

REPORT ON EXAMINATION

OF

THE STATE INSURANCE FUND

AS OF

DECEMBER 31, 2003

DATE OF REPORT

FEBRUARY 16, 2005

EXAMINER

JAMES MURPHY

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 16, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Numbers 22212 dated April 23, 2004, attached hereto, I have made an examination into the condition and affairs of the State Insurance Fund-Workers' Compensation Fund and the State Insurance Fund-Disability Benefits Fund as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the offices of State Insurance Fund located at 199 Church Street, New York, New York 10007.

Wherever the designation "Fund" appears herein without qualification, it should be understood to indicate the State Insurance Fund.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1995. This examination covered the eight-year period from January 1, 1996 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised of a complete verification of assets and liabilities as of December 31, 2003. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Fund's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Fund
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Market conduct activities
- Territory and plan of operation
- Growth of Fund
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Fund with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF FUND

The State Insurance Fund was created in 1914 pursuant to the provisions of Section 76 of the New York Workers' Compensation Law, which includes the operations of the Workers' Compensation Fund and the Disability Benefits Fund. Its primary purpose is to provide workers' compensation and disability benefits insurance for employers in the State of New York.

By statute, the Fund is required to maintain separate records and to file separate financial statements for the types of business it is authorized to write. Accordingly, this report is divided into two sections, which cover the lines of business it is currently writing. Part I deals with the Workers' Compensation Fund and Part II deals with the Disability Benefits Fund.

The financial records of the Workers' Compensation Fund and the Disability Benefits Fund for the years 1996 through 2003, as reflected in the annual statements filed with this Department, show the following:

Workers' Compensation Fund

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus Funds</u>
1996	\$1,289,598,608	\$8,460,640,310	\$7,936,720,714	\$523,919,310
1997	\$1,070,629,300	\$8,502,334,128	\$7,845,333,659	\$657,000,469
1998	\$ 915,256,642	\$8,636,738,622	\$7,829,999,314	\$806,739,308
1999	\$ 857,468,389	\$8,614,063,511	\$7,775,006,210	\$839,057,301
2000	\$1,058,578,252	\$10,507,075,836	\$9,521,878,905	\$985,196,931
2001	\$1,224,301,266	\$11,305,095,865	\$10,133,063,166	\$1,172,032,699
2002	\$1,389,154,288	\$12,141,515,567	\$11,007,110,217	\$1,134,405,350
2003	\$1,434,904,355	\$12,924,005,239	\$11,336,749,478	\$1,587,255,762

As a result of the examination, the admitted assets of the Workers' Compensation Fund as of December 31, 2003 were found to be \$12,924,005,239, liabilities were \$11,336,749,478 and the surplus funds were \$1,587,255,762.

Disability Benefits Fund

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus Funds</u>
1996	\$23,893,101	\$39,034,989	\$23,867,466	\$15,167,523
1997	\$21,795,887	\$46,485,123	\$25,005,476	\$21,479,647
1998	\$19,055,707	\$47,166,265	\$20,387,750	\$26,778,515
1999	\$17,652,113	\$46,434,781	\$16,006,878	\$30,427,903
2000	\$34,941,582	\$87,501,548	\$65,092,730	\$22,408,817
2001	\$20,044,048	\$77,990,682	\$44,882,365	\$33,108,317
2002	\$19,017,535	\$82,886,435	\$45,886,965	\$36,999,470
2003	\$20,046,704	\$100,476,130	\$47,249,327	\$53,226,803

As a result of this examination, the admitted assets of the Disability Benefits Fund as of December 31, 2003 were \$100,476,130, liabilities were \$47,249,327 and the surplus funds were \$53,226,803.

A. Management

The State Insurance Fund is administered by a board of nine commissioners. The Commissioner of Labor of New York is a member by virtue of the office, with the other members being appointed by the Governor with the consent of the State Senate. The appointees must be employers, or executive officers of employers, which are insured by the Fund, and are named to serve three-year terms.

The board functions on behalf of both the Workers' Compensation Fund and the Disability Benefits Fund. At December 31, 2003, the board consisted of the following nine commissioners:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Linda Angello (Ex-Officio) Albany, New York	Department of Labor, State of New York
John F. Carpenter Elmira, New York	Executive Vice President, Streeter Associates, Inc.
Rivka Chatman Pittsford, New York	Director, Continental Dental Assistant School
Donald T. Decarlo Douglaston, New York	Partner and Attorney, Lord, Bissell and Brook

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jane A. Halbritter Rome, New York	President, Stonehedge Nursing Homes, Inc.
Robert H. Hurlbut Honeoye Falls, New York	President, Hurlbut Trust
Charles L. Loiodice Woodbury, New York	President and Chief Executive Officer, Paris Maintenance
Eugene C. Mazzola Webster, NY	President, Mazzola Insurance Company
Terence L. Morris Burnt Hills, New York	President, Morris Ford Mercury & Terry Chrysler Jeep

A review of the minutes of the commissioners' meetings held during the examination period indicated that all meetings were well attended.

