

# **Michigan Self-Insurers' Security Fund**

**Annual Report 2019**

**(Including Bankruptcy, Financial & Actuarial Summaries)**

**March 31, 2020**



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## Summary of Self-Insurers' Security Fund

Approval to be a self-insurer is granted pursuant to MCL 418.611 under the authority of the Agency director. The Self-Insurers' Security Fund (Fund) provides workers' compensation benefits to employees of self-insured employers who become insolvent after November 15, 1971. Being approved as a self-insurer is a potentially lower cost option for employers to meet the mandatory workers' compensation requirement under Michigan law. If a private self-insured employer becomes insolvent, payments are made to injured workers from the Fund when three statutory conditions are met, unless other coverage is available:

- The private self-insured employer is insolvent;
- The employee requests payment of benefits from the Funds Administrator or files an Application for Mediation or Hearing with the Workers' Disability Compensation Agency or the Board of Magistrates; and
- The insolvent private self-insured employer is unable to continue payments.

The Fund pays from the date all three conditions are met. No payments for benefits owed before that date are paid by the Fund. Assessments for the Fund are paid by private self-insured employers only.

In accordance with Michigan Administrative Rule 408.43q, the Self-Insurers' Security Fund, when triggered, may utilize financial guarantees posted with the agency to pay claims. At present, the Fund manages 54 separate employer trust funds which are funded from the financial guarantees posted with the agency. The trusts are established when a private self-insured employer is no longer able to meet their obligations under the Act. In addition, both specific and aggregate excess liability insurance policies continue to have responsibility for payments when retention levels have been met, Michigan Administrative Rule 408.43k.

New trust funds established during calendar year 2019:

- Cherry Growers, Inc. was self-insured between July 1, 1980 and July 1, 2013. The \$100,000 in security proceeds was used to establish the Cherry Growers, Inc. trust fund. There are no active claims for this employer as of December 31, 2019.
- Lefere Forge & Machine Company was self-insured from July 1, 1978 to January 1, 2019. The \$250,000 in security proceeds was used to establish the Lefere Forge & Machine trust fund. There is one active claim as of December 31, 2019.

It should be noted that public employers are not covered by the Fund. In the event of a bankruptcy, the employee should also file a claim in bankruptcy court for any workers' compensation benefits the Fund cannot pay.



## A Message from the Funds Administrator

***The mission of the Funds Administration is to provide timely determination of carrier and employee rights to benefits or reimbursement and make payments due in a timely and accurate manner.***

This report on the Self-Insurers' Security Fund (Fund) is prepared in accordance with MCL 418.551 and is an outline of the activities of the Fund during the past calendar year.

The Fund receives 100% of its funding through assessments levied against employers who self-insure their workers' compensation risk. Our staff holds to the philosophy that our funding is not our own, and we take our fiduciary responsibility seriously. We endeavor to demonstrate our commitment to this trust by establishing industry-accepted standards and guidelines in our primary operation areas of claims, financial, and vendor management.

In 2014, the legislature passed a series of bills which granted approval for an additional .5% increase of the statutorily capped 3% assessment assuming certain criteria are met; this additional assessment was available between January 1, 2015 and December 31, 2019. This additional assessment, if called, could only be used for the payment of Delphi workers' compensation claims. Also, as part of that package, the Fund received a \$15 million general fund appropriation. Of the \$15 million appropriated, \$8 million was available to be expended immediately. The remaining \$7 million could not be expended until certain criteria were met. For 2019, the Trustees of the Funds Administration chose to forgo the additional .5% increased assessment after evaluation of the assumed liabilities. The additional .5% assessment increase was not needed to meet the obligations of the Fund.

On January 1, 2020, the Private Employer Group Self-Insurers' Security Fund (PEGSISF) became active. The PGSISF allows the non-public employer group self-insurers to move outside the umbrella of the Fund and be protected under their own umbrella. The non-public employer group self-insurers are no longer obligated to pay Fund assessments, which will impact the Fund. However, the Fund is no longer obligated for any potential liability.

It is our intent to implement the Workers' Disability Compensation Act in accordance with the statutory language and corresponding case law while upholding our fiduciary responsibilities and trustee policy.

This report is intended to be informative as to the Self-Insurers' Security Funds operations.



## Bankruptcies

**Note:** The following is a brief summary of bankruptcies being handled by the Self-Insurers Security Fund where a claim(s) remain open. The summary also includes comments regarding trusts that have been established for various reasons and where a bankruptcy has not been filed and a claim(s) remain open.

### **A.B. Myr**

The employer was self-insured from October 1, 1983 through October 1, 2009. The company ceased payment of their self-insured obligations. There was \$200,000 in security provided by the employer and a trust fund has been established. A temporary receiver was appointed on March 22, 2013 triggering the Self-Insurers' Security Fund obligation.

- 1 claim currently active (excess claim)

### **American Sunroof Corporation (ASC)**

American Sunroof Corporation filed for bankruptcy on May 2, 2007. The employer was self-insured from April 1, 1976 through January 1, 2007. They held a \$500,000 letter of credit as security which was called by the State of Michigan. A trust has been established.

- 2 claims currently active (1 excess claim)

### **Anderson Safeway, Inc.**

The employer was self-insured from July 1, 1979 through March 7, 1982. The employer did not file bankruptcy but is no longer operating, payments ceased on one open claim that is into the excess. Security of \$10,000 has been received and a trust fund has been created for payment of this claim. The trust will continue to receive proceeds from the excess carrier to maintain funding of the trust.

- 1 claim currently active (excess claim)

### **Armstrong Manufacturing**

This is not a bankruptcy; the employer was self-insured from July 1, 1985 to December 14, 2012. A partial draw of the security for this employer was made to establish a trust for payment of an existing claim due to this employer's voluntary liquidation. The claim is currently being paid out of the existing trust.

- 1 claim currently active



### **Bethlehem Steel**

Bethlehem Steel filed for Chapter 11 bankruptcy effective October 15, 2001. The employer was self-insured from January 1, 1939 through December 31, 1986. There are three surety bonds covering the dates of injury from September 1, 1983 through September 1, 1986.

- 1 claim currently active

### **Blue Water Automotive System, Inc.**

Blue Water Automotive Systems Holdings, Inc. filed Chapter 11 bankruptcy petitions on February 13, 2008. This employer was self-insured from April 1, 1987 through November 26, 2008. The employer had no security at the time of the bankruptcy. The Workers' Disability Compensation Agency has received payment of \$300,000 in security post-bankruptcy, and this was used to create a trust fund.

- 1 claim currently active (excess claim)

### **Chatham Supermarkets**

Chatham Supermarkets filed for Chapter 11 bankruptcy on February 25, 1982. Effective May 5, 1982, the bankruptcy judge issued an order indicating Chatham Supermarkets was to resume payment of workers' compensation benefits on the open claims, and also ordered those cases in the court system to proceed through the litigation process. The employer emerged from Chapter 11 bankruptcy effective January 25, 1983. The employer was approved by the Workers' Disability Compensation Agency to remain self-insured until June 26, 1985 when they returned to private insurance. In June of 1987, a receiver was appointed. A trust fund was established with the proceeds of the \$350,000 surety bond and the assets of Regal Insurance Company (a captive Insurance company). Payments have been made out of the trust for those benefits which accrued prior to the Self-Insurers' Security Fund's period of liability. The Trust is now closed.

