</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 7,241,552	\$ 8,334,980
Adjustments to reconcile operating income to net cash from operating activities:		
Premium reduction applied	(10,549,899)	(10,551,519)
Surplus approved not distributed	71,399	51,519
Changes in assets and liabilities:		
Expected recovery under excess insurance contracts	126,778	(8,086)
Prepaid expenses	(22,946)	(8,158)
Accounts payable	1,807	(154,072)
Reserves for claims	(351,159)	(1,922,362)
Checks issued in excess of bank balance	58,000	45,817
Premiums received in advance	(396,304)	(3,038)
Net cash used in operating activities	<b>\$ (3,820,772)</b>	<b>\$ (4,214,919)</b>

The Fund had net unrealized gains on investments of \$1,796,122 and \$2,877,177 for the years ended June 30, 2020 and 2019, respectively.

June 30, 2020 and 2019

### Note 1 - Nature of Business

SEG Self-Insurers Workers' Compensation Fund (the "Fund") is an association of employers self-insuring for workers' disability compensation. A total of 519 educational institutions within the state of Michigan participate in the Fund. The revenue and expenses for each self-insurance year are accounted for separately to determine the net position remaining that may be refunded to the members.

The Fund follows all applicable Governmental Accounting Standards Board (GASB) pronouncements. The accompanying financial statements are presented using the accrual method of accounting. Premiums from members are established by the Fund's actuary and approved by the Michigan Department of Labor and Economic Opportunity - Workers' Disability Compensation Agency (the "Agency"). Claim losses, along with excess insurance premiums and administrative costs, are recorded as expenses. The estimated total cost of claim losses is accrued based on the estimate of claims that will be filed for a self-insurance period, including the effects of inflation and other societal and economic factors. It is anticipated that, to the extent that a self-insurance period has an excess or deficit, the board of trustees shall determine how an excess will be distributed and how a deficit will be eliminated. Any refund of excess funds requires approval by the Agency.

The Fund distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the Fund's principal ongoing operations. The principal operating revenue relates to earned premiums. Operating expenses include the provision for claims, cost of services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### Note 2 - Significant Accounting Policies

#### ***Cash and Cash Equivalents***

The Fund considers all cash and cash equivalents held by financial institutions with original maturities of three months or less or held on hand to be cash and cash equivalents. All other short-term and long-term investments are excluded from cash and cash equivalents.

For the purpose of the accompanying financial statements, the Fund considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The carrying amount reported in the statement of net position for cash and cash equivalents approximates fair value due to the short-term nature of these investments.

#### ***Investments***

Investments consist of U.S. Treasury securities; U.S. agencies and pass-throughs; asset-backed securities; collateralized mortgage obligations; corporate, municipal, and foreign bonds; money market investment pools; foreign stocks; and common stocks. Investments are stated at fair value based on quoted market prices and other observable inputs, other than the money market investment pools, which are recorded at amortized cost.

#### ***Investment Earnings***

Investment earnings, including changes in the fair value of investments, are recognized as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

#### ***Expected Recovery Under Excess Insurance Contracts***

Expected recovery under excess insurance contracts represents claims paid in excess of the specific retention that is recoverable from the excess insurance carrier. Management has determined the amounts are collectible, and no allowance for doubtful accounts is required.

June 30, 2020 and 2019

**Note 2 - Significant Accounting Policies (Continued)*****Reserves for Claims***

Reserves for claims represent the estimated liability for unpaid insurance losses and related expenses from reported claims and claims incurred but not reported. Reserves for claims are reflected net of any amounts expected to be recoverable under excess insurance contracts. Changes to estimates are currently reflected in earnings.

***Tax Status***

The Fund is considered to be a trust for federal income tax purposes, with its net earnings from operations distributable to the members. Because of this status, no provision has been included in the financial statements for taxes on income.

***Premium Deficiency Reserve***

Management evaluates whether a premium deficiency reserve is necessary at each reporting period. Anticipated investment income is considered in determining if a premium deficiency exists. No premium deficiency reserve was required at June 30, 2020 or 2019.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates exist relating to reserves for claims, as described in Note 6.

**Note 3 - Deposits and Investments**

The Fund's investment policy authorizes the Fund to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Fund designated Comerica Bank as the custodian of its investments and Comerica Bank and Bank of America for the deposit of its funds.