The officers of the Fund at December 31, 2003, were as follows:

<u>Name</u>	<u>Title</u>
Kenneth J. Ross	Executive Director
Susan D. Sharp	Chief Fiscal Officer and Actuary
Christopher G. Barclay	Deputy Executive Director and Secretary to the Board of Governors
Jane Burgdorf	Assistant Deputy Director
Albert K. DiMeglio	Director of Administration
Edward L. Hiller	Director of Compensation Claims and Medical Operations
Lawrence M. LaPointe	Director of Confidential Investigations
Dennis J. Incitti	Director of Policyholder Services
Robert J. Sammons	Director of Compensation Claims and Medical Operations
Richard G. Hill	Director of Internal Audit
Douglas J. Hayden	General Attorney
Ann F. Formel	Deputy Executive Director and Marketing Director
Stephen D. Nelson	Deputy Executive Director
Todd B. Calhoun	Assistant Deputy Director and Acting Chief Information Officer
Nieves E. Garrido	Director of Investments
Armin Holdorf	Director of Field Services
Reuben Jacob	Director of Actuarial Services
Vincent M. Troianiello	Director of Underwriting
Glenn R. Cunningham	Director of Premium Audit

B. Territory and Plan of Operation

The Fund operates only in the State of New York. It is authorized to transact workers' compensation, disability benefits, and medical malpractice insurance. However, at present it confines its operations to the writing of workers' compensation and disability benefits insurance, which it writes on a direct basis. It also acts as claims administrator for the State of New York, which since 1981, self-insures its workers' compensation liabilities.

Workers' compensation premiums are based upon rates filed by the Compensation Insurance Rating Board ("Board") and are approved by the Superintendent of Insurance. However, although the State Insurance Fund is a member of this rating organization, it is not bound by the rates established by the Board. The New York Workers' Compensation Law provides that the Fund's premiums be fixed at the lowest possible rates, consistent with the maintenance of a solvent fund, with reasonable reserves and surplus.

C. Reinsurance

The Fund is strictly a direct writer. All of the Fund's reinsurers are authorized. It did not assume any business during the examination period.

The Schedule F data contained in the Fund's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

As of December 31, 2003, the Fund had one ceded excess reinsurance contract in effect. The contract is a single layer and provides for a coverage of \$100,000,000 excess \$100,000,000 each and every loss occurrence. This agreement contained the required clauses, including an insolvency clause which met the requirements of Section 1308 of the New York Insurance Law.

D. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report. The Fund did not file the abandoned property reports on a timely basis during the examination period.

It is recommended that the Fund comply with the provisions of Section 1316 of the New York Abandoned Property Law and file the abandoned property reports on a timely basis.

E. Custodial Agreement

The Fund established a custodial agreement with Manufacturers Hanover Trust (“MHT”) company dated March 8, 2003. Since that time, MHT has merged with several financial institutions and is now known as JP Morgan Chase. The custodial agreement has not been amended to reflect the custodian’s current name. It is recommended that the Fund update its custodial agreement to reflect the current identity of its custodian.

Additionally, Fund management answered in the negative to the following General Interrogatory:

“Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping Agreement of the NAIC Financial Condition Examiners Handbook”.

Examination review indicated that the Fund’s agreement with its custodial bank lacked the following protective covenants and provisions:

- a. Written instructions hereunder shall be signed by any two of its authorized officers specified in a separate list for this purpose which will be furnished to you from time to time signed by the treasurer or an assistant treasurer and certified under the corporate seal by the secretary or an assistant secretary.
- b. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

This was noted in the previous report on examination. It is again recommended that the Fund amend its custodial agreement to include the protective covenants and provisions as set forth in Part I- General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC financial Condition Examiners Handbook.

Part I - WORKERS' COMPENSATION FUND

This part of the report applies only to the Workers' Compensation Fund, hereinafter referred to as the "WC Fund".

3. SIGNIFICANT OPERATING RATIOS

The following ratios have been computed as of December 31, 2003 based on the results of this examination:

Net premiums written in 2003 to surplus as regards policyholders	.9 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	129.0%
Premiums in course of collection to surplus as regards policyholders	3.0%

The first and third ratios fall within the benchmark ranges as set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual results for the

second ratio is due to the fact the Fund reports a material illiquid asset for a receivable due from New York State.

