

2009 ANNUAL REPORT

**IWIF** Workers'  
Compensation  
Insurance



# VIEWPOINTS & VOICES

**Balance Sheet Statutory - Basis**

	As of December 31	
	2009	2008
<b>Admitted Assets</b>		
Bonds .....	\$ 1,255,372,817	\$ 1,364,289,011
Preferred stock.....	1,291,000	40,000
Common stock, at market.....	48,595,547	20,968,113
Real estate, occupied by IWIF.....	10,363,239	9,481,223
Cash and short-term investments .....	286,977,558	188,164,285
Other invested assets .....	2,915,617	289,460
Total cash and invested assets .....	1,605,515,778	1,583,232,092
Accrued interest on investments .....	11,897,312	12,344,274
Premiums receivable.....	55,507,406	74,185,935
Receivables under reinsurance contracts .....	1,924,245	3,566,804
Other assets.....	8,215,546	6,528,580
Total admitted assets .....	<u>\$ 1,683,060,287</u>	<u>\$ 1,679,857,685</u>
<b>Liabilities and Surplus</b>		
Liabilities:		
Loss and loss adjustment expenses.....	\$ 1,298,070,000	\$ 1,286,820,000
Accounts payable and accrued expenses.....	8,945,029	12,962,467
Unearned premiums.....	82,209,728	97,600,802
Other liabilities .....	6,285,855	12,943,585
Total liabilities.....	<u>1,395,510,612</u>	<u>1,410,326,854</u>
Total surplus .....	287,549,675	269,530,831
Total liabilities and surplus.....	<u>\$ 1,683,060,287</u>	<u>\$ 1,679,857,685</u>



**Tom Phelan**

President,  
Chief Executive Officer

## To our policyholders and business partners:

2009 was a challenging financial year for all of us as the Maryland economy adjusted to the historic recession. We all realize that, during these times, money must be spent wisely and special attention must be dedicated to controlling costs and expenses. The IWIF leadership team is proud of the steps taken during this economic crisis to remain financially strong and increase our assets to exceed \$1.6 billion. In recognition of that fact, we are grateful that you continue to place your workers' compensation business with us. We fully understand our mandate to earn your loyalty by providing you with quality products and services that offer a strong value proposition.

This year, the focus was on a few core strategies to help us better serve the needs of our customers and improve our processes to control costs. The overriding objective is to strengthen our business foundation in preparation for the economic recovery. The three main cornerstones of our strategy are directed to the following:

**World-class customer service** - through an investment in the continual learning and skills development of our dedicated employees. Our commitment to being a "learning organization" is supported by the creation of the IWIF University where our employees can achieve professional certification; additionally, we expanded our college reimbursement program so employees can work toward advanced degrees. As the U.S. becomes more rooted in a knowledge-based economy, we recognize that our agents and policyholders will evaluate our ability to meet their changing needs with more tailored and sophisticated products and services. Therefore, we have invested in our most important asset – our employees – in order to provide excellent service to all our customers.

**Reassessment and upgrade of our technology infrastructure** - to ensure ease of doing business through the use of business analytics to produce more efficient processes and outcomes. Our goal is to provide all our customers and stakeholders with useful information, coupled with the ability to interact with us through easy electronic communications. For example, we continue to enhance an array of e-Services that include: immediate bill payment, improvements to agent upload/download, and we are promoting electronic data interchange with all key stakeholders to save time and money.

**Control of our medical claims costs** - by reducing the frequency of injuries and containing the rate of medical inflation. Our loss control experts are proactive in providing direct services and a variety of tools to policyholders and sharing best practices to avoid workplace injuries. Due to a continuing trend toward greater workplace safety and fewer reported accidents, IWIF was pleased to announce an overall 6.8% premium rate reduction to our policyholders in 2009. Also, we are currently working with Johns Hopkins University to create a medical intervention predictive model, which will provide



Senior Management Team

our claims experts with critical information for efficient allocation of resources to ensure productive recovery. In addition, our network of preferred medical providers insures quality care while containing costs.

IWIF management is led by an engaged board of directors that undertakes its governance responsibilities with total commitment. This year, the terms of several valuable board members expired. We thank Queen Logan Gladden and Bruce Alderman for their years of dedicated service. Their wisdom and experience helped to guide our company. We welcome two new directors, Lewis Powell and Paul Gill, Sr., and look forward to their insight and expertise as we strive to improve our overall performance.

