

REPORT OF EXAMINATION
OF THE
STATE COMPENSATION INSURANCE FUND
AS OF
DECEMBER 31, 2024

Commissioners Signature

A handwritten signature in blue ink, appearing to be 'P. DeLuca', written over a horizontal line.

Filed on March 12, 2026

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Sacramento, California
January 20, 2026

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

STATE COMPENSATION INSURANCE FUND

(hereinafter also referred to as State Fund), which has its home office located at 2860 Gateway Oaks Drive, Sacramento, California 95833.

SCOPE OF EXAMINATION

We have performed our single-state examination of State Fund. The previous examination of State Fund was made as of December 31, 2020. This examination covers the period from January 1, 2021 through December 31, 2024.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate State Fund's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause State Fund's surplus to be materially misstated both currently and prospectively.

All accounts and activities of State Fund were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment were identified during the course of the

examination, the impact of such adjustment would be documented separately following State Fund's financial statements.

This examination report includes findings of fact and general information about the State Fund and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to State Fund.

STATE FUND HISTORY

State Fund is a public enterprise fund whose organization and powers are defined by California Insurance Code (CIC) Sections 11770 through 11805. Concurrently with the enactment of the first compulsory workers' compensation laws in California, State Fund was established by the California Legislature in 1914 to provide an available market for workers' compensation insurance to employers located in California.

Effective October 7, 2021, Assembly Bill (AB) 1511, an insurance omnibus bill which included Senate Bill (SB) 713 related to State Fund was approved by the Governor and amended CIC Section 11797. AB 1511 authorizes State Fund, until January 1, 2027, discretionary authority to invest in properties, securities, and money market mutual funds not to exceed the lesser of 2.5 percent of its admitted assets or 10 percent of moneys that are in excess of the admitted assets over the liabilities and required reserves allowed pursuant to CIC Sections 1210 and 1192.9. The provisions in SB 713 also allows State Fund limited discretionary authority to invest in environmental, social, or governance investments. Effective January 1, 2026, AB 487 removed the January 1, 2027 sunset clause and amended CIC Section 11797.

MANAGEMENT AND CONTROL

Pursuant to California Insurance Code Section 11770, the Board of Directors of State Fund is composed of eleven members. Nine of the board members (including the chairperson) are appointed by the Governor, of which one member is required to be from organized labor. Another member who also represents organized labor is appointed by

the Speaker of the Assembly and the eleventh member is appointed by the Senate Committee on Rules. The Director of Industrial Relations is a non-voting ex-officio member of the Board, and is not counted for quorum or any other purposes. Each Board member other than the Director of Industrial Relations serves a period of five years until the appointment and qualification of their successors.

The following are the directors and principal officers of State Fund serving at December 31, 2024:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Christine E. Bouma Sacramento, California	Owner/Manger CVB Consulting
Daniel M. Curtin Carmichael, California	Director California Conference of Carpenters
Regina V. Evans San Diego, California	Chief of Staff State Board of Equalization
Richard J. Guggenhime San Francisco, California	Senior Counsel Perkins Coie, LLP
Katrina S. Hagen ^(a) Sacramento, California	Director California Department of Industrial Relations
David M. Lanier Davis, California	Principal Lanier Consulting
Senator Michael J. Machado Linden, California	Retired
Alexis A. Podesta Carmichael, California	Consultant Podesta Company
Arthur H. Pulaski Berkeley, California	Retired

Board of Directors (continued)

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Thomas E. Rankin Berkeley, California	Retired
Angela D. Tate Sacramento, California	Principal Burton and the Brains
Angie S. Wei Sacramento, California	President Angie Wei Consulting, Inc.

The following changes in directors occurred subsequent to the examination date:

- (a) Jennifer Osborn replaced Katrina S. Hagen as ex-officio member of the Board, effective August 11, 2025.