Under the general rules issued by the Agency, the Fund is authorized to invest surplus monies not needed for immediate cash needs in U.S. government bonds, U.S. Treasury notes, U.S. government agency issues, U.S. government-sponsored enterprises, investment share accounts in any savings and loan association, credit unions whose deposits are insured by a federal agency, and certificates of deposit issued by a duly chartered commercial bank. In addition, subject to certain limitations set forth under the general rules of the Agency, the Fund may invest monies not needed for immediate cash needs, not to exceed 45 percent of the total fair market value of the investment portfolio, in corporate, foreign, and municipal bonds. The Fund may also invest an amount, not to exceed 45 percent of the 45 percent available for corporate, foreign, and municipal bonds, in common and preferred stock.

At June 30, 2020 and 2019, the Fund's investment portfolio was in compliance with the investment guidelines provided by the Agency.

The Fund's cash and investments are subject to several types of risk, which are examined in more detail below:

***Deposits***

Cash and cash equivalents include operating and claims checking accounts. Cash and cash equivalents totaled \$284,776 and \$47,122 at June 30, 2020 and 2019, respectively.

**June 30, 2020 and 2019**
**Note 3 - Deposits and Investments (Continued)**
***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund does not have a deposit policy for custodial credit risk of bank deposits; however, the Fund believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Fund evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. At June 30, 2020, the Fund's deposit balance of \$584,805 had \$269,058 that was uninsured and uncollateralized.

***Investments***

Investments are reported at fair value. At June 30, 2020 and 2019, the Fund had the following investments:

	Fair Value	
	2020	2019
Fixed-income securities	\$ 71,527,086	\$ 72,269,193
Money market investment pool*	3,235,968	1,406,666
Equity securities	11,779,526	12,860,720
Total investments	<u>\$ 86,542,580</u>	<u>\$ 86,536,579</u>

\*Recorded at amortized cost

There are no limitations or restrictions on participant withdrawals for money market investment pools, which are recorded at amortized cost.

***Interest Rate Risk***

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Fund's investment policy does not restrict investment maturities. The Fund's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Fund's cash requirements.

At June 30, 2020 and 2019, the average maturities of fixed-income securities are as follows:

Investment	2020		2019	
	Fair Value	Weighted-average Maturity (Years)	Fair Value	Weighted-average Maturity (Years)
U.S. Treasury securities	\$ 52,129,655	3.24	\$ 55,948,878	3.23
U.S. agencies and pass-throughs	611,302	8.61	786,653	9.11
Asset-backed securities	3,277,182	3.48	3,098,534	3.69
Collateralized mortgage obligations	83,782	24.88	147,259	27.31
Corporate bonds	13,798,882	2.71	11,174,619	2.07
Foreign bonds	1,626,283	2.28	1,093,161	2.20
Municipal bonds	-	0	20,089	15.14
Total fair value	<u>\$ 71,527,086</u>		<u>\$ 72,269,193</u>	

## SEG Self-Insurers Workers' Compensation Fund

### Notes to Financial Statements

June 30, 2020 and 2019

#### Note 3 - Deposits and Investments (Continued)

##### **Credit Risk**

Credit risk is the risk that an issuer to an investment will not fulfill its obligations. At June 30, 2020 and 2019, the credit quality ratings of fixed-income securities and money market investment pools (other than those issued or guaranteed by the U.S. government) by type are as follows:

Investment and Rating	Fair Value	
	2020	2019
Asset-backed securities - Moody's:		
Aaa	\$ 987,799	\$ 565,304
Aa1	557,926	-
A3	-	535,526
AAA - S&P	1,731,457	1,446,926
AA - S&P	-	550,778
Total	3,277,182	3,098,534
Collateralized mortgage obligations - Moody's - Aaa	83,782	147,259
Corporate bonds - Moody's:		
Aaa	949,520	1,392,106
Aa1	1,066,889	561,999
Aa2	1,316,583	403,125
Aa3	516,185	1,107,877
A1	3,132,448	1,487,872
A2	3,047,058	4,663,213
A3	3,770,199	1,558,427
Total	13,798,882	11,174,619
Municipal bonds - S&P - AA-	-	20,089
Foreign bonds - Moody's:		
Aa3	543,105	542,325
A1	1,083,178	550,836
Total	1,626,283	1,093,161
Money market investment pool* - Moody's - Aaa	3,235,968	1,406,666
Total	\$ 22,022,097	\$ 16,940,328

\*Recorded at amortized cost

##### **Concentration of Credit Risk**

The general rules issued by the Agency state that no more than 5 percent of the corporate, municipal, and foreign bond portfolio may be invested in any one corporation, foreign issuance, or municipality. At June 30, 2020 and 2019, there were no individual investments that exceeded 5 percent of the corporate, municipal, and foreign bond portfolio.

