

Michigan Self-Insurers' Security Fund

Annual Report 2014

(Including Bankruptcy, Financial & Actuarial Summaries)



August 28, 2015



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Summary of Self-Insurers' Security Fund

The Self-Insurers' Security Fund (SISF) provides workers' compensation benefits to employees of self-insured employers who become insolvent after November 15, 1971. Being an approved self-insurer is a lower cost option for employers to meet the mandatory WC insurance requirement under Michigan law. If a private self-insured employer becomes insolvent, payments are made to injured workers from the Self-Insurers' Security Fund when three statutory conditions are met, unless insurance or 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' Compensation Agency and/or the Michigan Administrative Hearing System.
- 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 SISF. Assessments for the SISF are paid by private self-insured employers only.

In accordance with Rule 408.43q, the Self-Insurers' Security Fund, when triggered, may utilize financial guarantees posted with the agency to pay claims. At present, the SISF manages 46 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 (Rule 408.43k).

It should be noted that public employers are not covered by the SISF, and 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 (SISF) is prepared in accordance with MCL 418.551 and provided to you as an outline of the activities of the SISF during this past calendar year.

The SISF receives virtually 100% of its funding through assessments levied against insurers who self-insure their workers' compensation risk. Our staff embraces the philosophy that our funding is not our own, and we are serious about our responsibility as fiduciaries. The American Heritage dictionary defines fiduciary as *a person who stands in a special relation of trust, confidence, or responsibility in his or her obligations to others*. We are confident that we demonstrate our commitment to this trust by establishing industry-accepted standards and guidelines in our primary operation areas of claims, financial, and vendor management.

This year saw major legislative changes to the SISF. This report, separate from our traditional reporting, is a result of those changes. However, the primary impact of the legislation was to allow the SISF to begin to actively manage the claims related to the Delphi bankruptcy. The legislation further provided for a .5% potential increase of the statutorily capped 3% assessment assuming certain criteria is met and the additional assessment is used for Delphi only. Also as part of the package the SISF received a \$15 million general fund appropriation. Of the \$15 million appropriated, \$8 million may be expended immediately. The remaining \$7 million cannot be expended until certain criteria are met and must be spent in concert with the previously mentioned .5% assessment increase. It is important to note that the influx of the general fund appropriation did ease pressure on the SISF's cash flow.

In addition, the legislative package created the Private Employer Group Self-Insurers' Security Fund (PEGSISF), which will become active on January 1, 2020. This will allow the non-public employer group self-insurers to move outside the umbrella of the SISF and be protected under their own umbrella. They will no longer be obligated to pay SISF assessments and the SISF will no longer be obligated for any potential liability. Finally, the legislation provides for the enforcement of penalties and interest on any unpaid assessments, and as alluded to above requires that the SISF be audited annually and that any future assessments be supported by an actuarial analysis.

Our fiduciary based commitment will continue in 2015 and beyond. It is our intent to always implement the Workers' Disability Compensation Act in accordance with the written word and the corresponding case-law. This commitment allows us to pay appropriate claims and to maintain costs through industry tested claims-handling methods.

I hope that you find this annual report informative.



Bankruptcies

Note: For bankruptcies before October 1, 1999, the Self-Insurers' Security Fund may have paid benefit/obligations prior to the automation of the Funds Administration. Cumulative payments on these bankruptcies represent payments from October 1, 1999 through December 31, 2014.

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The employer was self-insured from October 1, 1983 through October 1, 2009, and the company has ceased payment of their self-insured obligations. There was \$200,000 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.

- One claim currently active

Acorn Building Components

Acorn Building Components filed for Chapter 11 bankruptcy on April 9, 1992. The Workers' Compensation Agency indicates there is a \$200,000 bond written the International Fidelity covering the dates of injuries from August 10, 1979 through September 10, 1982. There was an additional \$100,000 bond covering the dates of injury from August 10, 1978 through August 10, 1979 which has been exhausted. There was both specific and aggregate excess coverage for the entire self-insured period which ran from August 10, 1978 through September 30, 1986. There is no stay in effect.

Alken-Ziegler, Inc.

This employer does not qualify as an insolvent self-insured employer. There are no existing Self-Insurers' Security Fund obligations. Payment of benefits and expenditures on claims are being generated from the Alken-Ziegler trust fund. The trust fund was created with the payment of \$200,000 in security. The employer was self-insured from July 1, 2001 through August 31, 2012.

- One claim currently active

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 line of credit which has been received by the State of Michigan and is being used to initialize the trust fund. There are a series of specific and aggregate policies which cover their former period of self-insurance.

- Three claims currently active



Anderson Safeway, Inc.

The employer was self-insured from July 1, 1979 through March 7, 1982. The employer is not bankrupt, but payments have ceased on one open claim that is into the excess. Security of \$10,000 has been received and a trust fund has been created. The trust will continue to have the proceeds from the excess carrier to maintain viability of the trust fund.

- One claim currently active

Auto Specialties

Auto Specialties filed for protection under Chapter 11 bankruptcy effective October 3, 1988, the company was self-insured from April 13, 1939 through August 1, 1982. There were three surety bonds which have a total value of \$300,000. There is both aggregate and specific excess coverage. The bankruptcy court discharged all of the workers' compensation liabilities effective February 1, 1990. As of February 1, 1990, the Self-Insurers' Security Fund began paying claimants directly. The automatic stay was lifted effective January 27, 1991.