Principal Officers

<u>Name</u>	<u>Position</u>
Vernon L. Steiner	President and Chief Executive Officer
Peter A. Guastamachio ^(a)	Chief Financial Officer
Kenneth R. Van Laar	Chief Risk Officer
Stephen Hunckler	Chief Claims Operations Officer
Richard J. Law	Chief Operating Officer
Raymon P. Torino ^(b)	Interim Chief Information Officer
Margie Lariviere	General Counsel
Dante Robinson	Chief of Internal Affairs
Stephanie K. Chan	Chief Investment Officer
Andreas Acker	Executive Vice President and Chief Administrative Officer

The following changes in management occurred subsequent to the examination date:

- (a) On October 10, 2025, Peter Guastamachio retired as Chief Financial Officer. State Fund appointed Ethel Wang as Chief Financial Officer in October 2025. She joined the Executive Committee on June 2, 2025.
- (b) On May 1, 2025, State Fund appointed Matthew Kulangara as Chief Information Officer. Concurrently, Raymon Torino, who had been serving as Interim Chief Information Officer, stepped down from that role and became the Deputy Chief Information Officer.

Management Agreements

State Fund has a Master Agreement (Agreement) with the California Department of Human Resources (CalHR) to provide claims administration, legal representation, and Medicare quarterly reporting services to CalHR and other California state government agencies (Departments). Under the terms of the Agreement, the Departments shall pay services fees and reimbursement of expenditures to State Fund in accordance with California Insurance Code Sections 11774 through 11776, and 11871.

TERRITORY AND PLAN OF OPERATION

State Fund is authorized only to transact workers' compensation insurance business in the state of California and assumes a small amount of workers' compensation insurance business covering the non-California employees of its California policyholders pursuant to California Insurance Code (CIC) Section 11780.5.

State Fund is organized as a public enterprise fund and operates as a competitive, full service workers' compensation insurer that is continuously available to all employers located in California. Its operations are funded from collections of policy premiums and returns from investments, and most of its employees are civil service employees. State Fund's liabilities are not guaranteed by the State of California; however, the benefits to injured workers insured by State Fund are backed by the California Insurance Guaranty Association.

Business is written on a direct basis and through its broker distribution channel. State Fund's home office is located in Sacramento, California and it has regional offices located throughout California, including San Francisco, as required by California Insurance Code Section 11781. As of December 31, 2024, State Fund reported \$1.09 billion in total direct premiums written.

REINSURANCE

Assumed

State Fund entered into a Quota Share Reinsurance Agreement with Zurich American Insurance Company, American Zurich Insurance Company, and Zurich American Insurance Company of Illinois (collectively “Zurich America”), in which State Fund assumes a small amount of workers’ compensation insurance business written by Zurich America covering the non-California employees of State Fund’s California policyholders pursuant to California Insurance Code (CIC) Section 11780.5. During 2024, reinsurance assumed premiums were \$1.4 million.

It was observed that on Schedule F – Part 1 of the Annual Statements for the examination period, State Fund reported assumed premium from Zurich American Insurance Company of Illinois (Zurich Illinois). Pursuant to the CIC Section 11780.5(b)(2), State Fund is only authorized to contract as a reinsurer with a ceding insurer that meets all of the following criteria:

1. The insurer has an A minus (A-) rating or better from A.M. Best Company,
2. The insurer has substantial prior experience in transacting workers’ compensation business on another insurer’s behalf; and
3. The insurer has a minimum surplus of one hundred million dollars (\$100,000,000).

The financial statements for Zurich Illinois were reviewed, and it was determined that this insurer did not meet the minimum surplus of one hundred million dollars (\$100,000,000). It is recommended that State Fund comply with CIC Section 11780.5(b)(2).

In response to this finding, State Fund acknowledged that they incorrectly reported the premiums assumed under the name Zurich Illinois instead of Zurich American Insurance Company on both Schedule F – Part 1 and Special California Schedule P. To address this issue, State Fund stated that it has implemented internal controls to ensure accurate reporting of the correct entities beginning with the 2025 Annual Statement filing.

Ceded

State Fund had no ceded reinsurance agreements in-force as of December 31, 2024.

