

HEALTHCARE WORKERS' COMPENSATION SELF INSURANCE FUND

(HWCF)

MEMBERS' MEETING

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Presentation By:

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Opening

Good Morning, Board Members, Members, Staff and Guest – on behalf of the company management, I welcome you to the 2009 Members' Meeting of Healthcare Workers' Compensation Self Insurance Fund (hereinafter, I will call it HWCF). During this speech, I will present information regarding the operational results of fiscal year 2008. Plus, discuss current challenges and future strategies.

A primary theme of my presentation is "achievement". So, I would like to begin by reading some noted quotes on achievement.

1. "Well done is better than well said" – Benjamin Franklin
2. "The toughest thing about success is that you've got to keep on being a success." – Irving Berlin
3. "The reward of a thing well done is to have done it." – Ralph Waldo Emerson
4. "We succeed only as we identify in life, or in war, or in anything else, a single overriding objective, and make all other considerations bend to that one objective." – President Dwight D. Eisenhower

Continuing on this theme, I would like to share some aphorisms about achievement.

1. Getting something done is an accomplishment; getting something done right is an achievement.
2. They said it couldn't be done, but we did it.
3. Those who dare, do; those who dare not, do not.

I hope that you can see some of our past in these statements.

Activity Report

This sets the tone for talking about our 2008 results. The 2008 financial results show a profitable year. In fact, it is the fifth (5th) consecutive year that HWCF has operated at a profit.

During 2008, HWCF took in \$13.5 million of "Gross Contributions", \$1.1 million of "Net Investment Gain" and \$32 thousand of "Other Income". This sums to a total income of \$14.6 million. Expenses, including reinsurance, operational expenses and claims cost were \$7.8 million. There was a "Net Realized Investment Loss" of \$500 thousand which will be discussed in more detail latter in this presentation. Subtracting these figures from total income results in a total "Income Before Policyholder Dividends" of \$6.3 million. HWCF paid \$611,000 in policyholder dividends and \$2.0 million in taxes. All of this resulted in a bottom line 2008 "Net Income" of \$3.7 million.

These results include a non-recurring reduction of ultimate claims cost. This reduction is not directly observed in the financials, since the reduction is treated as a credit to claims cost. The reduction occurred because our actuaries have changed their projection of HWCF's expected ultimate claim cost for past years and this change is "downward". The actuaries changed their expectations because they now have sufficient HWCF claims data to perform their trending analysis utilizing HWCF actual data rather than industry data. It reflects that our claim experience is better than the general industry. All of this is good news.

Growth

In last years' report, I spoke about the need for growth and in general terms – how growth could be created. Growth continues to be a challenge. We have addressed this situation with an increased emphasis on marketing including a senior staff level workers' compensation marketing committee. We continue to experience competition from other Funds. And, we are now seeing the standard insurance markets taking steps to be more competitive. We have not lost any substantial amounts of business. But, we have not grown either. During the coming year, we will expand our marketing efforts including an updated logo, enhanced advertising materials and loss control webinars. As well as, recently we made it possible for Members to view their claim reports on line. This is a service that very few of our competitors can provide.

Activity/Status Report

Regulatory requirements and governmental healthcare payment programs are changing. These environmental changes will affect the future of HWCF. "Business as usual" is not a formula for future success. Therefore, I would like to spend some time talking about these challenges and outlining some of the actions being taken to address the changes.

In the area of regulatory changes, a great example will be the financial treatment of investments. Investment income is important to insurance companies. HWCF had \$27.6 million of investments as of December 31, 2008. Loss of investment value has a direct and negative impact on the financial results of insurance companies. The dramatic loss of investment values that our economy has experienced over the last year has resulted in dangerous situations for several life and health insurance companies. However, most property and casualty insurance companies, like HWCF, have not suffered damaging levels of loss. This is because the regulations regarding how we can invest dictate that our investments must principally be in bonds. By regulation HWCF can invest a maximum of 15% of its investment portfolio in other than bonds. Since a great share of investment losses have been in equities and property values, this has meant that our investment portfolio has substantially maintained its value.

However, the selling of investments at lower market prices is not what has caused many of the dramatic losses. If a company does not sell its investments, how does it lose investment value? The answer to this question can be found in revised Financial Accounting Standards Board (FASB) standards. FAS 115, interpretation number 1 has had a substantial effect on these values. Simply explained, this financial standard now requires insurance companies to regularly review each individual investment – commonly there are hundreds or even thousands of individual investments – to determine if the market value of any investments have declined. If so, that investment must be analyzed to see if it is permanently or temporarily impaired. The common name for this is “Other Than Temporarily Impaired” or OTTI. If it is determined to be a permanent impairment, the value of the investment must be written down in the company’s financials to market price. This is accomplished using another technique with a new term that we see in the news “Mark To Market” valuation. The resultant write down hits the profit or loss of a company directly as a negative. As a result of this, we have heard of at least one life insurance company saying that they had a good operational year but experienced a large loss due to investment write downs. Even though this did not cause HWCF a problem in 2008, we do comply with this standard and it potentially could affect us in the future.

I would like to now address a second area of environmental change. The Centers for Medicare and Medicaid Services (CMS) is implementing several changes in their payment programs to healthcare providers. A significant reduction in governmental healthcare payments occurred in the mid 1990’s. At the same time the claims data shows that there was an increase in the number of claims. I believe that there was a correlation between these two events. We are concerned that this could occur again with the impending changes in CMS payments. Therefore we are watching the number of claims per exposure unit very closely to identify any increases in claims frequency.

These changes and others have challenged the HWCF Board and the CIRRG Board to look at our current organizational structure and analyze its ability to carry us into the future. To facilitate this analysis, the Boards created a Joint Board Committee on Reorganization. This committee is actively pursuing its charge. And, strategic adjustments will be developed and implemented over the next year.

Summarizing, the phrase which best describes the historic activities of HWCF since 2003 is “achievement”. This is as opposed to “business as usual” or “accomplishment”. The activities of today are being designed to continue our history of producing achievements into the future. The future of

your company is not being left to chance, it is being managed by your Board of Trustees and Senior Management.

Closing

In conclusion, I would like to thank you for your business and your confidence in us as your workers' compensation self-insurance provider. Please do not hesitate to call any of us with any questions or concerns that you might have regarding our products or services.

Thank you for your attention. This concludes my prepared comments. If there are any questions, I would be pleased to answer them.