- 3 claims currently active (all excess claims)

### **Delphi Corporation**

Delphi Corporation filed Chapter 11 bankruptcy on October 8, 2005. The company emerged from bankruptcy on October 6, 2009 as a private company, Delphi Holdings. The employer spun-off from General Motors on May 28, 1999 and remained a self-insured employer until its exit from bankruptcy. During various periods of their self-insurance, Pacific Employers Insurance or Ace American Insurance filed Form 400s with the Workers' Disability Compensation Agency indicating that they were liable for the workers' compensation obligations of Delphi Corporation. The coverage issue was litigated and concluded with the Self-Insurers' Security Fund assuming liability for Delphi claims incurred during the approved self-insured period. The employer had no security.

- 48 claims currently active



### **Eagle-Picher Industries**

A Chapter 11 bankruptcy was originally filed on January 7, 1991 for Eagle Picher Industries. The period of self-insurance was from October 1, 1958 through October 5, 1989. The employer continued to operate under private insurance after leaving self-insurance. The employer again filed for bankruptcy on April 11, 2005 in the Southern District of Ohio. The employer had six bonds that covered their period of self-insurance. The Self-Insurers' Security Fund was advised by the Attorney General's office that this employer is unable to continue paying its workers' compensation obligations, triggering the Self-Insurers' Security Fund.

- 1 claim currently active

### **Edwards Brothers Malloy**

This employer became insolvent August 10, 2018. A receiver was appointed August 24, 2018 and the Self-Insurer's Security Fund was triggered. Proceeds from a \$200,000 letter of credit were received and a trust was created to pay liabilities.

- 1 claim currently active

### **Elias Brothers Restaurants**

This employer filed for Chapter 11 protection on October 20, 2000. Elias Brothers was self-insured from May 1, 1977 through April 30, 1982, and October 1, 1987 through September 15, 2000. There was private insurance coverage from May 1, 1982 through September 30, 1987, and September 16, 2000 through October 20, 2000. There is both specific and aggregate excess insurance. There was a \$400,000 letter of credit which was called by the Workers' Disability Compensation Agency and a trust fund was established for the payment of benefits.

- 1 claim currently active

### **Federal Forge**

Federal Forge was self-insured from January 1, 1950 through July 1, 1986. The employer filed for Chapter 11 bankruptcy on February 19, 2004. Federal Forge had no security. The payments from the employer ceased on June 23, 2005 upon completion of an asset sale.

- 1 claim currently active

### **Great Atlantic & Pacific Tea Company**

The Great Atlantic & Pacific Tea Company was self-insured from August 24, 1943 through July 1, 2013. Bankruptcy was filed on July 19, 2015 and the employer ceased making benefit payments. The security for this employer, \$1,000,000, was called and a trust was established. Claims are being paid from the trust fund.

- 2 claims currently active



### **Hamady Brothers**

The employer filed under Chapter 11 on November 12, 1987. Hamady Brothers was self-insured from August 10, 1971 through November 12, 1987 both with specific and aggregate excess insurance. There were three financial security endorsements; two of them fall into an aggregate excess period. New Hamady reimbursed the Self-Insurers' Security Fund for all benefits paid and issued a claims payment guarantee. New Hamady filed for protection in the bankruptcy court during May of 1991. New Hamady ceased paying benefits on or about July 9, 1991. The trustees authorized resumption of weekly benefit payments, and Hamady no longer exists in any capacity.

- 1 claim currently active (excess claim)

### **Hayes-Albion/Harvard Industries**

Hayes-Albion, a division of Harvard Industries, filed for Chapter 11 bankruptcy on May 2, 1991 in the U.S. Bankruptcy Court, District of Delaware. Hayes-Albion was first self-insured in Michigan August 14, 1967. The employer emerged from bankruptcy effective November 24, 1998. On January 15, 2002, bankruptcy was again filed under Chapter 11. The period of self-insurance for the employer is from August 14, 1967 through December 31, 2001. Private insurance coverage was obtained effective January 1, 2002. There was a \$1,000,000 letter of credit; with which a trust has been established.

- 7 claims currently active (5 excess claims)

### **Hayes Lemmerz and Motor Wheel**

Hayes Lemmerz/Motor Wheel/CMI were self-insured from April 17, 1936 through February 1, 2008. The employer filed Chapter 11 bankruptcy on May 11, 2009, and the Self-Insurers' Security Fund has assumed benefit obligations for this employer. A \$1,500,000 letter of credit has been received and deposited with the State of Michigan and a trust established.

- 23 claims currently active (2 excess claims)



## **Hostess Brands/Interstate Brands**

Interstate Brands filed for bankruptcy on September 22, 2004. The employer was first self-insured effective March 1, 1996 and continued to pay their workers' compensation benefits. A motion was filed to establish bar dates for filing proofs of claim. There was a \$1,000,000 letter of credit that was not called by the Workers' Disability Compensation Agency. The employer emerged from bankruptcy as Hostess Brands and continued their self-insurance status. Hostess Brands filed Chapter 11 bankruptcy on January 11, 2012. The employer held a \$1,000,000 letter of credit that was called and placed into the trust. Hostess Brands on November 21, 2012, obtained court authority to wind down all operations and liquidate their assets. The employer ceased payments on February 4, 2013 due to the bankruptcy. The Self-Insurers' Security Fund has assumed the benefit obligations effective February 4, 2013.

- 2 claims currently active (1 excess claim)

## **Howell Industries**

Howell Industries was self-insured from November 21, 1961 through August 12, 1997. The employer left self-insurance when they were acquired by Oxford Automotive. Oxford Automotive filed for Chapter 11 protection on December 7, 2004. There are no bonds or letters of credit.

- 1 claim currently active (excess claim)

## **Interstate Motor Freight**

Interstate Motor Freight Systems and its subsidiary, IMF doing business as Interstate Systems, filed under Chapter 11 on April 11, 1984. Subsequently, the company ceased operations and advised the Workers' Disability Compensation Agency they had no funds available to continue paying their workers' compensation obligations. Fuqua Industries, Inc. wrote a claims payment guarantee as the parent company, and is paying claims with dates of injury from July 1, 1978 through October 31, 1980. The Self-Insurers' Security Fund is paying claims with dates of injury prior to July 1, 1972 and after October 1, 1981. The employer was privately insured from November 1, 1980 through September 30, 1981. A trust was established from the bond money for the period of October 1, 1981 through October 1, 1983 and a financial security endorsement for the period from October 1, 1983 through January 1, 1985.

- 1 claim currently active (excess claim)

## **Jacobson's Stores**

Jacobson Stores filed for protection under Chapter 11 on January 16, 2002. Jacobson Stores was first self-insured on August 1, 1989. Jacobson Stores has liquidated their assets. Security was available and a trust has been established.

- 1 claim currently active (excess claim)



### **Keywell Corporation**

Keywell Corporation was self-insured under the authority of Key International and then on its own authority for the period 12-1-73 to 4-1-98. Keywell filed Chapter 11 bankruptcy in 2013 which was subsequently converted to Chapter 7 liquidation. The existing claim is covered by excess and the Fund is now being reimbursed for payments made on this claim.