- One 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. The employer had no excess policies. There are three surety bonds covering the dates of injury from September 1, 1983 through September 1, 1986. The employer's assets are being sold to International Steel Group and benefit payments from the employer have ceased.

- One 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' Compensation Agency has received payment of \$300,000 in security post-bankruptcy, and this was used to create a trust fund.

- One claim currently active



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' 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 \$350,000 surety bond and the assets of Regal Insurance Company (a captive Insurance company). There have been payments 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. There is no stay in effect.

- Four claims currently active

DCT, Inc.

DCT, Inc. was forced into bankruptcy effective February 14, 2002. The employer was self-insured effective October 1, 1985 through January 30, 2002. There is a \$100,000 letter of credit which has been used to create the trust fund.

- One claim currently active

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' Compensation Agency indicating that they were liable for the workers' compensation obligations of Delphi Corporation. Consequently, effective October 7, 2009, the Self-Insurers' Security Fund assumed liability solely for the self-insurance periods of May 28, 1999 through September 30, 2000 and October 1, 2002 through September 30, 2003. The employer held no security.

- 335 claims currently active

Delta Tube & Fabricating Corp.

No summary available

- One claim currently active



Detroit Plastic Molding

A trust was established effective November 5, 1990 for the period of self-insurance from July 1, 1975 through February 5, 1990. There are two service agents, Alexis and Meadowbrook and two surety bonds which have a total value of \$1,200,000. There is an additional \$100,000 which was deposited from the proceeds of the sale of Detroit Plastic Molding. A recovery was made in the amount of \$1,000,000 from the claims guarantee, which was used to repay the Self-Insurers' Security Fund, and the balance was deposited into the trust fund.

- One claim 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, and the employer continued to operate under private insurance. There are substantial bonds involved with this employer. There are annual surety bonds for \$100,000, and excess coverage with a specific retention level of \$500,000, and an aggregate retention level of \$5,000,000. 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. A \$25,000 bond has been called as there are six open payment claims during the coverage period. The Self-Insurers' Security Fund has been 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.

- Two claims 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 insurance. There is a \$400,000 letter of credit which has been called by the Workers' Compensation Agency and a trust fund is in place for the payment of benefits.

- One 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, but carried reinsurance policies. The payments from the employer ceased on June 23, 2005 upon completion of an asset sale.

- One claim 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 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.

- One claim currently active

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 County, District of Delaware. Hayes-Albion was self-insured in Michigan since August 14, 1967. The employer emerged from bankruptcy effective November 24, 1998. On January 15, 2002, they filed bankruptcy again 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 is a \$1,000,000 letter of credit, and a trust has been created.

- 16 claims currently active

Hayes Lemmerz

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 from this employer. A \$1,500,000 letter of credit has been received and deposited with the State of Michigan. There are a series of specific excess policies; these policies began in 1967 with Motor Wheel; 1978 with CMI; and 1982 with Hayes Lemmerz.

- 30 claims currently active

Hostess Brands/Interstate Brands

Interstate Brands filed for bankruptcy on September 22, 2004. The employer has been self-insured since March 1, 1996, and is continuing to pay their workers' compensation benefits. A motion has been filed to establish bar dates for filing proofs of claim. There is a \$1,000,000 letter of credit that has not been called to date by the Workers' 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 what has been 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.

- Nine claims currently active



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 letter of credit.

- One claim currently active

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' 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 with Twin City Fire Insurance Co. A trust fund was established from the bond money from INA for the period of October 1, 1981 through October 1, 1983. ERC also had a financial security endorsement for the period from October 1, 1983 through January 1, 1985. There was both specific and aggregate excess for various periods.

- One claim currently active

Inverness Castings

The employer filed for Chapter 11 as a subsidiary of Atchison Corporation on August 4, 2003. The employer ceased payments effective December 23, 2003. The Self-Insurers' Security Fund has assumed responsibility for the payment and administration of claims. Inverness Castings was self-insured for the period of April 29, 1963 through November 1, 2003.

- One claim currently active

Jacobson's Stores

Jacobson Stores filed for protection under Chapter 11 on January 16, 2002. Jacobson Stores became self-insured on August 1, 1989. Jacobson Stores liquidated their assets. There is both specific and aggregate excess coverage. A \$200,000 bond covers claims during the period from August 1, 2001 through August 1, 2002. In addition, a \$200,000 letter of credit covers post-petition claims.

- One claim currently active



Kurdziel Iron Industries

Kurdziel 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.

- One claim currently active

Lakey Foundry

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

- Four claims 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 are three surety bonds which were issued by New Hampshire Insurance totaling \$450,000 and one financial security endorsement in the amount of \$150,000 which was issued by ERC. There is also specific and aggregate excess coverage.

- Two claims 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' Compensation Agency to call, and it was determined that the employer has the inability to pay benefits effective March 31, 2001.

- Six 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' Compensation Agency has collected a \$150,000 letter of credit.

- Four claims currently active



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 has been self-insured since March 1, 1988. Meridian Automotive held a \$750,000 letter of credit that has been called and used to establish a trust fund. The employer has a series of specific and aggregate excess policies.