Excluding investments issued or guaranteed by the U.S. government, there were no investments that individually exceeded 5 percent of the Fund's total investments at June 30, 2020 and 2019.

## SEG Self-Insurers Workers' Compensation Fund

### Notes to Financial Statements

June 30, 2020 and 2019

#### Note 4 - Fair Value Measurements

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (NAV) (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Fund's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Fund has the following recurring fair value measurements as of June 30, 2020:

	Assets Measured at Fair Value on a Recurring Basis			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2020
Debt securities:				
U.S. Treasury securities	\$ -	\$ 52,129,655	\$ -	\$ 52,129,655
U.S. agencies and pass-throughs	-	611,302	-	611,302
Asset-backed securities	-	3,277,182	-	3,277,182
Collateralized mortgage obligations	-	83,782	-	83,782
Corporate bonds	-	13,798,882	-	13,798,882
Foreign bonds	-	1,626,283	-	1,626,283
Total debt securities	-	71,527,086	-	71,527,086
U.S. equity securities	11,779,526	-	-	11,779,526
Total investments	\$ 11,779,526	\$ 71,527,086	\$ -	\$ 83,306,612

## SEG Self-Insurers Workers' Compensation Fund

### Notes to Financial Statements

June 30, 2020 and 2019

#### Note 4 - Fair Value Measurements (Continued)

The Fund has the following recurring fair value measurements as of June 30, 2019:

	Assets Measured at Fair Value on a Recurring Basis			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Debt securities:				
U.S. Treasury securities	\$ -	\$ 55,948,878	\$ -	\$ 55,948,878
U.S. agencies and pass-throughs	-	786,653	-	786,653
Asset-backed securities	-	3,098,534	-	3,098,534
Collateralized mortgage obligations	-	147,259	-	147,259
Corporate bonds	-	11,174,619	-	11,174,619
Foreign bonds	-	1,093,161	-	1,093,161
Municipal bonds	-	20,089	-	20,089
Total debt securities	-	72,269,193	-	72,269,193
Equity securities:				
U.S. equity securities	12,709,983	-	-	12,709,983
Foreign equity securities	150,737	-	-	150,737
Total equity securities	12,860,720	-	-	12,860,720
Total investments	\$ 12,860,720	\$ 72,269,193	\$ -	\$ 85,129,913

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair values of the U.S. Treasury securities, U.S. agencies and pass-throughs, asset-backed securities, collateralized mortgage obligations, corporate bonds, foreign bonds, and municipal bonds were determined primarily based on Level 2 inputs. The Fund estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

#### Note 5 - Related Parties

The Fund executed a service agreement with SET SEG Insurance Services Agency, Inc. (SSISA), a company affiliated through common management, to provide management and general accounting services to the Fund. Total expenses incurred for these services were \$2,867,500 and \$2,762,502 for the years ended June 30, 2020 and 2019, respectively.

As part of the aforementioned service agreement, the Fund was also required to pay a one-time operating reserve deposit of \$386,588 to SSISA. This operating reserve contribution is refundable to the Fund at termination of the service agreement and upon payment by the Fund of all administrative fees due under the service agreement. The receivable balance related to this deposit was \$268,000 and \$298,000 at June 30, 2020 and 2019, respectively.

Unrelated to the previously mentioned service agreement, there is a separate service agreement with SSISA for the negotiation and placement of the Fund's annual reinsurance contract. These amounts totaled \$115,000 and \$114,000 for the years ended June 30, 2020 and 2019, respectively.



## SEG Self-Insurers Workers' Compensation Fund

### Notes to Financial Statements

June 30, 2020 and 2019

#### Note 5 - Related Parties (Continued)

Unrelated to the agreements mentioned above, there is a rental agreement with MASB SEG Property and Casualty Pool (PC Pool), a company affiliated through common management, to provide office space to the Fund. Total expenses incurred for these services was \$100,000 for the year ended June 30, 2020. There is a corresponding payable to PC Pool for \$100,000 as of June 30, 2020. There was no agreement in place for the year ended June 30, 2019.