- 1 claim currently active (excess claim)

### **Kurziel Iron Industries**

Kurziel has sold all assets and ceased operations as of July 11, 2008; the purchaser continues to operate the foundry. There was a \$350,000 letter of credit that was used to establish the trust. The employer was self-insured from November 1, 1986 through January 1, 2007. A temporary receiver was appointed effective July 23, 2008, and the Self-Insurers' Security Fund was triggered on August 4, 2008.

- 1 claim currently active (excess claim)

### **Lake City Forge**

Lake City Forge was self-insured from August 8, 1991 through November 1, 1998. The Self-Insurers' Security Fund is party to one claim where payment was being sought for a prosthetic device. The Workers' Disability Compensation Agency sought and had a receiver appointed for this former self-insurer. The Fund is handling the remaining claim which has been accepted as fully reimbursable by the excess insurer.

- 1 claim currently active

### **Lakey Foundry**

Employer went into bankruptcy February 2, 1972. Employer had no security or reinsurance policies.

- 1 claim currently active

### **Lefere Forge and Machine**

Employer filed for receivership on November 8, 2019. Employer was self-insured from July 1, 1978 to January 1, 2019. A trust fund was established with the proceeds of a \$250,000 letter of credit.

- 1 claim currently active

### **Lindell Drop Forge**

A petition for involuntary bankruptcy was filed with the bankruptcy court in Grand Rapids, Michigan on November 16, 1989. There were three surety bonds and one financial security endorsement which were used to establish a trust.

- 1 claim currently active



### **LTV Steel Company**

The employer filed for Chapter 11 on July 17, 1986. LTV Steel Company was self-insured from November 13, 1959 through April 25, 1986. LTV Steel Company emerged from bankruptcy on June 28, 1993 and resumed payment of benefits effective June 29, 1993. The employer filed another Chapter 11 petition December 29, 2000. There were no new additional securities available for the Workers' Disability Compensation Agency to call, and it was determined that the employer has the inability to pay benefits effective March 31, 2001.

- 3 claims currently active

### **MacDonald's Industrial Products**

MacDonald's Industrial Products was self-insured effective May 23, 1980. The employer has not filed for bankruptcy, but has ceased payments of their workers' compensation obligations. A receiver was appointed and the Workers' Disability Compensation Agency has collected a \$150,000 letter of credit.

- 2 claims currently active (1 excess claim)

### **Meridian Automotive**

Meridian Automotive filed Chapter 7 bankruptcy on August 7, 2009. The employer had previously filed for bankruptcy under Chapter 11 on August 26, 2005. The employer had been self-insured since March 1, 1988. Meridian Automotive held a \$750,000 letter of credit that was called and used to establish a trust fund.

- 2 claims currently active

### **Metaldyne Company, Mascotech Corporation and Simpson Industries**

Metaldyne Company formerly known as Simpson Industries filed for Chapter 11 bankruptcy on May 28, 2009. The employer was self-insured from January 1, 1987. A subsidiary, Mascotech, was also a self-insured employer. Metaldyne had a guarantee for their payments. Metaldyne had \$2,000,000 in security which was called and utilized to establish the trust.

- 4 claims currently active (2 excess claims)

### **Montgomery Ward**

Montgomery Ward filed Chapter 11 bankruptcy on July 7, 1997. The employer was self-insured from February 27, 1940 through August 14, 1987. There were no surety bonds or security endorsements therefore, no trust was established.

- 1 claim currently active (excess claim)



### **National Steel Corporation**

National Steel Corporation filed for Chapter 11 bankruptcy on March 6, 2002. The employer became self-insured effective March 22, 1957. The employer had \$5,000,000 in security which was called and a trust established. The Self-Insurers' Security Fund assumed benefit obligations on June 3, 2003, when the employer was unable to pay.

- 29 claims currently active

### **Pemco Die Cast**

The employer began their self-insurance status effective January 1, 1982. Pemco has not filed for bankruptcy, but they have closed their operations. A temporary receiver was appointed on March 24, 2004. The employer has ceased payments, and their \$100,000 letter of credit has been called by the Workers' Disability Compensation Agency. A trust has been established for the payment of this employer's obligations.

- 2 claims currently active (1 excess claim)

### **Plastech Engineered Products**

Plastech Engineered Products filed a voluntary petition under Chapter 11 bankruptcy on February 1, 2008. The employer was self-insured effective August 1, 1999 through August 4, 2008. The employer had a \$1,300,000 letter of credit. The letter of credit was called and a trust was established. A termination date for the self-insured status was issued effective August 4, 2008 with the Self-Insurers' Security Fund being triggered effective July 11, 2008.

- 5 claims currently active (1 excess claim)

### **Quality Stores**

The self-insured period for Quality Stores, Inc. was November 1, 1992 through January 31, 2002. The creditors filed a Chapter 11 involuntary bankruptcy petition on October 20, 2001 against Quality Stores, Inc. The employer filed voluntary bankruptcy on November 1, 2001. The Workers' Disability Compensation Agency received \$300,000 in cash to replace a bond. Quality Stores, Inc. obtained insurance coverage from Liberty Mutual Insurance Company effective February 1, 2002. Determination was made that Quality Stores, Inc. had an inability to pay benefits as of May 29, 2002.

- 1 claim currently active

### **Signet Industries**

Signet Industries was placed into an involuntary Chapter 11 bankruptcy. The bankruptcy converted to a chapter 7 bankruptcy on May 25, 1993.

- 1 claim currently active (excess claim)



### **Thorn Apple Valley**

Thorn Apple Valley filed for Chapter 11 bankruptcy protection on March 5, 1999. The employer was self-insured from November 29, 1966 through June 9, 1999. The employer obtained private insurance effective June 10, 1999. Thorn Apple Valley was purchased by IBP during the fall of 1999, the sale was for assets only, and the workers' compensation liability was discharged by the bankruptcy court. The Self-Insurers Security Fund began paying benefits effective July 6, 1999.