- Six claims currently active

Metaldyne Company and Mascotech Corporation

Metaldyne Company filed for Chapter 11 bankruptcy on May 28, 2009. The employer was self-insured since January 1, 1987. A subsidiary, Mascotech, was also a self-insured employer. Metaldyne had a guarantee for their payments. Metaldyne has \$2,000,000 in security which has been collected and utilized to establish the trust. The employer also has a series of specific excess insurance policies.

- Fourteen claims currently active

Michigan Roofing Contractors

Employer is not bankrupt. Payments were being made on one claim that was into excess reinsurance. Fifty-thousand dollars security was called to establish a trust fund. Payments are being made out of the trust and excess reimbursements are replenishing the trust fund.

- One claim currently active

Montgomery Ward

Montgomery Ward filed a Chapter 11 bankruptcy on July 7, 1997. The employer was self-insured from February 27, 1940 through August 14, 1987. There are no surety bonds or security endorsements. There is specific excess coverage for all of the self-insured periods except May 2, 1976 through May 1, 1977; there is no aggregate excess insurance.

- Three claims currently active

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 has \$5,000,000 in security. The Self-Insurers' Security Fund is receiving direct notice of claims from the affected employees. The Self-Insurers' Security Fund assumed benefit obligations on June 3, 2003, when the employer was unable to pay.

- 64 claims currently active



New Haven Foundry

New Haven Foundry was self-insured from 1962 until October 23, 2001 when they ceased operations. A Chapter 7 bankruptcy proceeding was initiated on November 27, 2001. There is a \$300,000 letter of credit which has been deposited into the trust and payments have been made. There is both specific and aggregate insurance coverage for all of the periods of self-insurance.

- Two claims currently active

North Oakland Medical Center

The employer filed Chapter 11 bankruptcy on August 26, 2008. North Oakland was self-insured from January 1, 1994 through November 7, 2008. The employer held a \$1,000,000 security bond which was been collected and used to establish the Pontiac General Hospital and Medical Center (DBA North Oakland Medical Center) trust fund.

- Two 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' Compensation Agency. A trust has been established for the payment of this employer's pre-Self-Insurers' Security Fund obligations.

- Two claims currently active

Plastech Engineered Products

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

- Five claims currently active



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' Compensation Agency received \$300,000 cash to replace a bond. Quality Stores, Inc. obtained insurance coverage from Liberty Mutual Insurance Company effective February 1, 2002. There is both specific and aggregate excess insurance. Determination was made that Quality Stores, Inc. had the inability to pay benefits as of May 29, 2002.

- Two claims currently active

Signet Industries

Signet Industries was placed into an involuntary Chapter 11 bankruptcy. A motion was heard and it was converted into a chapter 11 bankruptcy on May 25, 1993.

- One claim currently active

Simpson Industries

No summary available

- One claim currently active

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. There are specific excess policies covering the period of self-insurance, and the initial reserves exceeded \$4,600,000. The Self-Insurers Security Fund began paying benefits effective July 6, 1999.

- Nine claims currently active

Traffic Transport Engineering

A state receiver was appointed on December 20, 1990. The employer was self-insured from June 1, 1951 through August 1, 1980. Traffic Transport Engineering vacated its place of business during November of 1990 and ceased all operations. There were no surety bonds, and there is both specific and aggregate excess coverage.

- One claim currently active



Veltri Metals

This employer was self-insured effective April 1, 1989 through May 21, 2004. The employer filed for Chapter 11 bankruptcy on January 13, 2004. The employer sold their assets on May 21, 2004 and benefit obligations have been assumed by the Self-Insurers' Security Fund. The trust for Veltri Metals was established with \$1,100,000 in security.

- Three 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.