The underwriting ratios presented below are on an earned/incurred basis and encompass the eight-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$8,999,941,234	96.64%
Other underwriting expenses incurred	1,571,496,836	16.87
Net underwriting loss	<u>(1,258,732,347)</u>	<u>(13.52)</u>
Premiums earned	<u>\$9,312,705,723</u>	<u>100.00%</u>

4. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus funds as determined by this examination as of December 31, 2003. This is the same as the balance sheet filed by the WC Fund:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$7,820,074,181	\$0	\$7,820,074,181
Preferred stocks	25,340,452	0	25,340,452
Common stocks	792,416,921	0	792,416,921
Properties occupied by the company	6,984,389	0	6,984,389
Cash, cash equivalents and short-term investments	24,962,805	0	24,962,805
Other invested assets	57,500,000	0	57,500,000
Receivable for securities	9,010,768	0	9,010,768
Aggregate write-ins for invested assets	2,706,261,435	0	2,706,261,435
Investment income due and accrued	80,247,157	0	80,247,157
Uncollected premiums and agents' balances in the course of collection	176,284,096	130,984,379	45,299,717
Deferred premiums, agents' balances and installments booked but deferred and not yet due	35,208,693	0	35,208,693
Amounts recoverable from reinsurers	2,632,971		2,632,971
Furniture and equipment, including health care delivery assets	5,916,350	5,916,350	
Receivables from parent, subsidiaries and affiliates	15,825,209	0	15,825,209
Aggregate write-ins for other than invested assets	<u>1,306,096,935</u>	<u>3,856,394</u>	<u>1,302,240,541</u>
 Total assets	 <u>\$13,064,762,362</u>	 <u>\$140,757,123</u>	 <u>\$12,924,005,239</u>

Liabilities

Losses and loss adjustment expenses		\$7,262,402,000
Other expenses (excluding taxes, licenses and fees)		21,995,439
Taxes, licenses and fees (excluding federal and foreign income taxes)		(2,870,234)
Borrowed money and interest thereon		2,706,261,435
Unearned premiums		363,981,193
Policyholders (dividends declared and unpaid)		1,333,880
Ceded reinsurance premiums payable (net of ceding commissions)		1,691,924
Amounts withheld or retained by company for account of others		590,506
Drafts outstanding		720,656
Payable for securities		11,700,839
Aggregate write-ins for liabilities		<u>968,941,839</u>
Total liabilities		\$11,336,749,478

Surplus funds

Security fluctuation surplus	\$ 300,000,000	
Catastrophe surplus	500,000,000	
Special surplus from retroactive reinsurance	2,612,977	
Foreign terrorism catastrophe surplus	25,052,084	
Unassigned funds (surplus)	<u>759,590,701</u>	
Surplus as regards policyholders		<u>1,587,255,762</u>
Total liabilities and surplus funds		<u>\$12,924,005,239</u>

NOTE: The Fund is exempt from federal and state income taxes.

B. Underwriting and Investment Exhibit

The WC Fund's surplus funds increased \$1,257,784,059 during the eight-year examination period, January 1, 1996 through December 31, 2003, detailed as follows:

Underwriting Income

Premiums earned		\$9,312,705,723
Deductions:		
Losses and loss adjustment expenses incurred	\$8,999,941,234	
Other underwriting expenses incurred	1,571,496,836	
Aggregate write-ins for underwriting deductions	<u>0</u>	
Total underwriting deductions		<u>10,571,438,070</u>
Net underwriting gain or (loss)		\$ (1,258,732,247)

Investment Income

Net investment income earned	\$3,708,681,932	
Net realized capital gains	<u>370,208,152</u>	
Net investment gain or (loss)		4,078,890,084

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(647,075,091)	
Finance and service charges not included in premiums	34,494,795	
Safety group contingency balances	(403,353,311)	
Estimated assessment for special funds	181,559,816	
Credit balances charged off	19,168,593	
Cost and interest received on judgement	5,670,897	
Cost of furniture and equipment due and accrued	111,537	
Reimbursement supplemental benefits	86,040,861	
Supplemental benefit payment	(96,390,596)	
Retro reinsurance gain	2,612,977	
Collectible from New York State	<u>(12,569,663)</u>	
Total other income		<u>(829,729,185)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$1,999,428,552
Dividends to policyholders		<u>1,163,930,719</u>
Net Income		<u>\$826,497,833</u>

Capital and Surplus Account

Surplus funds per report on examination as of December 31, 1995		\$ 329,871,702
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>
Net income	\$826,497,833	
Net unrealized capital gains or (losses)	88,740,968	
Change in non-admitted assets	340,963,857	
Change in provision for reinsurance	<u>1,181,400</u>	<u>\$ 0</u>
Total gains and losses	<u>\$1,257,384,059</u>	<u>\$ 0</u>
Net increase (decrease) in surplus		<u>1,257,384,059</u>
Surplus funds per report on examination as of December 31, 2003		<u>\$1,320,255,761</u>