- 3 claims currently active

### **Venture Industries/Venture Global Engineering**

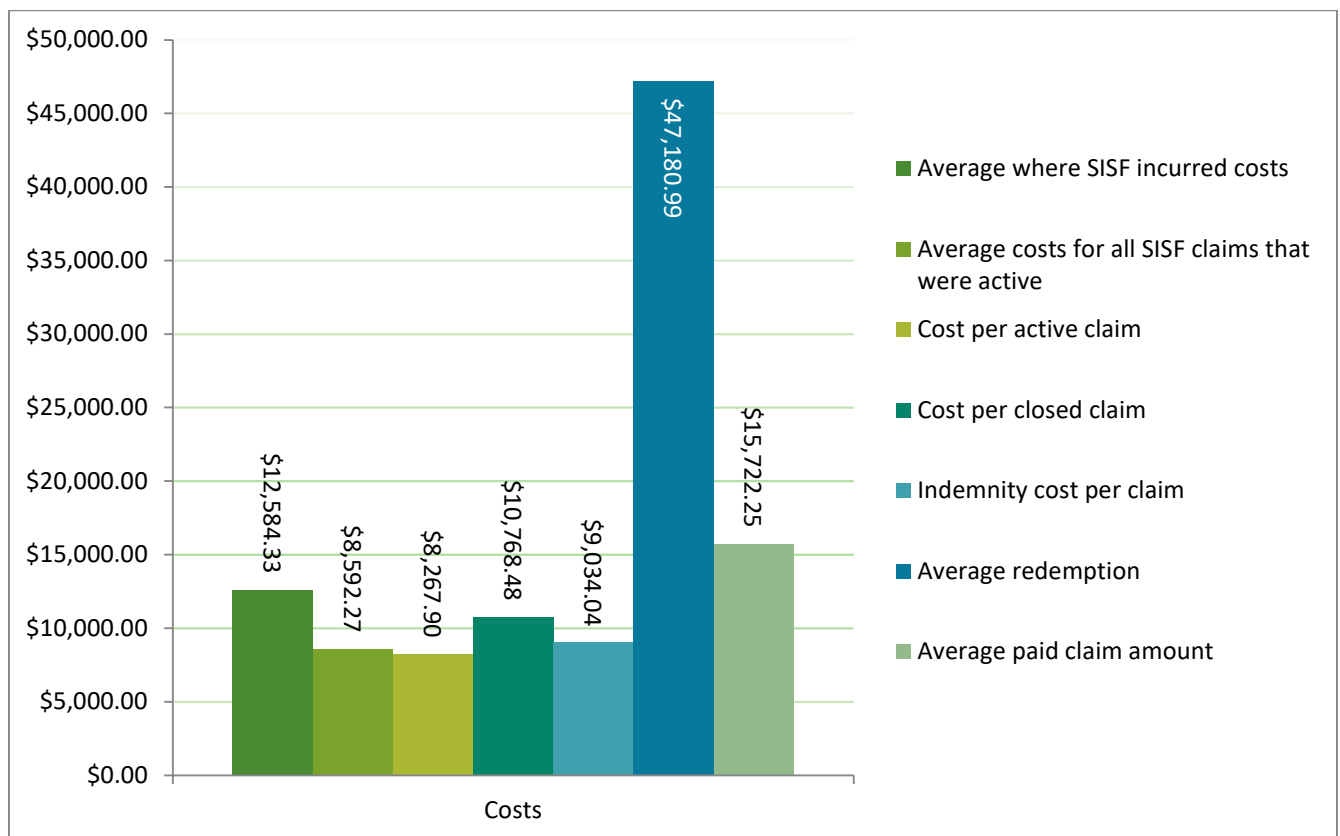
Venture Industries was self-insured from January 1, 1989 through May 2, 2005. The employer filed for Chapter 11 bankruptcy on March 28, 2003. On May 2, 2005, New Venture, which was later named Cadence Innovations, acquired Venture Industries. Cadence Innovations filed for Chapter 11 bankruptcy on August 26, 2009. The Self-Insurers' Security Fund has assumed the benefit obligations arising from the Venture Industries claims. A trust has been established from \$750,000 in security held by the employer.

- 1 claim currently active



## Fund Claims Management and Costs

- ❖ Average where Self-Insurers' Security Fund incurred costs - \$12,584.33
- ❖ Average costs for all Self-Insurers' Security Fund claims that were active - \$8,952.27
- ❖ Cost per active claim - \$8,267.90
- ❖ Cost per closed claim - \$10,768.48
- ❖ Indemnity cost per claim - \$9,034.04
- ❖ Average redemption - \$47,180.99
- ❖ Average paid claim amount - \$15,722.25
- ❖ Average loss adjustment expense - \$523.53



The total medical cost for indemnity claims was \$509,638.36 and the medical cost for medical-only claims was zero.



## Fund Claims Management and Costs (cont.)

Our claims handling methodology includes attendance by claims professionals at a monthly *round-table* claim discussion and evaluation with Office the Attorney General. Staff also attend seminars throughout the year to stay abreast of all claims trends.

Other controls include:

- The thorough investigation of all claims using all appropriate means.
  - Includes outside investigators and database reviews
- The use of wage earning capacity evaluations to ensure proper rate determinations.
- Peer-to-Peer Prescription Reviews to determine efficacy of existing medications.
- Employ third party vendors for single source distribution of prescriptions, implementation of the Michigan Fee Schedule with PPO Discounts, and durable medical equipment.
- Access conditional payment information through the Medicare Secondary Payer Recovery Portal.
  - Performing these functions in house, saves up to \$500/claim from having independent contractors perform this service.
- Employ third party vendors for Medicare Set-Asides and utilize structured settlements when cost-effective.

Our proprietary claims management system includes multiple layers of security. In addition, we employ separation of duties to ensure that **all** payments are proper and reviewed at multiple levels prior to their release.



## Fund Financial Statements & Schedules



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Office of the Auditor General

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**Doug A. Ringler, CPA, CIA**  
Auditor General

Independent Auditor's Report on the Financial Statements  
and Other Reporting Required by *Government Auditing Standards*

Mr. Mark C. Long, Chair  
Board of Trustees for the Funds Administration  
and  
Mr. Jeff Donofrio, Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Long and Mr. Donofrio:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Self-Insurers' Security Fund, Funds Administration, Workers' Disability Compensation Agency, Department of Labor and Economic Opportunity, as of and for the calendar year ended December 31, 2019 and the related notes to the 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 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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



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Office of the Auditor General

**Doug A. Ringler, CPA, CIA**  
Auditor General

Mr. Mark C. Long, Chair  
Mr. Jeff Donofrio, Director  
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## ***Opinion***

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Self-Insurers' Security Fund as of December 31, 2019 and the changes in its financial position and its cash flows for the calendar year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Self-Insurers' Security Fund and do not purport to, and do not, present fairly the financial position or the results of operations of the State of Michigan or its enterprise funds as of and for the calendar year ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 10, the Self-Insurers' Security Fund's actuary disclosed several disclaimers related to the actuarially estimated liability amounts. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the Self-Insurers' Security Fund's financial statements. The Schedule of Estimated Liabilities for Claims by Company, Summary of Self-Insurers' Security Fund, Message From the Funds Administrator, Bankruptcy Summaries, and SISF Claim Management and Costs are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Estimated Liabilities for Claims by Company is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Estimated Liabilities for Claims by Company is fairly stated, in all material respects, in relation to the financial statements as a whole.



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Mr. Mark C. Long, Chair  
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The Summary of Self-Insurers' Security Fund, Message From the Funds Administrator, Bankruptcy Summaries, and SISF Claim Management and Costs have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020 on our consideration of the Self-Insurers' Security Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Self-Insurers' Security Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Sincerely,

Laura J. Hirst, CPA  
Deputy Auditor General  
March 30, 2020



State of Michigan  
Department of Labor and Economic Opportunity  
Self-Insurers' Security Fund

Management's Discussion and Analysis

Year-ended December 31, 2019

Our discussion and analysis of the Self-Insurers' Security Fund (Fund) of the State of Michigan, Department of Licensing and Regulatory Affairs financial performance provides an overview of the Fund's activities for the calendar year ending December 31, 2019.