IWIF benefits from many partners who help us maintain our leadership position in the Maryland workers' compensation market. These partners range from policyholders who value our products and services, to independent insurance agents, who sell and support our brand. Similarly, we proactively build relationships with industry and trade associations and provide discounts to their members, who demonstrate a commitment to workplace safety. We work with experts in the medical professions, capital markets, and non-profit charities to achieve our mission and performance objectives. In this Annual Report, you will read the testimonies from key stakeholders about the services, commitment and responsibilities that IWIF professionals provide every day to bolster our value proposition.

I sincerely thank you for your business. I hope that, as you read the words and viewpoints of our stakeholders, you will appreciate that our IWIF team works diligently to earn and maintain your trust and loyalty.

With appreciation,

Thomas Phelan, CPA, President and CEO

*Seated L-R*

- Rona Finkelstein, Esq.,**  
Senior Vice President,  
Legal Services and  
Chief Compliance Officer
- Thomas Phelan, CPA,**  
President and  
Chief Executive Officer
- Dennis Carroll, Esq.,**  
Executive Vice President,  
General Counsel
- George Matthews, AAI,**  
Executive Vice President,  
Insurance Operations

*Standing L-R*

- Nancy Wilson,**  
Vice President, Claims
- Frank Linardi, Jr., CPA**  
Vice President, Finance,  
and Controller
- Paige Beck, CPA,**  
Executive Vice President,  
Chief Financial Officer
- Rial Simons, FCAS, MAAA**  
Chief Actuary
- Donna Wilson,**  
Senior Vice President,  
Communications,  
Customer Service  
and Strategic Planning
- Robert Merritt, CFA,**  
Executive Vice President,  
Chief Investment Officer
- Tim Michels, Esq.,**  
Executive Vice President,  
Claims Services
- Kama Kolbe,**  
Vice President, Underwriting  
and Loss Control
- Robert Marshall,**  
Vice President,  
Chief Technology Officer
- Elbert Danquah,**  
Vice President, Internal Audit

## IWIF Financial Highlights at a Glance

	Years Ended December 31	
	2009	2008
Premiums earned.....	\$ 182,624,617	\$ 244,314,656
Net investment income .....	\$ 61,394,381	\$ 71,389,913
Loss & loss adjustment expenses incurred	\$ 202,751,866	\$ 234,549,453
Underwriting loss .....	\$ (57,081,834)	\$ (38,309,721)
Dividends paid to policyholders .....	\$ 2,037,107	\$ 2,555,733
Total assets .....	\$ 1,683,060,287	\$ 1,679,857,685
Total surplus.....	\$ 287,549,675	\$ 269,530,831
Loss/LAE ratio .....	111.0%	96.0%
Expense ratio.....	23.2%	22.3%
Combined ratio.....	134.2%	118.3%

## Statement of Operations, Statutory - Basis

	Years Ended December 31	
	2009	2008
Underwriting income:		
Net premiums earned.....	\$ 182,624,617	\$ 244,314,656
Losses incurred.....	178,285,665	208,478,126
Loss adjustment expenses incurred .....	24,466,201	26,071,327
Commissions.....	15,643,908	20,288,720
Other underwriting expenses, net.....	19,482,609	22,312,527
Provision for bad debt .....	1,828,068	5,473,677
Underwriting loss .....	(57,081,834)	(38,309,721)
Net investment income .....	61,394,381	71,389,913
Net realized gain (loss) on investments .....	8,941,400	(8,908,192)
Net investment gain .....	70,335,781	62,481,721
Other income.....	869,381	601,237
Dividends to policyholders.....	(2,037,107)	(2,555,733)
Net income .....	\$ 12,086,221	\$ 22,217,504



The 2009 condensed financial statements, including the balance sheet on page 1, have been derived from complete statutory-basis financial statements which were audited by Johnson Lambert & Co. LLP. The schedules referred to in the Actuarial Opinion on page 19 relate to the "Yellow Book" schedules. A complete set of audited financial statements, with the unqualified opinion and complete set of footnotes, may be obtained upon request.