- Six claims currently active

Wohlert Corporation

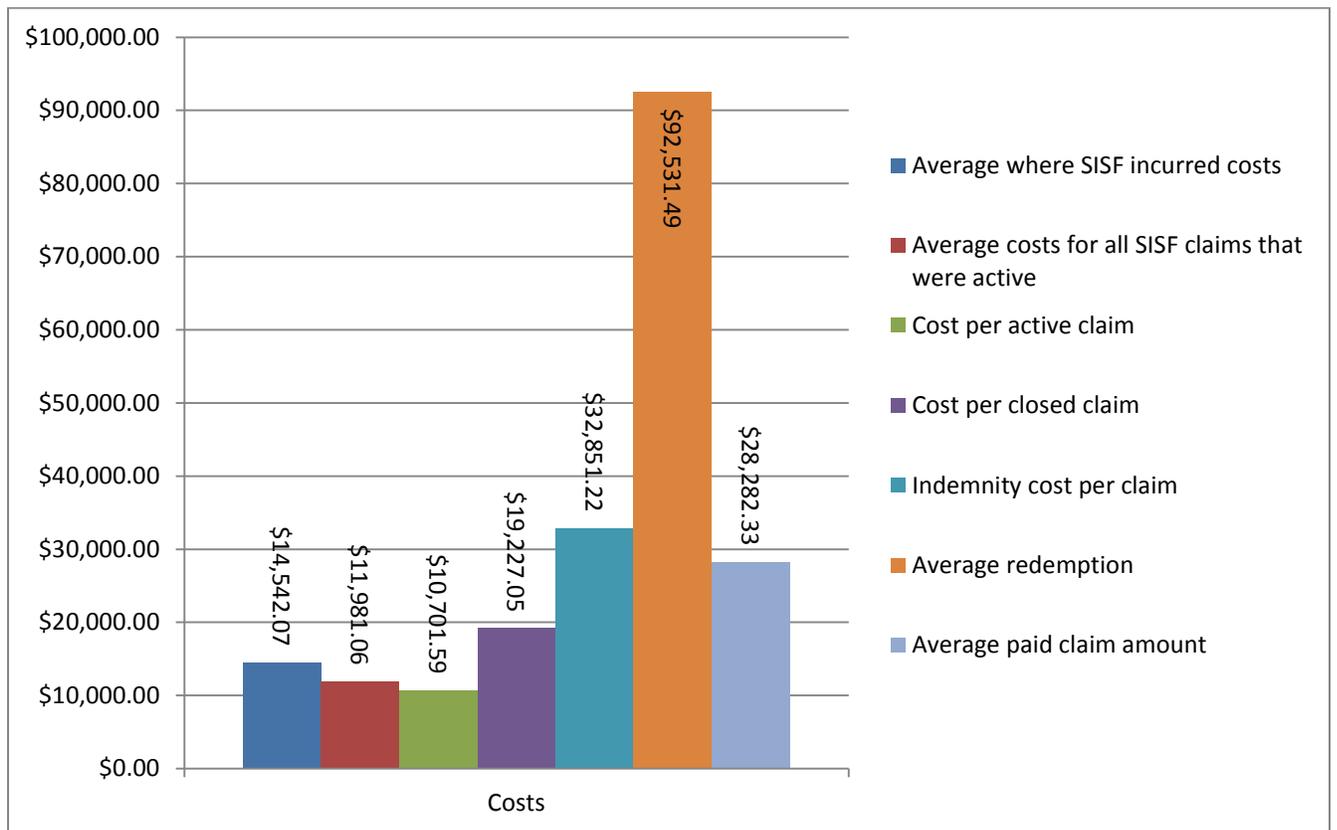
Wohlert Corporation filed for Chapter 11 on June 11, 2003. The employer was self-insured from February 10, 1969 through February 29, 2004. The Workers' Compensation Agency has called a \$250,000 letter of credit.

- Two claims currently active



SISF Claims Management and Costs

- ❖ Average where Self-Insurers' Security Fund incurred costs - \$14,542.07
- ❖ Average costs for all Self-Insurers' Security Fund claims that were active - \$11,981.06
- ❖ Cost per active claim - \$10,701.59
- ❖ Cost per closed claim - \$19,227.05
- ❖ Indemnity cost per claim - \$32,851.22
- ❖ Average redemption - \$92,531.49
- ❖ Average paid claim amount - \$28,282.33
- ❖ Average loss adjustment expense - \$494.72



The total medical cost for indemnity claims was \$601,891.88 and the medical cost for medical-only claims was zero.



SISF Claims Management and Costs (cont.)

Our claims handling methodology includes mandatory attendance by claims professionals at a monthly *round-table* claim discussion and evaluation with Office the Attorney General. Staff also attends multiple 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 claims management system also includes multiple layers of security and we employ separation of duties to ensure that **all** payments are proper and reviewed at multiple levels prior to their release.



SISF Financial Statements & Schedules



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://mdgen.michigan.gov>

Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. Douglas A. Green, Chair
Board of Trustees for the Funds Administration
and
Mr. Mike Zimmer, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Dear Mr. Green and Mr. Zimmer:

Report on the Financial Statements

We have audited the accompanying financial statements of the Self-Insurers' Security Fund, Workers' Compensation Agency Funds Administration, Department of Licensing and Regulatory Affairs, as of and for the calendar year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the 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 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.



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Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

Mr. Douglas A. Green, Chair
Mr. Mike Zimmer, Director
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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 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, 2014 and the changes in financial position and cash flows for the calendar year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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 results of operations of the State of Michigan or its enterprise funds as of and for the calendar year ended December 31, 2014, 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 11, the Self-Insurers' Security Fund is currently engaged in litigation that, if a favorable decision is granted, could significantly reduce the Fund's existing indemnity, medical, and claim expenses liability reported on the statement of net position. Our opinion is not modified with respect to this matter.

As discussed in Note 13, 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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 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 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.



Mr. Douglas A. Green, Chair
Mr. Mike Zimmer, Director
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Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Self-Insurers' Security Fund's basic 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

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 basic 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 will also issue a report 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 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 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 Self-Insurers' Security Fund's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler
Auditor General
August 28, 2015



State of Michigan
Department of Licensing and Regulatory Affairs
Self-Insurers' Security Fund

Management's Discussion and Analysis

Year-ended December 31, 2014

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 ended December 31, 2014.

The Fund was established by Michigan Compiled Laws Section 418.501 of the Michigan Workers' Disability Compensation Act of 1969 (Act) 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 the 400 current and former non-public self-insured employers that made indemnity payments during calendar year 2013 and by surety bonds and letters of credit held by the Workers Compensation Agency. Non-public employers apply for the authority to become self-insured through the Workers Compensation Agency and must be approved by the Workers 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 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 Licensing and Regulatory Affairs.

Financial Highlights

Annual assessments are imposed against paid indemnity by non-public self-insurers. Assessments are statutorily capped at 3% per calendar year. Revenue from assessments for 2014 was \$6.35 million. The Fund also received reimbursement of \$1.0 million from excess carriers in 2014 and miscellaneous expenses.