The Fund was established by Michigan Compiled Laws Section 418.501 and provides workers' compensation benefits to injured employees of non-public self-insured employers who become insolvent after November 15, 1971. The Fund is funded by assessments of 325 current and former non-public self-insured employers that made indemnity payments during calendar year 2018 and by surety bonds and letters of credit held by the Workers' Disability Compensation Agency. Non-public employers apply for the authority to become self-insured through the Workers' Disability Compensation Agency and must be approved by the Workers' Disability Compensation Agency Director. An individual non-public self-insured employer may be required to furnish a surety bond or letter of credit (security). The Fund is managed by a 3-member Board of Trustees. Two of the members are appointed by the Governor with advice and consent of the Senate and the third member is the Director of the Workers' Disability Compensation Agency.

The accompanying financial statements present the results of the operations for the Self-Insurers' Security Fund only. Accordingly, these financial statements do not present fairly the financial position or results of operations of the State of Michigan or the State of Michigan Department of Labor and Economic Opportunity.

## **Financial Highlights**

Annual assessments are levied against indemnity paid by non-public self-insurers. Assessments are statutorily capped at 3% per calendar year. Revenue from assessments for 2019 was \$3.09 million. The Fund and trusts managed also received reimbursements of \$0.67 million from excess carriers in 2019.

Effective January 1, 2015 through December 31, 2019, the assessment limit is increased to 3.5% under requirements as specified under Section 551 (4) of the Act. These future assessments, plus excess recoveries, will be used to meet the existing future liabilities of the Self-insurers' Security Fund reported in these financial statements.



Public Act 252 of 2014 appropriated \$15 million of general funds specifically for the purpose to settle or otherwise support the workers' compensation claims of former employees of Delphi Corporation. Of the \$15 million appropriated, \$8 million was permitted to be expended during the State's fiscal year 2014-2015 and following until these funds were exhausted. The remaining \$7 million cannot be expended until certain criteria are met:

1. The Fund balance and the \$8 million are insufficient to adequately settle or otherwise support the workers' compensation claims, and
2. The Department has collected the annual revenue generated by an increased assessment of 0.5% for the Fund.

Once the above criteria are met, then beginning in fiscal year 2014-2015 the Department may annually expend an amount not to exceed 20% of the \$7 million of remaining appropriations until:

1. The workers' compensation claims of former employees of Delphi Corporation are settled or otherwise supported.
2. The full remaining balance of the \$7 million is expended.

As of December 31, 2019, no monies from the \$7 million appropriated have been called upon and therefore, no funds remain available to be drawn.

The Fund also administers employer trust funds that are created from the call, by the Workers' Disability Compensation Agency, of security that was required from the employer for the privilege of becoming a self-insured employer.

### **Using this Annual Financial Report**

The annual report includes this management's discussion and analysis, the independent auditor's report, and the financial statements of the Fund. The financial statements also include notes that explain in more detail some of the financial statements, and an actuarially developed supplemental schedule that estimates future contingent liabilities of the Fund. The actuarial valuation is required pursuant to MCL 418.551.

### **Reporting on the Fund**

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fund, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.



### Financial Analysis of the Fund

The Self-Insurers' Security Fund is reported in the State of Michigan Comprehensive Annual Financial Report (CAFR) as a Special Revenue Fund and in prior years was also presented to its board members as a Special Revenue Fund. In order to comply with MCL 418.551 (10) the Department of Labor and Economic Opportunity (LEO) obtained a waiver from the Office of Financial Management, State Budget Office, to present the financial statements as an Enterprise Fund. The material difference of presentation is that non-current receivables and non-current liabilities were not included in the Special Revenue Fund statements. The presentation of the Fund as an Enterprise Fund, as mentioned, does include the non-current receivables and non-current liabilities.

Table 1  
Net Position  
(in Millions)

	<b>2019</b>	<b>2018</b>	<b>Change</b>
Current Assets	\$32.2	\$31.0	\$1.2
Due from State of Michigan Funds	-	-	-
Total Assets	\$32.2	\$31.0	\$1.2
Current Liabilities	\$2.0	\$2.8	(\$0.7)
Long-Term Liabilities	\$8.8	\$11.3	(\$2.5)
Total Liabilities	\$10.8	\$14.0	(\$3.2)
Net Position:	\$21.4	\$17.0	\$4.4

Rounded numbers in Table 1 may not add to the rounded totals due to calculating based upon full numbers prior to rounding.

Current assets increased by \$1.2 million resulting from the decrease in Indemnity, Medical and Claims expense payments and in the collection of assessments paid by assessable employers was steady when compared to 2018.

Current liabilities decreased by \$0.7 million due to the actuarial decrease in the estimate of Indemnity, Medical, and Claims Expenses net of excess reimbursements for 2019.

The long-term liabilities decreased by \$2.5 million also due to the actuarial decrease in the estimate of Indemnity, Medical, and Claims Expenses net of excess reimbursements for 2019. In 2019 the Indemnity, Medical and Claims Expenses included Trust Fund recoveries in the amount of \$1.4 million. The primary reason for the reduction of the Fund's liability was the settlement of claims by the Fund during 2019 and no significant liability being incurred by employers filing bankruptcy. A number of the settlements were on Delphi Corporation claims which, in addition to future exposure, also carried substantial accrued exposure for the Fund. Further, the actuaries had an additional year of data available for their comprehensive review of the Fund's claims enabling them to refine their estimate.



The decrease in current and long-term liabilities resulted in the overall increase in net position for 2019.

Table 2  
Changes in Net Position  
(in Millions)

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Operating Revenues			
Assessments	\$3.1	\$3.1	\$0.0
Other Revenue	<u>\$0.4</u>	<u>\$0.2</u>	<u>\$0.1</u>
Total Operating Revenue	<u>\$3.4</u>	<u>\$3.3</u>	<u>\$0.1</u>
Operating Expenses			
Net Change in Indemnity, Medical, and			
Claim Payment Liability	(\$1.5)	(\$4.3)	\$2.8
Administrative Expenses/Legal	<u>\$1.4</u>	<u>\$1.6</u>	<u>(\$0.2)</u>
Total Operating Expenses	<u>(\$0.1)</u>	<u>(\$2.7)</u>	<u>\$2.6</u>
Operating Income (Loss)	\$3.5	\$6.0	(\$2.5)
Interest Earned	<u>\$0.9</u>	<u>\$0.5</u>	<u>\$0.4</u>
Change in Net Position	\$4.4	\$6.6	(\$2.1)
Total net position - beginning of year	<u>\$17.0</u>	<u>\$10.4</u>	<u>\$6.6</u>
Total net position - end of year	<u><u>\$21.4</u></u>	<u><u>\$17.0</u></u>	<u><u>\$4.4</u></u>

Rounded numbers in Table 2 may not add to the rounded totals due to calculating based upon full numbers prior to rounding.

This report reflects an increase of operating expenses of \$2.6 million in Indemnity, Medical and Claim Payment Liability from the prior year report dated December 31, 2018.