February 26, 2010

## STATEMENT OF ACTUARIAL OPINION

### Injured Workers' Insurance Fund

#### Identification

I, Jan A. Lommele, am a Principal with the firm of Deloitte Consulting LLP. I am a member of the American Academy of Actuaries and meet its qualification standards for rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. Through the contract dated June 23, 1997 and the approval of the Board of Directors, Deloitte Consulting LLP has been retained by the Injured Workers' Insurance Fund (IWIF) to perform actuarial services including my rendering of this opinion.

#### Scope

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of IWIF as prepared for filing with state regulatory officials, as of December 31, 2009. The loss and loss adjustment expense reserves specified in Exhibit A, on which I am expressing an opinion, reflect the Loss Reserve Disclosure items (8 thru 13) listed in Exhibit B.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by Ms. Paige Beck, Executive Vice President of IWIF. I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P - Part 1 of IWIF's current Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

My review was limited to items listed in Exhibit A, and did not include an analysis of any other balance sheet items. I have not examined the assets of IWIF and I have formed no opinion as to the validity or value of these assets. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements of the liabilities.

#### Opinion

In my opinion, the amounts carried in Exhibit A on account of the items identified:

- (A) Meet the requirements of the insurance laws of the State of Maryland;
- (B) Are consistent with reserves computed in accordance with accepted actuarial standards and principles; and
- (C) Make a reasonable provision for all unpaid loss and loss expense obligations of IWIF under the terms of its contracts and agreements.

#### Relevant Comments

##### A. Risk of Material Adverse Deviation

The company is exposed to the uncertainty of variability of the reserves which could result in material adverse deviation.

With respect to this Statement of Actuarial Opinion, the amount of adverse deviation that I consider to be material is \$57,509,935. My basis for determining this amount is 20% of surplus which is an amount that would represent a reasonable upward fluctuation in reserves from those carried by IWIF that I would consider material. My selection of materiality standard was driven by the fact that this Opinion is prepared for regulatory purposes. Other measures of materiality might be used for reserves that are being evaluated in a different context.

The size of IWIF's loss and loss adjustment expense reserves relative to its surplus is relatively large compared to industry norms. Therefore, there is more than a remote possibility that adverse fluctuations of actual versus expected liabilities will be material. For this reason, I believe that there are significant risks and uncertainties that could result in material adverse deviation in the loss and loss adjustment expense reserves. Other major factors underlying the risks and uncertainties which could result in material adverse deviation include, but are not necessarily limited to:

- The nature of the coverage written, which is limited to one line of business (workers' compensation) in one state (Maryland);
- Changes in medical inflation rates;
- Changes in claims-handling procedures increasing the difficulty to estimate ultimate losses;
- Retention of key personnel required to efficiently settle claims;
- Significant growth of business in recent years;
- Discounting of the tabular unpaid losses for workers' compensation; and
- The collectability of ceded reinsurance if losses emerge toward the high-end of a range of reasonableness.

## **B. Disclosure of Unearned Premium Reserves for Long Duration Contracts**

IWIF writes no policies or contracts related to single or fixed premium policies with coverage periods of 13 months or greater which are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty policies, and surety contracts).

## **C. Other Disclosures in Exhibit B**

### **Discounting, Item 4.**

IWIF discounts liabilities for unpaid losses associated with both cases outstanding and incurred but not reported reserves for workers' compensation, as disclosed in this Statement of Actuarial Opinion.

Long-term unpaid workers' compensation indemnity claims are discounted on a tabular basis using the 2004 National Vital Statistics United States Life Tables Volume 56, Number 9. The discount rate selected by IWIF management is 3.25%. The amount of tabular discount is \$83,672,064. I am not expressing an opinion on the appropriateness of the interest rate or mortality tables chosen. The total discount of \$83,672,064 represents approximately 29% of IWIF's stated surplus.

### **Underwriting Pools or Associations, Item 5.**

Management has informed me that IWIF does not participate in any pools or associations.

### **Asbestos Exposures and Environmental Exposures, Item 6.**

I have reviewed IWIF's exposure to asbestos and environmental claims. IWIF currently carries \$723,632 of net reserves for loss and loss adjustment expenses, which is intended to represent IWIF's ultimate liability for these items. Estimation of ultimate liabilities for these claims is unusually difficult due to outstanding issues such as whether coverage exists, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. Therefore, any estimation of these liabilities is subject to significantly greater than normal variation and uncertainty.

