



FLASH REPORT!

Jacobson Sings His Swan Song

Workers' Comp Still the Achilles Heel for CIGA

The workers' compensation line of business is still the California Insurance Guarantee Association's biggest cross to bear. The line is currently running a deficit of \$2.7 billion as of the end of the third quarter 2009, but surpluses in CIGA's other lines softens the overall blow. After total assets of \$2.185 billion and total liabilities of \$4.123 billion, CIGA's Fund deficit is \$1.969 billion, according to latest financial update presented at CIGA's second open meeting.

According to Richard Hurd, CIGA's director of finance, the increase in the deficit is the result of an increase in reserves. Despite the deficit, adequate cash projections are allowing the CIGA board to keep the assessment on insurers at 2% of premium. One percent of the assessment goes to pay claims and the other 1% goes toward paying the principal and interest on the bond.

The meeting was generally uneventful despite the fact that it was the last meeting for the vociferous defender of sunshine, Dan Jacobson. An insurance commissioner appointee, Jacobson went out with a subtle bang probing the financial projections and advocating fresh blood for auditing.

During a thoughtful discussion on CIGA's appointment of auditors for the 2009 financial audit, Jacobson supported the position that a new auditor would bring a fresh perspective. "When I write an article and it comes back from the editor, my article ends up looking a lot better. Four pairs of eyes looking at something helps, and two different firms looking at something...I don't see a down side," he said.

CIGA currently uses KPMG, but at Jacobson's behest the board voted to award a three-year \$135,000 contract to PricewaterhouseCoopers.

Jacobson had also requested that a discussion involving a possible request for proposal for new outside attorneys be added to the open session. This was refused. Even though he's been outspoken about holding CIGA accountable, his board colleagues don't seem to bear any grudges.

"I would like to remind people that Dan from time to time has lead us into spirited discussions, and I'd like the board to thank Dan for his service," said chairman Jim Sevey, after which applause followed.

"Those who were applauding that I'm leaving, raise their hands," Jacobson joked, generating laughter from his colleagues.

Numbers and Cash flow Projections

Over a 12 month period from April 30, 2008 to March 31, 2009, CIGA's total losses paid are \$346.4 million up from \$310 million a year ago. Of that \$346 million, \$338 million are workers' comp payments in 2009. Of the \$310 million, \$297 million were workers' comp payments the year prior. Workers' comp payments averaged \$25.3 million per month this quarter and represent 94% of the total paid, according to the financial presentation, given by Hurd.

Despite some adverse claims development, Hurd said some good news for cash flow projections includes a preliminary 2008 premium number of \$7.6 billion which will be the basis of the assessment for this year. Originally, \$7.1 billion had been projected. In November, it was projected that additional funds would be needed, but it looks like CIGA will be able hold out a little longer. "With this latest projection it looks like we may get out to August 2011 maybe even September 2011," Hurd said.

Not content to let sleeping dogs lie, Jacobson asked if CIGA's cash flow projection is taking into account the 24% rate increase proposed for July. Jacobson was reminded that whatever the insurance commissioner eventually decides would be advisory only.

"If you look at the rates companies actually file after the advisory rate...they don't all match up with the advisory rate," said CIGA executive director Wayne Wilson. "[U]sing the advisory rate as the number is probably not the best way to do it," Wilson said. "In the universe people do other things like schedule credits and things like that that change the premium amount."

Now that he's off the board, Jacobson says now he can spend some time in his private legal practice, but he's not quite done with CIGA. "I'm writing Commissioner Poizner to see if he can appointment someone to my seat by July 1," he tells Workers' Comp Executive.

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