#### Note 6 - Reserves for Claims

The estimated reserves for unsettled claims filed are provided by the third-party administrator. The reserve for claims incurred but not reported is estimated by an independent actuary based upon the Fund's historical experience of claims incurred prior to June 30, 2020. The estimates reflect the best judgment as to the potential for claims to increase beyond the amounts already paid and reserved on filed claims. It is at least reasonably possible that a material change in the estimate will occur within the near term, and, thus, the actual claims paid may be substantially different than these estimates. Any future adjustments to these amounts will affect the reported results of future periods.

During the year ended June 30, 2004, the Fund received the Agency's approval to purchase excess insurance to cover all claim losses for the policy years beginning July 1, 1977 through June 30, 1994. Accordingly, the Fund reduced the reserves for claims on the statement of net position and claims expense on the statement of revenue, expenses, and changes in net position for these policy years.

The following table represents changes in reserves for claims for the years ended June 30, 2020, 2019, and 2018:

	2020	2019	2018
Reserves for claims - Beginning of fiscal year	\$ 21,558,315	\$ 23,480,677	\$ 29,299,632
Incurred claims and claim adjustment expenses:			
Provisions for claims incurred in the current fiscal year	13,076,282	14,309,732	14,143,820
Change in provision for claims incurred in prior fiscal years	(3,691,809)	(5,413,600)	(8,873,301)
Total incurred claims and claim adjustment expenses	9,384,473	8,896,132	5,270,519
Payments:			
Claims and claim adjustment expenses paid for claims incurred in the current fiscal year	4,580,161	5,198,420	4,605,051
Claims and claim adjustment expenses paid for claims incurred in prior fiscal years	5,155,471	5,620,074	6,484,423
Total payments	9,735,632	10,818,494	11,089,474
Reserves for claims - End of fiscal year	\$ 21,207,156	\$ 21,558,315	\$ 23,480,677

Reserves for claims and claim adjustment expenses attributable to insured events in prior years changed as a result of a reestimation of unpaid claims and claim adjustment expenses. This change is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. The Fund anticipated that various reported losses would increase related to prior year loss years. However, the actual reported losses came in well below the anticipated reported losses that were built into the prior year reserves.

## SEG Self-Insurers Workers' Compensation Fund

### Notes to Financial Statements

June 30, 2020 and 2019

#### Note 6 - Reserves for Claims (Continued)

The details of the reserves for claims for the years ended June 30 are given below:

	2020	2019	2018
Reported but unpaid	\$ 6,214,000	\$ 7,070,585	\$ 6,640,120
Incurred but not reported	14,993,156	14,487,730	16,840,557
Total	<u>\$ 21,207,156</u>	<u>\$ 21,558,315</u>	<u>\$ 23,480,677</u>

#### Note 7 - Net Position

Premium and investment earnings surplus funds may be returned to members of the Fund only upon final approval by the Agency. For the years ended June 30, 2020 and 2019, the Fund received the Agency's approval to apply surplus premium and investment earnings of approximately \$10,500,000 and \$10,600,000, respectively, as a premium reduction. For the years ended June 30, 2020 and 2019, the Fund also distributed \$521,500 and \$500,000, respectively, of funds back to its members.

#### Note 8 - Member Contributions

Contributions to the Fund for the policy periods ended June 30, 2020 and 2019 were computed using estimated payroll figures submitted by the members. The payroll records of the members are subject to audit by the Fund to determine that premiums were paid in accordance with the agreement. The Fund is in the process of verifying actual payroll and adjusting member contributions where necessary. While these audits may result in some adjustments, they are not expected to have a significant effect on the accompanying financial statements.

#### Note 9 - Excess Insurance Coverage

The Fund uses excess insurance agreements to reduce its exposure to large specific losses. Excess insurance permits recovery of a portion of losses from excess insurance carriers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by excess insurers. Effective July 1, 2013, the per claim limit was increased from \$500,000 to \$750,000. Premiums paid to excess insurance carriers during the years ended June 30, 2020 and 2019 totaled \$1,068,898 and \$1,068,291, respectively, and the amount deducted from reserves as of June 30, 2020 and 2019 for excess insurance was \$1,456,488 and \$1,546,468, respectively.