The financial statements report a positive net position as of December 31, 2019 of \$21.4 million. The Self-Insurers' Security Fund assesses private self-insured employers annually, up to a maximum of 3%, of the reported losses paid by these employers during the preceding calendar year, exclusive of payments made pursuant to sections 315, 319 and 345 of the Michigan Workers' Disability Compensation Act. Effective January 1, 2015 through December 31, 2019, the assessment limit is increased to 3.5% under requirements as specified under Section 551 (4) of the Act. These future assessments if called upon, plus excess recoveries, will be used to meet the existing future liabilities of the Self-insurers' Security Fund reported in these financial statements.



The amount of \$8 million of general fund appropriations mentioned above in the Financial Highlights was transferred to the Fund in January 2015. The Trustees of the Funds Administration for calendar year 2019 determined an assessment of 2.5% would be sufficient. Therefore, for calendar year 2019 the additional .5% was not called. As a result, \$1.4 million of funds lapsed. The remaining balance available from the \$7 million appropriation is \$0.

Equity in common cash at the beginning and the end of the year was \$30.7 million and \$31.8 million, respectively. Of the Equity in common cash, the amount held in trust at the beginning and the end of the year were \$10.1 million and \$10.6 million, respectively.

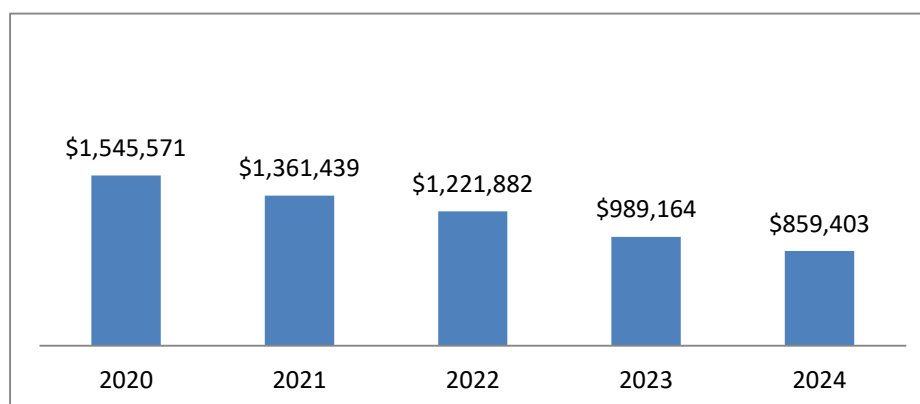
The Actuarially estimated liabilities of claims net of estimated reinsurance and trust fund recoveries is \$10.1 million. The \$10.1 million includes \$3.9 million related to Delphi Corporation claims.

Table 3  
Change in Actuarially Estimated Liabilities  
Net of Estimated Reinsurance and Trust Recoveries  
(in Millions)

	2019	2018	Change
Delphi	\$3.9	\$5.9	(\$2.0)
National Steel	\$4.1	\$4.5	(\$0.4)
Other	\$2.2	\$2.8	(\$0.6)
	<u>\$10.1</u>	<u>\$13.2</u>	<u>(\$3.0)</u>

The above amounts include estimated reinsurance recoveries of \$1.1 million related to National Steel Corporation and \$12 million related to Other Companies and \$1.4 million related to Trust Fund recoveries. There are no estimated reinsurance recoveries for Delphi.

The Actuarially estimated Indemnity and Medical Claim payments for calendar year 2020 through 2024 are as follows.





This illustrated payout pattern on the previous page is based on lifetime payments assuming an expectation of future payments, mortality and trends. The amounts have been reduced by anticipated Excess Recoveries.

## Litigation

Litigation regarding the responsibility for Delphi claims was concluded in 2015 with the Self-Insurers' Security Fund accepting responsibility for claims previously in dispute.



State of Michigan  
Department of Labor and Economic Opportunity  
Self Insurers' Security Fund  
Statement of Net Position  
December 31, 2019

	<u>2019</u>
<b>ASSETS</b>	
Current Assets:	
Equity in common cash - unrestricted	\$ 31,780,047.78
Prepaid Expenses	-
Accounts Receivable - Travel Advance	-
Accounts Receivable - Assessments	3,675.25
Accounts Receivable - Interest	151,951.04
Accounts Receivable - Third Party and Excess Recoveries	252,190.61
Total Current Assets	<u>32,187,864.68</u>
Total Assets	<u>32,187,864.68</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable and other liabilities	575,177.86
Compensated Absences	50,210.82
Indemnity, Medical, and Claim Expenses	1,395,571.00
Total Current Liabilities	<u>2,020,959.68</u>
Long-Term Liabilities:	
Compensated Absences	48,443.56
Indemnity, Medical, and Claim Expenses	8,740,721.00
Total Long-Term Liabilities	<u>8,789,164.56</u>
Total Liabilities	<u>10,810,124.23</u>
<b>NET POSITION</b>	
Unrestricted	21,377,740.45
Total Net Position	<u>\$ 21,377,740.45</u>

The accompanying notes are an integral part of the financial statements



**Department of Labor and Economic Opportunity  
Self Insurers' Security Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended December 31, 2019**

	<b>2019</b>
<b>OPERATING REVENUES</b>	
Assessments	\$ 3,090,372.37
Other Revenue	351,571.90
Total Operating Revenues	<u>3,441,944.27</u>
<b>OPERATING EXPENSES</b>	
Current:	
Net Change in Indemnity, Medical, and Claim Payment Liability	(1,501,572.52)
Administrative Expenses/Legal	1,421,258.71
Total Operating Expenses	<u>(80,313.81)</u>
Operating Income (Loss)	3,522,258.08
<b>NONOPERATING REVENUES</b>	
Interest Earned	887,303.71
Total Nonoperating Revenue	<u>887,303.71</u>
<b>CHANGE IN NET POSITION</b>	4,409,561.79
Total net position - beginning of year	<u>16,968,178.66</u>
Total net position - end of year	<u>\$ 21,377,740.45</u>

The accompanying notes are an integral part of the financial statements



State of Michigan  
Department of Labor and Economic Opportunity  
Self Insurers' Security Fund  
Statement of Cash Flows  
Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Assessments	\$ 3,090,372.37
Other Revenue	351,563.96
Third Party and Excess Recoveries	7.94
Payments for Workers Compensation Benefits	(1,627,793.29)
Payments to Employees	(855,293.92)
Payments to Suppliers	(727,910.20)
Net cash provided (used) by operating activities	<u>\$ 230,946.86</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

General Fund cash transferred in	\$ -
Net cash provided (used) by noncapital financing activities	<u>\$ -</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	\$ 887,303.71
Net cash provided (used) by investing activities	<u>\$ 887,303.71</u>

Net cash provided (used) - all activities	\$ 1,118,250.57
Cash and cash equivalents at beginning of year	\$ 30,661,797.21
Cash and cash equivalents at end of year	<u>\$ 31,780,047.78</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Equity in Common Cash (less Warrants Outstanding)	\$ 31,780,047.78
	<u>0.00</u>
Cash and cash equivalents at end of year	<u>\$ 31,780,047.78</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (loss)	\$ 3,522,258.08
Decrease in Prepaid Expenses	1,817.34
Increase in Accounts Receivables - Assessments	(3,358.27)
Decrease in Accounts Receivables - Third Party and Excess Recoveries	71,216.55
Increase in Accounts Receivables - Interest	(151,951.04)
Decrease in Accounts Receivables - Travel	0.00
Decrease in Accounts Payable and Other liabilities	(147,591.73)
Decrease in Compensated Absences	(6,373.61)
Decrease in Long-term Compensated Absences	(18,713.45)
Decrease in Current Indemnity and Medical Payment Liability	(580,108.00)
Decrease in Long-term Indemnity and Medical Claim Benefits	<u>(2,456,249.00)</u>
Net cash provided (used) by operating activities	<u>\$ 230,946.86</u>