Loss Portfolio Transfer

In August 2002, State Fund entered into a Loss Portfolio Transfer (LPT) with XL Re Ltd. (XL Re) and ACE Bermuda Insurance Ltd (ACE). Effective January 1, 2007, XL Re assumed all the rights and obligations of ACE under the LPT through an Assumption Reinsurance and Novation Agreement. In 2016, XL Re completed a merger. The merged company holds the name XL Bermuda Ltd. (XL Bermuda) and effective with the completion of the merger, XL Bermuda assumed all rights and obligations of XL Re. The LPT covers workers' compensation losses paid after January 1, 2002, on accident years 1980 to 1998. Loss adjustment expenses, employers' liability and United States Longshoremen's and Harbor Workers' Compensation Act losses are excluded. Under the LPT agreement, State Fund retains an amount of aggregate subject losses, and the reinsurers are liable for 90% share of losses in the covered layers. The maximum amount recoverable under the reinsured layers of the agreement is 90% of \$1.45 billion. The following table is a summary of the reinsured layers of coverage:

Coverage Layers	State Fund's Retention	Reinsurer's Limits
First Layer	\$950 million of aggregate subject losses	90% of \$1.15 billion excess of \$950 million aggregate subject losses
Second Layer	\$200 million of aggregate subject losses	90% of \$300 million excess of \$2.1 billion aggregate subject losses

As of December 31, 2024, cumulative subject paid losses were \$2.6 billion, which exceeded the combined upper limit of the first- and second-layer total coverage of \$2.6 billion placed at 90%. After State Fund's retention of \$950.0 million and \$200.0 million on the first layer and second layer, respectively, the combined total recoverable losses were \$1.3 billion of which \$1.15 billion was collected from the reinsurers.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by State Fund with the California Department of Insurance for the period ending December 31, 2024. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by State Fund.

Statement of Financial Condition as of December 31, 2024

Underwriting and Investment Exhibit for the Year Ended December 31, 2024

Reconciliation of Surplus as Regards Policyholders from December 31, 2020
through December 31, 2024

Statement of Financial Condition
as of December 31, 2024

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 18,761,356,309	\$	\$ 18,761,356,309	
Preferred Stocks	33,035,692		33,035,692	
Common stocks	815,169,558		815,169,558	
Real estate:				
Properties occupied by the company	221,652,975		221,652,975	
Properties held for production	31,628,712		31,628,712	
Cash, cash equivalents and short-term investments	216,870,149		216,870,149	
Other Investment Assets	67,856,043		67,856,043	
Receivables for securities	55,886		55,886	
Investment income due & accrued	131,718,965		131,718,965	
Uncollected premiums and agents' balances in course of collection	215,794,125	159,055,757	56,738,367	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	60,000,000	6,000,007	53,999,993	
Amount recoverable from reinsurers	4,044,136		4,044,136	
Funds held by or deposited with reinsured companies	600,000		600,000	
Electronic data processing equipment and software	4,288,248	949,509	3,338,740	
Furniture and equipment	38,330,522	38,330,522	0	
Aggregate write-ins for other than invested assets	<u>174,493,950</u>	<u>22,280,445</u>	<u>152,213,505</u>	
Total assets	<u>\$20,776,895,270</u>	<u>\$ 226,616,240</u>	<u>\$20,550,279,030</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 8,328,956,768	(1)
Loss adjustment expenses			1,842,368,819	(1)
Commissions payable, contingent commissions and other similar charges			39,006,715	
Other expenses (excluding taxes, licenses and fees)			115,065,875	
Taxes, licenses and fees (excluding federal and foreign income tax)			10,090,296	
Borrowed money			696,026,636	(2)
Unearned premiums			42,522,683	
Advance premiums			501,240	
Policyholders dividends declared and unpaid			221,415,463	
Amounts withheld or retained by company for account of others			110,698,584	
Remittances and items not allocated			25,250,698	
Provision for reinsurance			3,967,304	
Aggregate write-ins for liabilities			<u>1,501,303,290</u>	(3)
Total liabilities			12,937,174,370	
Aggregate write-ins for special surplus funds		\$ 250,685,911		
Unassigned funds (surplus)		<u>7,362,418,749</u>		
Surplus as regards policyholders			<u>7,613,104,660</u>	
Total liabilities, surplus and other funds			<u>\$20,550,279,030</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2024