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## Required Supplemental Information

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**June 30, 2020**

#### Claims Development Information

The table on the following page illustrates how the Fund's earned revenue (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Fund as of the end of each of the last 10 years. The columns of the table show data for successive policy years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to excess insurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.
3. This line shows the Fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by excess insurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by excess insurers as of the end of the current year for each accident year.
6. This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

# SEG Self-Insurers Workers' Compensation Fund

## Required Supplemental Information Schedule of Claims Development (Continued)

June 30, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>(1) Required Premiums and Investment Income</b>										
Earned	\$ 25,078,608	\$ 26,398,965	\$ 24,266,990	\$ 24,802,694	\$ 24,470,052	\$ 25,417,085	\$ 25,792,858	\$ 24,798,851	\$ 23,226,335	\$ 22,890,696
Ceded	720,515	731,031	799,952	787,709	985,884	1,044,529	1,123,404	1,105,726	1,068,291	1,068,898
Net earned	24,358,093	25,667,934	23,467,038	24,014,985	23,484,168	24,372,556	24,669,454	23,693,125	22,158,044	21,821,798
<b>(2) Expenses</b>	3,087,693	3,030,583	3,237,764	3,541,509	3,857,153	4,120,880	4,256,494	4,347,037	4,596,296	4,751,621
<b>(3) Estimated Claims and Expenses - End of policy year</b>										
Incurred	18,113,351	18,708,157	16,792,866	18,595,258	17,558,591	17,288,068	16,309,136	14,143,820	14,309,732	13,076,282
Ceded	-	-	462,652	-	-	-	-	-	-	-
Net incurred	18,113,351	18,708,157	16,330,214	18,595,258	17,558,591	17,288,068	16,309,136	14,143,820	14,309,732	13,076,282
<b>(4) Paid (Cumulative) as of</b>										
End of policy year	4,860,438	4,764,301	4,257,698	5,067,331	4,577,096	4,702,082	4,581,587	4,605,051	5,198,420	4,580,161
One year later	9,146,128	9,546,978	7,900,805	8,905,976	7,509,578	7,776,435	7,676,377	7,341,184	7,974,257	-
Two years later	11,086,974	11,750,216	9,249,149	11,142,769	8,799,267	9,078,860	9,032,914	8,658,056	-	-
Three years later	12,461,070	13,280,036	10,359,208	12,341,519	9,450,655	9,534,294	9,281,474	-	-	-
Four years later	13,224,299	13,888,486	10,899,585	12,695,118	9,685,033	9,856,720	-	-	-	-
Five years later	13,488,934	14,067,762	11,296,313	13,167,068	9,751,077	-	-	-	-	-
Six years later	13,624,662	14,129,295	11,751,733	13,298,273	-	-	-	-	-	-
Seven years later	13,918,501	14,136,884	11,843,042	-	-	-	-	-	-	-
Eight years later	13,928,230	14,181,274	-	-	-	-	-	-	-	-
Nine years later	13,942,437	-	-	-	-	-	-	-	-	-
<b>(5) Re-estimated Ceded Claims and Expenses</b>	-	-	899,107	-	-	-	-	-	-	-
<b>(6) Re-estimated Incurred Claims and Expenses</b>										
End of policy year	18,113,351	18,708,157	16,330,214	18,595,258	17,558,591	17,288,068	16,309,136	14,143,820	14,309,732	13,076,282
One year later	17,144,996	17,812,498	14,110,459	15,923,813	13,876,400	14,158,648	12,697,401	12,112,064	12,674,810	-
Two years later	16,531,549	17,191,176	13,174,897	15,153,682	12,445,836	12,336,234	11,850,097	11,637,274	-	-
Three years later	15,816,028	16,045,196	12,595,236	14,748,225	11,322,826	11,458,759	11,219,414	-	-	-
Four years later	14,669,006	15,161,274	12,359,731	14,216,961	10,838,722	11,209,831	-	-	-	-
Five years later	14,471,321	14,716,957	12,216,510	13,883,937	10,574,677	-	-	-	-	-
Six years later	14,377,664	14,431,131	11,843,037	13,746,199	-	-	-	-	-	-
Seven years later	14,198,922	14,341,058	11,867,011	-	-	-	-	-	-	-
Eight years later	14,264,704	14,213,303	-	-	-	-	-	-	-	-
Nine years later	14,263,070	-	-	-	-	-	-	-	-	-
<b>(7) Change in Estimated Incurred Claims and Expenses From End of Policy Year</b>	(3,850,281)	(4,494,854)	(4,463,203)	(4,849,059)	(6,983,914)	(6,078,237)	(5,089,722)	(2,506,546)	(1,634,922)	-

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## Other Supplemental Information

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## SEG Self-Insurers Workers' Compensation Fund