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 may be expended during the State's fiscal year 2014-2015. 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

The Fund also administers employer trust funds that are created from the call, by the Workers' 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 report, 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 SISF. 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-Insurer's 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 Licensing and Regulatory Affairs (LARA) 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. Because calendar year 2014 represents the first year in which the Self-Insurer's Security Fund is presented as an enterprise fund, this discussion and analysis provides few comparisons with the previous year. Future reports are required to include extensive comparisons.

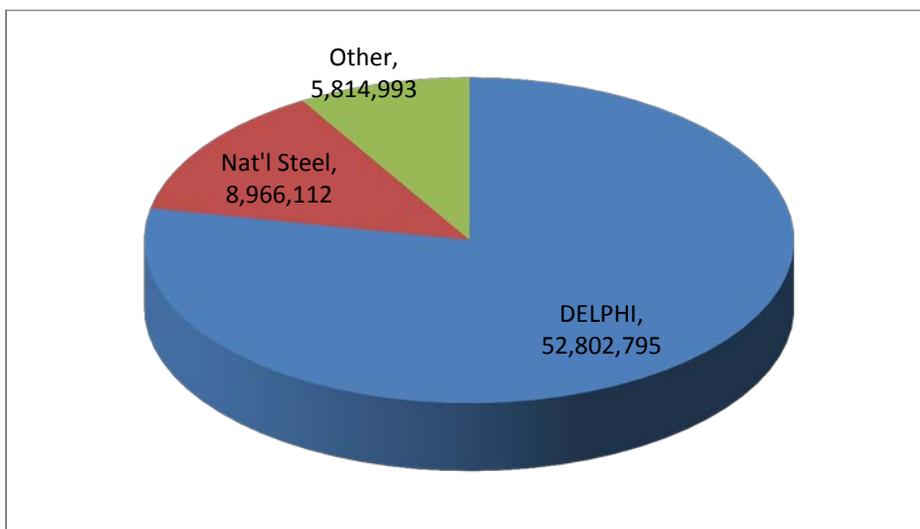


The financial statements report a negative net position as of December 31, 2014 of (\$30,438,565). The Self-Insurers' Security Fund assesses private self-insured employers annually, up to a maximum of 3%, of the reported loss paid by these employers during the preceding calendar year, exclusive of payments 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 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. As of the date of the financial statements the requirements (as mentioned above) to transfer the remaining \$7 million appropriated to the Fund have not occurred.

Equity in common cash at the beginning and the end of the year was \$30.5 million and \$28.7 million, respectively. Of the Equity in common cash, the amount held in trust at the beginning and the end of the year were \$9.8 million and \$9.0 million, respectively.

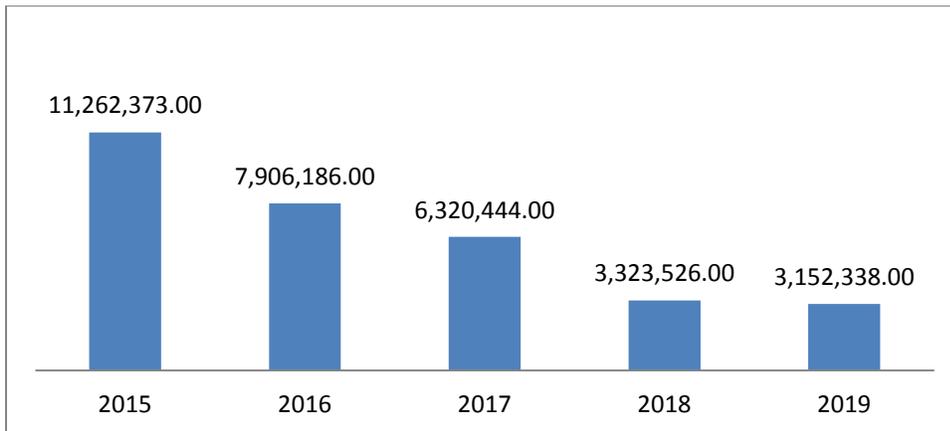
The Actuarially estimated liabilities of claims net of estimated reinsurance recoveries of \$61.9 million was increased by \$5.7 million to \$67.6 million due to certain findings during the audit process. The \$67.6 million includes \$52.8 million related to Delphi Corporation, of which at least \$38.9 million is involved in ongoing litigation with Delphi's potential primary insurance carriers:



The above amounts includes estimated reinsurance recoveries of \$5.0 million related to National Steel Corporation and \$12.4 million related to Other Companies, there is no estimated reinsurance recoveries for Delphi.



The Actuarially estimated Indemnity and Medical Claim payments for calendar years 2015 through 2019, as revised for \$2.1 million of the \$5.7 million audit adjustment mentioned above are as follows. The remaining \$3.6 million audit adjustment relates to indemnity and medical claim payments for calendar years 2020 and beyond.



The illustrated payout pattern is based on lifetime payments assuming an expectation of future payments, mortality and trend. The above amounts have not been reduced by estimated Third Party and Excess Recoveries.

Change in Net Position CY 2013 to CY 2014

The change in liabilities and net position from calendar year 2013 to calendar year 2014 is primarily attributable to an increase in operating expenses as a result of the enactment of Public Act 238 of 2014 that enables the Self-Insurers' Security Fund to recognize and begin payment of Delphi Corporation claims previously in dispute. The additional liability is partially offset by the Legislature's appropriation of \$15 million of general funds through Public Act 252 of 2014 specifically for the purpose of paying claims for former Delphi employees.