The accompanying notes are an integral part of the financial statements



State of Michigan  
Department of Labor and Economic Opportunity  
Self-Insurers' Security Fund

Notes to the Financial Statements

December 31, 2019

**Note 1 General Activities and Significant Accounting Policies**

**Reporting Entity**

The Self-Insurers' Security Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity was established by Michigan Compiled Laws Section 418.501. The Fund provides workers' compensation benefits to injured employees of non-public self-insured employers and is funded by annual assessments of the approved non-public self-insured employers and with surety bonds and letters of credit of insolvent non-public self-insured employers.

**Basis of Presentation**

The Fund is reported in the State of Michigan Comprehensive Annual Financial Report as a Special Revenue Fund for fiscal year ended September 30, 2019 using the current financial resources measurement focus and the modified accrual basis of accounting. To comply with MCL 418.551 (10), and as approved by waiver by the State Budget Office, Office of Financial Management, the accompanying financial statements present the Fund as an Enterprise Fund. The Basis of Accounting below describes the preparation of the statements. The accompanying financial statements are not intended to present the financial position and results of operations of the State of Michigan or its enterprise funds.

**Basis of Accounting**

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recognized when they are earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

**Operating Revenues and Expenses**

Operating revenues and expenses primarily are from the collection of assessments, surety bonds, letters of credit, administrative expense/legal, and the payment of workers' compensation benefits. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.



## **Statement of Cash Flows**

For the purposes of the statement of cash flows, the Fund considers equity in the State Treasurer's Common Cash pool, net of warrants outstanding, to be cash equivalents.

## **Use of Estimates**

The preparation of the financial statements in conformity with GAAP 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. Actual results could differ from those estimates.

## **Equity in the State Treasurer's Common Cash Fund**

The State Treasurer manages the State's Common Cash pool, which is used by the Fund. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool and presented in this report as "Equity in State Treasurer's Common Cash."

Investment policies and risk categorization are included in the State of Michigan's Comprehensive Annual Financial Report.

## **Compensated Absences**

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive a 100% termination payment upon separation based upon their final rate of pay. Sick leave accrues for all employees at the rate of four hours for each two-week period worked and accumulates without limit. Up to 50% of accumulated unused sick leave of employees hired prior to October 1, 1980 is paid to employees or their beneficiaries upon death, retirement, or resignation. For employees hired after September 30, 1980, unused sick leave is forfeited upon termination of employment.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was utilized in fiscal years 2005, 2006, and 2010. The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to an employee's account within the State's 401K plans, and if applicable, to the State's 457 plans.



## **Note 2 Pension Plans and Postemployment Benefits**

Plan Descriptions – The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Technology, Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at <http://www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 530 West Allegan St., Lansing, MI, 48933-1524 or by calling (517) 322-5103.

New employees hired on or after March 31, 1997 participate in a defined contribution plan that is separate from the State Employee's Retirement System defined benefit plan. Employees hired before March 31, 1997 are covered by the defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

Funding Policy – For the State Employee's Defined Benefit Retirement Plan, the Fund was billed and paid \$10,014.69 and \$10,225.65 for pension charges and retiree postemployment benefits in calendar years 2018 and 2019, respectively. Effective April 1, 2012, defined benefit plan members are required to contribute 4% of their compensation for pension benefits. For the State Employee's Defined Contribution Retirement Plan, the Fund is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. The Fund contributions for the Plan were \$12,318.22 and \$15,337.22 for calendar years 2018 and 2019, respectively.

## **Note 3 Risk Management**

The Fund participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, the Fund recognized expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims and determined annually by the Department of Technology, Management and Budget.

**Note 4 Accounts Receivable**

The Fund has the same rights as the self-insured employer to request recovery from excess insurers for continuing claim payments in excess of established retention values under either a specific (individual claim) or aggregate (all claims within policy period) excess insurance policy in effect on the claim's date of injury. Individual and aggregate claim benefit losses and expenses are compared to the retention limits for the policies in effect on the date of injury. After the cumulative losses on an individual claim (specific policy) or for all claims (aggregate policy) exceed the retention limit, Fund's staff request reimbursement from the excess insurer for continuing benefit and expense obligations on the claim. Accounts receivables from Third Party and Excess Recoveries were \$323,407.16 and \$252,190.61 for year ending December 31, 2018 and December 31, 2019, respectively.

**Note 5 Current Liabilities**

Current Liabilities include adjusted actuarially estimated payments net of excess reinsurance. The actuarially estimated current liability \$1,395,571.00. Accounts payable and other liabilities include CY2019 compensated absences of \$50,210.82.

**Note 6 Long-Term Liabilities**

Long-Term Liabilities include actuarially estimated liabilities net of excess insurance and trust fund recoveries.

			12/31/2019	Amounts Due	Amounts Due
Beginning Balance	Additions	Reductions	Ending Balance	within one year	after one year
\$13,172,649	\$0.00	\$3,036,357	\$10,136,292	\$1,395,571	\$8,740,721

**Note 7 Fund Resources**

The Fund assesses private self-insured employers annually, up to a maximum of 3%, of the reported loss paid by these employers during the preceding calendar year, exclusive of payments made pursuant to sections 315, 319 and 345 of the Michigan Workers' Disability Compensation Act. Effective January 1, 2015 through December 31, 2019, the assessment limit is increased to 3.5% under requirements as specified under Section 551 (4) of the Act. These future assessments, plus excess recoveries, will be used to meet the existing future liabilities of the Fund reported in these financial statements. In addition, the remaining \$1.4 million of general funds appropriated could have been transferred and expended by the Fund if the criteria (mentioned in the MD&A) included in Public Act 252 of 2014 had been met, but the remaining appropriated funds were not needed and therefore are no longer available.

**Note 8 Net Position**

The Fund as of December 31, 2019 has a net position of \$21.4 million. Future assessments, plus excess recoveries will be used to meet the existing future liabilities of the Fund as described above in Note 7. In addition, the remaining \$1.4 million of general funds appropriated could have been transferred and expended by the Fund when the criteria (mentioned in the MD&A) included in Public Act 252 of 2014 had been met, but the remaining appropriated funds were not needed and therefore are no longer available.

**Note 9 Actuarial Estimates of Liabilities for the Self Insurers' Security Fund**

Evaluating loss and expense reserves involves the estimation of the outcome of future uncertain events. Considerable variances on the actuary estimates should be expected. It is quite possible the ultimate values will vary substantially from the estimates developed by the actuary.