Statement of Income

Underwriting Income

Premiums earned \$ 1,086,040,919

Deductions:

Losses incurred	\$ 318,304,460
Loss adjustment expenses incurred	208,302,000
Other underwriting expenses incurred	<u>448,167,309</u>

Total underwriting deductions 974,773,769

Net underwriting gain 111,267,150

Investment Income

Net investment income earned	\$ 575,195,970
Net realized capital gains	<u>27,552,375</u>

Net investment gain 602,748,345

Other income

Net gain from agent's or premium balances charged off	\$ 24,874,816
Aggregate write-ins for miscellaneous income	<u>(3,483,676)</u>

Total other income 21,391,140

Net income before dividends to policyholders, after capital gains tax
and before federal and foreign income taxes 735,406,635

Dividends to policyholders 142,071,797

Net income \$ 593,334,838

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2023 \$ 7,181,469,302

Net income \$ 593,334,838

Change in net unrealized capital gain 22,780,728

Change in nonadmitted assets (92,862,759)

Change in provision for reinsurance 385,134

Aggregate write-ins for losses in surplus (92,002,583)

Change in surplus as regards policyholders for the year 431,635,358

Surplus as regards policyholders, December 31, 2024 \$ 7,613,104,660

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2020 through December 31, 2024

Surplus as regards policyholders, December 31, 2020			\$ 6,366,375,408	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$ 1,367,803,330			
Change in net unrealized capital losses		5,493,901		
Change in nonadmitted assets		119,451,877		
Change in provision for reinsurance	2,484,250			
Aggregate write-ins for gains in surplus	1,387,450			
Total gains and losses	<u>\$ 1,371,675,030</u>	<u>\$ 124,945,778</u>		
Net increase in surplus as regards policyholders			<u>1,246,729,252</u>	
Surplus as regards policyholders, December 31, 2024			<u>\$ 7,613,104,660</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance evaluated the Unpaid Liability Adequacy Test and Experience Report as of December 31, 2024, prepared by State Fund's independent actuary and concurred that State Fund's losses and loss adjustment expense reserves as of December 31, 2024 were reasonable and have been accepted for purposes of this examination.

(2) Borrowed Money

As a member of the Federal Home Loan Bank, State Fund was approved for \$2.07 billion in total financing availability as of December 31, 2024. Although this was the maximum approved amount, the actual borrowing capacity was limited to \$1.8 billion, determined by the fair value of the collateral State Fund pledged. Of this available capacity, \$683.5 million was drawn by year-end 2024. State Fund used borrowed funds for daily operations and invested in short- and medium-term bonds to maintain liquidity and achieve steady returns.

(3) Pension and Other Postretirement Benefit Plan

State Fund employees are employees of the State of California and participate in the State Pension and Other Postretirement Benefit (OPEB) plans. State Fund is not directly liable for obligations under the plans. As a result, State Fund recognizes Pension and OPEB expenses attributable to its proportionate share of the State's Pension and OPEB cost for the period. In 2020, State Fund discovered that a portion of the pension contributions are for Amortization of Unfunded Liability. As a result, effective 2020 the pension contributions pertaining to the normal cost are recorded as pension expenses and the remaining amounts are applied as reduction to pension liability. State Fund incurred pension expense of \$34.3 million for the year ended December 31, 2024. The liabilities for OPEB and Pension as of December 31, 2024 are \$855.2 million and \$673.4 million, respectively.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance Assumed (Page 6): It is recommended that State Fund comply with California Insurance Code Section 11780.5(b)(2). On January 16, 2026, State Fund acknowledged that it made an error in reporting premiums assumed on Schedule F – Part 1 and Special California Schedule P and has implemented internal controls to ensure accurate reporting of the correct entities beginning with the 2025 Annual Statement filing.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by State Fund's officers and employees during the course of this examination.

Respectfully submitted,

Tony Riddick, CFE
Examiner-In-Charge
Contractor, The INS Companies
Department of Insurance
State of California

Li Lim, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California