State of Michigan
Department of Licensing & Regulatory Affairs
Self Insurers' Security Fund
Statement of Net Position
December 31, 2014

ASSETS

Current Assets:

Equity in common cash	28,709,204.52
Due from State of Michigan funds	8,000,000.00
Accounts Receivable - Third Party and Excess Recoveries	693,540.99
Total Current Assets	37,402,745.51
Total Assets	37,402,745.51

LIABILITIES

Current Liabilities:

Warrants outstanding	118,718.28
Accounts payable and other liabilities	47,003.33
Indemnity, Medical, and Claim Expenses	10,350,225.00
Total Current Liabilities	10,515,946.61

Long-Term Liabilities:

Compensated Absences	91,689.05
Indemnity, Medical, and Claim Expenses	57,233,675.00
Total Noncurrent Liabilities	57,325,364.05

Total Liabilities	67,841,310.66
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NET POSITION

Unrestricted	(30,438,565.15)
Total Net Position	\$ (30,438,565.15)

The accompanying notes are an integral part of the financial statements



State of Michigan
 Department of Licensing & Regulatory Affairs
 Self Insurers' Security Fund
 Statement of Revenues, Expenses, and Changes in Net Position
 Year Ended December 31, 2014

OPERATING REVENUES

Assessments	\$ 6,350,562.14
Total Operating Revenues	<u>6,350,562.14</u>

OPERATING EXPENSES

Current:	
Indemnity, Medical, and Claim Payments	39,075,917.79
Administrative Expenses/Legal	<u>1,444,980.51</u>
Total Operating Expenses	<u>40,520,898.30</u>

Operating Income (Loss) (34,170,336.16)

NONOPERATING REVENUES

Interest Earned	<u>26,191.42</u>
Total Nonoperating Revenue	<u>26,191.42</u>

INCOME (LOSS) BEFORE TRANSFERS (34,144,144.74)

Transfers in	<u>8,000,000.00</u>
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CHANGE IN NET POSITION (26,144,144.74)

Total net position - beginning of year - (Note2)	<u>(4,294,420.41)</u>
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Total net position - end of year	<u>\$ (30,438,565.15)</u>
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The accompanying notes are an integral part of the financial statements



State of Michigan
Department of Licensing & Regulatory Affairs
Self Insurers' Security Fund
Statement of Cash Flows
Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Assessments	\$ 6,350,562.14
Third Party and Excess Recoveries	1,034,578.25
Payments for Workers Compensation Benefits	(7,379,259.45)
Payments to Employees	(1,310,430.95)
Payments to Suppliers	(483,523.04)
Net cash provided (used) by operating activities	<u>\$ (1,788,073.05)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	\$ 26,191.42
Net cash provided (used) by investing activities	<u>\$ 26,191.42</u>
Net cash provided (used) - all activities	\$ (1,761,881.63)
Cash and cash equivalents at beginning of year	<u>30,352,367.87</u>
Cash and cash equivalents at end of year	<u>\$ 28,590,486.24</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Equity in Common Cash	28,709,204.52
Warrants Outstanding	(118,718.28)
Cash and cash equivalents at end of year	<u>\$ 28,590,486.24</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (loss)	\$ (34,170,336.16)
Net Changes in Assets and Liabilities:	
Increase in Accounts Receivables - Third Party and Excess Recoveries	(25,174.59)
Decrease in Accounts Payable and Other liabilities	(109,145.49)
Increase in Long-term Compensated Absences	1,647.19
Increase in Current Indemnity and Medical Payment Liability	3,724,710.00
Increase in Long-term Indemnity and Medical Claim Benefits	28,790,226.00
Net cash provided (used) by operating activities	<u>\$ (1,788,073.05)</u>

The accompanying notes are an integral part of the financial statements



State of Michigan
Department of Licensing and Regulatory Affairs
Self-Insurers' Security Fund

Notes to the Financial Statements

December 31, 2014

NOTE 1 General Activities and Significant Accounting Policies

Reporting Entity

The Self-Insurers' Security Fund (Fund) of the State of Michigan Department of Licensing and Regulatory Affairs 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 current and former non-public self-insured employers who made indemnity payments during the previous 12 months 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, 2014 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, and the payment of worker's compensation benefits. Revenues and expenses not meeting this definition are reported as nonoperating 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 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 Accounting Changes

Based upon the change in accounting presentation from a special revenue fund as presented in the State of Michigan CAFR and the presentation as an enterprise fund in the accompanying statements described in Note 1, the beginning net position of the fund on January 1, 2014 is \$ (4,294,420).

**NOTE 3 Pension Plans and Postemployment Benefits**

Plan Descriptions – Fund employees may participate in the State Employees' Retirement System, a defined benefit pension plan administered by the Department of Technology, Management and Budget, Office of Retirement Services. Participants in this 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>.

Fund 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. 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.

Funding Policy – For the State Employee's Defined Benefit Retirement Plan, the Fund was billed and paid \$14,901.62 and \$9,029.59 for pension charges and retiree postemployment benefits in fiscal years 2012-13 and 2013-14, 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 \$7,883.05 and \$9,444.79 for fiscal years 2012-13 and 2013-14, respectively.

Note 4 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.