## D. Reinsurance

### Reinsurance Collectibility

My opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible. Ceded reserves for losses and loss adjustment expenses are all with companies rated A- (Excellent) or better by A.M. Best or are not material to IWIF's reserves. IWIF management has informed me that it does not anticipate reinsurance collectibility problems with respect to these recorded reinsurance recoverables. With respect to loss and loss adjustment expense reserves net of ceded reinsurance recorded by IWIF, I have not anticipated any contingent liability which could arise if any of the reinsurers prove unable to meet their loss and loss adjustment expense obligations under the terms and conditions of their contracts with IWIF.

### Retroactive Reinsurance, Financial Reinsurance

Based on discussions with IWIF management and its description of IWIF's ceded and assumed reinsurance, I am not aware of any other reinsurance contract that either has been or should have been accounted for as a retroactive reinsurance or financial reinsurance.

## E. NAIC IRIS Tests

I reviewed the results of the following three NAIC IRIS Tests: One-Year Reserve Development, Two-Year Reserve Development and Estimated Current Reserve Deficiency to Surplus, as calculated by IWIF's management. No exceptional values were calculated for these tests.

## F. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expense, it is necessary to project future loss and loss adjustment expense payments. It is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur. Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in IWIF's historical database or which are not yet quantifiable.

## Actuarial Report

An actuarial report and underlying actuarial workpapers supporting the findings expressed in this Statement of Actuarial Opinion will be provided to IWIF to be retained for a period of seven years in the administrative offices of IWIF and available for regulatory examination.

This Opinion is provided for regulatory purposes only and is not intended for any other purpose.



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(860)-725-3050  
February 26, 2010





2009 Statement of Actuarial Opinion  
Injured Workers' Insurance Fund

Exhibit A: SCOPE

<b>Loss Reserves:</b>	<b>Amount</b>
1) Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Line 1)	\$1,211,520,000
2) Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Line 3) <b>Total Net Loss and Loss Adjustment Expenses Reserves</b>	 \$86,550,000  <b>\$1,298,070,000</b>
3) Reserve of Unpaid Losses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15)	\$1,233,780,000
4) Reserve for Unpaid Loss Adjustment Expenses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 17, 19 and 21) <b>Total Gross Loss and Loss Adjustment Expense Reserves</b>	 \$86,550,000  <b>\$1,320,330,000</b>
5) The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	\$0
6) Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	\$0
<b>Premium Reserves:</b>	
7) Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
8) Reserve for Net Unearned Premiums for Long Duration Contracts	\$0
9) Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	\$0

2009 Statement of Actuarial Opinion  
Injured Workers' Insurance Fund  
Exhibit B: DISCLOSURES

Item:	Amount
1) Name of Appointed Actuary:	Lommele, Jan A.
2) The Appointed Actuary's Relationship to the Company:	C ( <i>Consultant</i> )
3) The Appointed Actuary is a Qualified Actuary based upon what qualifications:	F ( <i>FCAS</i> )
4) Type of Opinion, as identified in the Opinion Paragraph:	R ( <i>Reasonable</i> )
5) Materiality Standard expressed in \$US (used to answer question #6):	\$57,509,935
6) Is there a Significant Risk of Material Adverse Deviation:	Yes
7) Statutory Surplus	\$287,549,675
8) Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P:	\$12,378,000
9) Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P:	
9. (a) Nontabular Discount	\$0
9. (b) Tabular Discount	\$83,672,064
10) The net reserves for losses and expenses for IWIF's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$0
11) The net reserves for losses and loss adjustment expenses that IWIF carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expense lines.	
11. (a) Asbestos, as disclosed in the Notes to Financial Statements	\$723,632
11. (b) Environmental, as disclosed in the Notes to Financial Statements	\$0
12) The total claims made extended loss and expense reserve (Schedule P Interrogatories)	
12. (a) Amount reported as loss reserve	\$0
12. (b) Amount reported as unearned premium reserves	\$0
13) Other items on which the Appointed Actuary is providing Relevant Comments	\$0