### Schedule of Operations by Policy Year

	Prior Years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Combined
<b>Revenue</b>												
Earned premiums	\$ 410,980,409	\$ 16,451,748	\$ 16,209,794	\$ 13,795,568	\$ 14,555,967	\$ 12,941,844	\$ 14,062,646	\$ 15,522,147	\$ 14,482,601	\$ 12,203,411	\$ 11,881,904	\$ 553,088,039
Premium reduction applied	104,602,584	6,677,876	7,942,344	9,048,676	9,012,969	10,924,393	11,066,991	10,004,558	10,433,464	10,551,519	10,549,899	200,815,273
Gross contributions	515,582,993	23,129,624	24,152,138	22,844,244	23,568,936	23,866,237	25,129,637	25,526,705	24,916,065	22,754,930	22,431,803	753,903,312
Excess losses recovered	6,035,766	-	-	558,273	-	-	-	-	-	-	-	6,594,039
Investment earnings	142,676,838	2,784,798	1,875,058	1,374,320	1,396,659	1,456,730	1,665,159	1,591,443	1,368,068	1,049,525	458,893	157,697,491
Total revenue	664,295,597	25,914,422	26,027,196	24,776,837	24,965,595	25,322,967	26,794,796	27,118,148	26,284,133	23,804,455	22,890,696	918,194,842
<b>Claims</b>												
Paid	326,167,397	13,942,437	14,181,274	11,843,042	13,298,273	9,751,077	9,856,720	9,281,474	8,658,056	7,974,257	4,580,161	429,534,168
Loss portfolio transfer	3,150,000	-	-	-	-	-	-	-	-	-	-	3,150,000
Reported reserves	33,278	150,167	-	-	112,058	238,750	374,302	631,337	563,698	1,400,523	2,709,907	6,214,020
IBNR reserves	58,778	170,466	32,029	23,969	335,868	584,850	978,809	1,306,603	2,415,520	3,300,030	5,786,214	14,993,136
Total claims	329,409,453	14,263,070	14,213,303	11,867,011	13,746,199	10,574,677	11,209,831	11,219,414	11,637,274	12,674,810	13,076,282	453,891,324
<b>Excess of Revenue Over Claims</b>	334,886,144	11,651,352	11,813,893	12,909,826	11,219,396	14,748,290	15,584,965	15,898,734	14,646,859	11,129,645	9,814,414	464,303,518
<b>Expenses</b>												
Service agent fees	21,246,503	948,908	947,513	976,052	1,046,050	1,253,561	1,438,450	1,222,351	1,225,090	1,268,265	1,260,688	32,833,431
Excess insurance premiums	13,637,519	692,805	731,031	779,123	840,740	953,682	1,071,179	1,106,840	1,129,989	1,062,090	1,040,750	23,045,748
Administrative fees	28,685,394	1,598,178	1,665,576	1,783,788	1,935,359	2,052,372	2,170,224	2,329,998	2,557,500	2,762,502	2,867,500	50,408,391
Levy paid	4,196,916	292,578	168,925	232,703	191,542	239,123	172,359	233,509	195,830	152,962	131,630	6,208,077
Other	2,677,391	248,028	248,570	245,220	368,561	312,093	339,847	470,479	368,616	412,567	491,803	6,183,175
Total expenses	70,443,723	3,780,497	3,761,615	4,016,886	4,382,252	4,810,831	5,192,059	5,363,177	5,477,025	5,658,386	5,792,371	118,678,822
<b>Excess of Revenue Over Expenses and Claims</b>	264,442,421	7,870,855	8,052,278	8,892,940	6,837,144	9,937,459	10,392,906	10,535,557	9,169,834	5,471,259	4,022,043	345,624,696
<b>Dividends Paid</b>	37,420,209	-	-	-	-	-	-	-	-	-	-	37,420,209
<b>Premium Reduction</b>	178,088,343	4,750,000	4,500,000	4,750,000	2,750,000	2,960,960	2,039,040	1,000,000	-	-	-	200,838,343
<b>Surplus Returned</b>	40,692,735	-	-	-	-	250,000	500,000	250,000	-	-	-	41,692,735
<b>Net Position</b>	<u>\$ 8,241,134</u>	<u>\$ 3,120,855</u>	<u>\$ 3,552,278</u>	<u>\$ 4,142,940</u>	<u>\$ 4,087,144</u>	<u>\$ 6,726,499</u>	<u>\$ 7,853,866</u>	<u>\$ 9,285,557</u>	<u>\$ 9,169,834</u>	<u>\$ 5,471,259</u>	<u>\$ 4,022,043</u>	<u>\$ 65,673,409</u>