**Note 10 Actuary Disclaimer**

The Actuary disclosed the following disclaimer related to the estimations:

“Evaluating loss and expense reserves involves the estimation of the outcome of future uncertain events. As such, they are subject to variation from expected values. Due to the nature and degree of uncertainty involved in projecting reserves, there can be no guarantee that our independent estimates will prove adequate or not excessive. However, the assumptions and methods we have employed in our analysis are, in our opinion, reasonable under the circumstances.”

During 2015 through 2019, the Fund has updated case reserves on all claims and has recorded these case reserves in the FAIS system. Given the nature of the exposure as well as the maturity of the Delphi experience, considerable variance from the estimates presented in this report should be expected. However, this variance has been considerably reduced from that underlying our prior estimates due to the improved case reserving and given that we have some credible experience related to the settlement and verification process related to Delphi Claims Adjudicated since 2014. It is our expectation that the variance will continue to reduce over time due to the improvements in case reserve processes and as additional experience on the Delphi claims becomes available.

# Michigan Self-Insurers' Security Fund Annual Report



2019

Self Insured Security Fund		Schedule of Estimated Liabilities for Claims by Company					
Evaluated as of December 31, 2019							
Workers Compensation							
Summary by Company							
		Gross	Gross	Gross		Applicable	Net
		Unpaid	Unpaid	Unpaid	Excess	Trust Fund	Unpaid
Company		Indemnity	Medical	Expenses	Recoveries	Recoveries	Total
		(1)	(2)	(3)	(4)	(5)	(6)
DELPHI CORPORATION		2,423,319	1,221,104	230,681	-	-	3,875,103
NATIONAL STEEL CORP		1,527,465	3,415,482	375,411	1,101,642	163,083	4,053,632
HAYES LEMMERZ INT'L INC		288,766	602,278	27,820	223,490	695,375	-
HAYES-ALBION / HARVARD IND INC		239,597	267,043	18,313	25,122	23,867	475,965
PLASTECH ENGINEERED PRODUCTS, INC.		482,646	485,465	145,425	852,792	162,394	98,350
THORNAPPLE VALLEY INC		278,942	77,350	28,697	54,302	27,837	302,850
LTV STEEL COMPANY INC.		51,543	209,960	24,511	-	-	286,014
MASCOTECH CORPORATION		235,748	251,090	10,461	259,502	-	237,797
CHATHAM SUPERMARKETS		119,882	44,512	2,157	165,158	-	1,393
ASC INCORPORATED		151	126,833	4,800	24,187	107,598	-
METALDYNE COMPANY LLC		456,391	658,121	370,371	1,438,890	45,993	-
HOSTESS BRANDS INC.		657,603	533,408	545,357	1,703,658	32,710	-
MERIDIAN AUTOMOTIVE SYSTEMS, INC.		-	183,490	30,864	-	26,451	187,902
PEMCO DIE CASTING CORP		183,509	10,803	889	168,843	4,627	21,730
LAKEY FOUNDRY CORP		17,142	2,950	125	-	-	20,217
GREAT ATLANTIC & PACIFIC TEA COMPANY		91,671	10,750	3,499	-	-	105,920
MACDONALD'S INDUSTRIAL PRODUCTS, INC.		-	487,681	13,675	460,619	40,736	-
VENTURE GLOBAL ENGINEERING		-	77,884	482	9,853	2,762	65,752
LAKE CITY FORGE		-	138,591	4,938	-	-	143,529
ELIAS BROTHERS RESTAURANTS INC		-	115,814	15,166	-	-	130,980
QUALITY STORES INC		5,596	87,364	5,389	18,808	24,939	54,602
MOTOR WHEEL CORPORATION		36,979	1,658	710	-	-	39,347
FEDERAL FORGE INC		-	26,454	1,000	1,241	-	26,213
A B MYR INDUSTRIES INC.		190,367	2,509,025	65,093	2,741,360	23,125	-
EAGLE-PICHER INDUSTRIES INC		13,579	150	4	-	10,479	3,255
MONTGOMERY WARDS		49,541	137,585	4,969	190,489	-	1,607
LINDELL DROP FORGE		118,913	53,877	5,000	176,303	-	1,487
HAMADY BROTHERS		-	75,791	6,102	81,208	-	685
SIGNET INDUSTRIES		72,956	1,197	125	73,657	-	621
HOWELL INDUSTRIES INC		42,632	11,628	905	54,704	-	461
BETHLEHEM STEEL COMPANY		280	-	-	-	-	280
KEYWELL CORPORATION		21,383	2,646	125	23,952	-	202
INTERSTATE MOTOR FREIGHT		14,888	8,079	500	23,270	-	196
DETROIT PLASTIC MOLDING		17,462	5,000	500	22,770	-	192
KURDZIEL INDUSTRIES INC		339,167	1,623,996	100,944	2,046,841	17,266	-
BLUE WATER AUTOMOTIVE SYSTEM, INC.		226,246	459,657	71,926	751,490	6,339	-
JACOBSON STORES INC		48,165	186,250	37,024	269,168	2,271	-
ANDERSON SAFEWAY, INC.		81,342	201	500	81,356	686	-
ARMSTRONG MANUFACTURING, INC.		-	59,933	4,258	63,654	537	-
FERGUSON CONSTRUCTION CO.		500	-	500	992	-	8
MALLOY, INC.		-	-	-	-	-	-
Total		8,334,371	14,171,098	2,159,216	13,109,320	1,419,073	10,136,292
(1) Gross Unpaid Indemnity	The Gross Unpaid Indemnity amounts represents future indemnity loss projections for the SISF on all open and Incurred but not report (IBNR) claims.						
(2) Gross Unpaid Medical	The Gross Unpaid Medical amounts represents future medical loss projections for the SISF on all open and IBNR claims.						
(3) Gross Unpaid Expenses	The Gross Unpaid Expenses are future estimates for SISF administrative and legal expenses in the management and litigation of all open and IBNR claims.						
(4) Excess Insurance Recoveries	The Excess Insurance Recoveries are projections of the future reimbursements due the SISF from excess insurers pursuant to excess contracts in place with the bankrupt self-insured employers.						
(5) Trust Fund Recoveries	The Trust Fund Recoveries are projections of future reimbursements due the SISF from trust funds established when the Workers' Disability Compensation Agency called surety bonds or letters of credit that were held as security for a self-insured program.						
(6) Net Unpaid Total	The Net Unpaid Total is the total Gross Unpaid Medical, Gross Unpaid Indemnity, Gross Unpaid Expenses, less Excess Insurance Recoveries and Trust Fund Recoveries.						



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Office of the Auditor General

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**Doug A. Ringler, CPA, CIA**  
Auditor General

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Mark C. Long, Chair  
Board of Trustees for the Funds Administration  
and  
Mr. Jeff Donofrio, Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Long and Mr. Donofrio:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Self-Insurers' Security Fund, Funds Administration, Workers' Disability Compensation Agency, Department of Labor and Economic Opportunity, as of and for the calendar year ended December 31, 2019 and the related notes to the financial statements and have issued our report thereon dated March 30, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Self-Insurers' Security Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Self-Insurers' Security Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Self-Insurers' Security Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Self-Insurers' Security Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

Laura J. Hirst, CPA  
Deputy Auditor General  
March 30, 2020