Note 5 Due from State of Michigan Funds

The \$8 million reported as Due from State of Michigan Funds is the amount available on October 1, 2014, of the \$15 million appropriated in PA 252 of 2014, that could be expended by the Fund for the State's fiscal year ending September 30, 2015. The \$8 million was transferred in January 2015. The remaining \$7 million cannot be transferred and expended until the criteria (mentioned in the MD&A) included in Public Act 252 of 2014 have been met.



Note 6 Accounts Receivable

The Fund has the same rights as the self-insured employer to request recovery from excess reinsurers for continuing claim payments in excess of established retention values under either a specific (individual claim) or aggregate (all claims within policy period) reinsurance 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, SISF staff request reimbursement from the excess reinsurer for continuing benefit and expense obligations on the claim. Accounts receivables of Third Party and Excess Recoveries were \$668,366 and \$693,541 as of December 31, 2013 and December 31, 2014, respectively.

Note 7 Current Liabilities

Current Liabilities include adjusted actuarially estimated liabilities net of excess reinsurance. The actuarially estimated current liability of \$10,519,696 was increased by \$742,677 due to certain findings during the audit process, and reduced by the estimated current reinsurance recoveries of \$912,148. Accounts payable and other liabilities include compensated absences of \$42,650. The compensated absence amounts were calculated and reported based upon the September 30th state’s fiscal year-end closing.

Note 8 Long-Term Liabilities

Long-Term Liabilities include actuarially estimated liabilities net of excess reinsurance and adjusted due to certain findings made during the audit process. The actuarially estimated long-term liability of \$68,750,707 was increased by \$4,970,223 due to certain findings during the audit process, and reduced by the estimated current reinsurance recoveries of \$16,487,255.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014 Ending Balance</u>	<u>Amounts Due within one year</u>	<u>Amounts Due after one year</u>
\$35,068,964	\$39,140,452	\$6,625,515	\$67,583,900	\$10,350,225	\$57,233,675

Note 9 Net Position

The Fund assesses non-public 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 \$7 million General Fund appropriation will be used to meet existing future liabilities of the Fund when certain conditions are met.



Note 10 Net Position Deficit

The 12/31/2014 net position deficit of (\$30.4) million resulted because the actuarially estimated long term liabilities for the fund exceed the total Fund assets and future assessments are not recognized until earned. Future assessments, plus excess recoveries will be used to meet the existing future liabilities of the Fund as described above in Note 9. The increase in the negative net position deficit resulted from the impact of Public Act 238 of 2014 that legislatively allowed the Fund to pay all claims against Delphi Corporation for their period of self-insurance.

Note 11 Contingency

Ace American and Pacific Employers Insurance Company v. Kevin Elsenheimer, in his official capacity as Director of Michigan's Worker's Compensation Agency; Douglas Green and Michael T. Reid, in their official capacity as board of Trustees of the Michigan Funds Administration and as governing the Michigan Self-Insurers' Security Fund

The Workers' Compensation Agency and the Self-Insurers' Security Fund are currently engaged in litigation with Delphi Corporation and its former insurers over coverage issues related to insurance policies purchased and filings made by Delphi's insurers. The litigation was entered into to determine whether the policies issued and filings made provide coverage to operations in Michigan that were also approved as self-insurers. The Workers' Compensation Agency and the Self-Insurers' Security Fund have been unsuccessful in this litigation thus far. An application for leave to appeal has been filed with the Michigan Supreme Court and a writ of certiorari has been filed with the United States Supreme Court. The writ to the United States Supreme Court was denied in June of 2015. If the remaining appeal is granted, a favorable decision for the State could significantly impact the Self-Insurers' Security Fund's net position by reducing the existing Delphi liability in excess of \$38.9 million.

Note 12 Actuarial Estimates of Liabilities for the Self Insurer's Security Fund

The liabilities for the Indemnity and Medical Claim benefits were actuarially estimated and were increased by \$5.7 million due to certain findings made during the audit process. Evaluating loss and expense reserves involves the estimation of the outcome of future uncertain events. Considerable variances on the actuary estimates should be expected. Due to the limited information on the claims related to the dispute disclosed in Note 11, it is quite possible the ultimate values will vary substantially from the estimates developed by the actuary.



Note 13 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.”

“Actuarial unpaid claim estimates often rely on a complete history of both paid and case reserve data including data on both open and closed claims for each policy period. Due to the nature of the SISF data, the paid data is incomplete with year to year payments maintained only on claims assumed by the SISF and no history of periodic payments on closed claims prior to the SISF assuming the payment obligations. In addition, the SISF has very limited case history of case reserves. Due to these data limitations, we relied on less traditional approaches to project and reasonability test unpaid claim values. While there has been a significant amount of thought behind each of our methods and assumptions, it is our opinion that the limited claim history adds additional uncertainty to our estimates.”

“Considerable variance from the estimates presented in this report should be expected. This is particularly true for the Delphi claims related to the dispute with Delphi’s potential primary insurers. Payments and claim adjudication on these claims was suspended between October 9, 2009 and June 13, 2014. The SISF is verifying the claimants’ disabilities and medical costs and intends to seek settlements on the subject claims where appropriate. Given the limited information on the settlement of these claims, it is quite possible that ultimate values will vary substantially from the estimates we have developed.”

Michigan Self-Insurers' Security Fund Annual Report



2014

Self Insurers' Security Fund Schedule of Estimated Liabilities for Claims by Company December 31, 2014

Company	Gross Unpaid Medical (1)	Gross Unpaid Indemnity (2)	Gross Unpaid Expenses (3)	Re-insurance Recoveries (4)	Net Unpaid Total (5)
DELPHI CORPORATION	\$ 3,421,363	\$ 48,352,672	\$ 1,028,760	\$ -	\$ 52,802,795
NATIONAL STEEL CORP	7,105,438	5,816,560	1,006,728	(4,962,613)	8,966,112
HOSTESS BRANDS INC.	785,412	1,388,982	629,801	(1,418,467)	1,385,728
THORNAPPLE VALLEY INC	200,303	940,869	99,695	(608,107)	632,759
HAYES LEMMERZ INT'L INC	320,216	256,437	22,538	(35,621)	563,570
HAYES-ALBION / HARVARD IND INC	506,752	479,171	6,449	(479,781)	512,591
METALDYNE COMPANY LLC	702,622	675,514	669,000	(1,577,658)	469,478
LTV STEEL COMPANY INC.	392,476	66,149	12,521	(49,749)	421,397
MERIDIAN AUTOMOTIVE SYSTEMS, INC.	418,109	115,197	67,244	(190,848)	409,701
PLASTECH ENGINEERED PRODUCTS, INC.	1,171,979	625,572	131,985	(1,658,561)	270,975
MASCOTECH CORPORATION	443,760	98,872	750	(353,229)	190,154
VENTURE GLOBAL ENGINEERING	303,479	696,584	95,222	(956,635)	138,650
ELIAS BROTHERS RESTAURANTS INC	118,369	0	17,653	0	136,022
ASC INCORPORATED	104,568	34,482	2,498	(31,571)	109,977
NEW HAVEN FOUNDRY	135,856	198,223	53,385	(297,111)	90,353
SIMPSON INDUSTRIES, INC.	3,328	170,653	784	(86,288)	88,478
PEMCO DIE CASTING CORP	5,000	184,206	1,614	(119,488)	71,332
VELTRI METAL PRODUCTS, INC.	28,053	7,500	19,453	0	55,006
NORTH OAKLAND MEDICAL CENTERS	8,312	31,293	0	0	39,605
QUALITY STORES INC	3,726	31,617	389	0	35,731
MONTGOMERY WARDS	50,015	65,462	1,250	(83,493)	33,234
LAKEY FOUNDRY CORP	375	24,637	750	0	25,762
FEDERAL FORGE INC	24,417	0	0	0	24,417
DETROIT PLASTIC MOLDING	5,000	23,463	500	(8,634)	20,329
TRAFFIC TRANSPORT ENG INC	0	17,787	0	0	17,787
BETHLEHEM STEEL COMPANY	0	15,596	0	0	15,596
LINDELL DROP FORGE	6,199	151,684	841	(145,232)	13,492
MACDONALD'S INDUSTRIAL PRODUCTS, INC.	165,681	173,845	921	(330,239)	10,208
DELTA TUBE & FABRICATING CORP.	375	7,500	750	0	8,625
INTERSTATE MOTOR FREIGHT	3,378	10,246	689	(7,023)	7,290
WOHLERT CORPORATION	5,700	0	779	0	6,479
AUTO SPECIALTIES MFG CO	500	3,839	169	0	4,508
INVERNESS CASTINGS GROUP	500	1,828	763	0	3,091
EAGLE-PICHER INDUSTRIES INC	37,558	59,878	54	(94,820)	2,669
A B MYR INDUSTRIES INC.	0	278,132	1,170	(279,302)	0
ACORN BUILDING COMPONENTS INC	0	0	0	0	0
ALKEN ZIEGLER INC.	53,371	132,106	2,233	(187,711)	0
ANDERSON SAFEWAY, INC.	0	69,664	0	(69,664)	0
BLUE WATER AUTOMOTIVE SYSTEM, INC.	421,703	119,085	0	(540,788)	0
CHATHAM SUPERMARKETS	11,245	149,300	2,769	(163,313)	0
DCT	0	333,758	23,789	(357,546)	0
HAMADY BROTHERS	57,197	23	6,425	(63,644)	0
HOWELL INDUSTRIES INC	5,000	46,162	905	(52,067)	0
JACOBSON STORES INC	12,373	88,735	1,699	(102,807)	0
KURDZIEL INDUSTRIES INC	1,398,157	464,458	102,905	(1,965,520)	0
MICHIGAN ROOFING CONTRACTORS	5,000	48,460	500	(53,960)	0
SIGNET INDUSTRIES	970	66,943	0	(67,913)	0
Total	\$ 18,443,831	\$ 62,523,144	\$ 4,016,329	\$ (17,399,403)	\$ 67,583,900

(1) Gross Unpaid Medical

The Gross Unpaid Medical amounts represent future medical loss projections for the SISF on all open and incurred but not reported (IBNR) claims.

(2) Gross Unpaid Indemnity

The Gross Unpaid Indemnity amounts represent future indemnity 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) Re-insurance Recoveries

The Re-insurance Recoveries are projections of future reimbursements due the SISF from excess reinsurers pursuant to excess contracts in place with the bankrupt self-insured employers.

(5) Net Unpaid Total

This is the total of Gross Unpaid Medical, Gross Unpaid Indemnity, Gross Unpaid Expenses, less Re-insurance Recoveries.