5. RECEIVABLE FROM NEW YORK STATE

The WC Fund reported an admitted asset of \$1,295,000,000 for the captioned item as of December 31, 2003 as follows:

The “Contingent receivable from New York State” represents amounts that the Fund was required to transfer to the State of New York in order to help balance the State’s operating budgets pursuant to the following statutes:

Chapter 55 of the Laws of 1982	\$190,000,000
Chapter 28 of the Laws of 1986	325,000,000
Chapter 47 of the Laws of 1987	300,000,000
Chapter 7 of the Laws of 1989	250,000,000
Chapter 41 of the Laws of 1990	<u>230,000,000</u>
Total funds transferred	<u>\$1,295,000,000</u>

The contingent receivable is non-interest bearing and has no scheduled repayment, however the statutes require that New York State appropriate \$1,295,000,000 in its annual budget for the potential

repayment of any amount of the \$1,295,000,000 necessary to maintain the solvency of the Fund. The statutes specifically direct that the contingent receivable be considered an admitted asset of the Fund.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expense reserves of \$7,262,402,000 is the same as the amount reported by the WC Fund as of the examination date.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices, and was based upon statistical information contained in the Fund's internal records and in its filed annual statements.

PART II – DISABILITY BENEFITS FUND

This part of the report applies to the Disability Benefits Fund only, hereinafter referred to as the "DB Fund".

7. SIGNIFICANT OPERATING RATIOS

The following ratios have been computed as of December 31, 2003, based on the results of this examination:

Net premiums written in 2003 to surplus as regards policyholders	37.66%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	50.45%
Premiums in course of collection to surplus as regards policyholders	(11.23)%

All of the above ratios fall within the benchmark ranges as set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners except for the premiums in course of collection to surplus as regards policyholders.

The underwriting ratios presented below are on an earned/incurred basis and encompass the eight-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$106,326,025	70.25%
Other underwriting expenses incurred	30,068,450	19.87
Net underwriting gain	<u>14,955,095</u>	<u>9.88</u>
Premiums earned	<u>\$151,349,570</u>	<u>100.00%</u>

8. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus funds as determined by this examination as of December 31, 2003. This statement is the same as the balance sheet filed by the Disability Fund:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$70,728,576	\$	\$ 70,728,576
Preferred stocks	1,519,423		1,519,423
Common stocks	19,705,697		19,705,697
Cash, cash equivalents and short-term investments	668,286		668,286
Aggregate write-ins for invested assets	12,800,644		12,800,644
Investment income due and accrued	1,032,644		1,032,644
Uncollected premiums and agents' balances in the course of collection	(1,741,964)	4,237,176	(5,979,140)
Furniture and equipment, including health care delivery assets	12,316	12,316	
Other assets non-admitted	<u>22,963</u>	<u>22,963</u>	<u> </u>
Total assets	<u>\$104,748,585</u>	<u>\$4,272,455</u>	<u>\$100,476,130</u>

Liabilities, Surplus and Other Funds

Losses	\$4,470,036
Loss adjustment expenses	311,801
Other expenses (excluding taxes, licenses and fees)	260,495
Taxes, licenses and fees (excluding federal and foreign income taxes)	(183,369)
Borrowed money and interest thereon	12,800,643
Unearned premiums	28,923,500
Amounts withheld or retained by company for account of others	3,421
Drafts outstanding	43,785
Payable to parent, subsidiaries and affiliates	612,407
Aggregate write-ins for liabilities	<u>6,608</u>
Total liabilities	\$47,249,327

Surplus and Other Funds

Security Fluctuation Surplus	\$ 1,500,000
Epidemic and Catastrophe Surplus	700,000
Unassigned funds (surplus)	<u>51,026,803</u>
Surplus as regards policyholders	<u>53,226,803</u>
Total liabilities and surplus and other funds	<u>\$100,476,130</u>

B. Underwriting and Investment Exhibit

The Disability Benefits Fund's surplus funds increased \$42,241,159 during the eight-year examination period, January 1, 1996 through December 31, 2003, detailed as follows:

Underwriting Income

Premiums earned		\$151,349,570
Deductions:		
Losses incurred	\$93,040,291	
Loss adjustment expenses incurred	13,285,734	
Other underwriting expenses incurred	30,061,942	
Aggregate write-ins for underwriting deductions	<u>6,508</u>	
Total underwriting deductions		<u>136,394,475</u>
Net underwriting gain or (loss)		\$14,955,095

Investment Income

Net investment income earned	\$25,230,512	
Net realized capital gain	<u>3,320,600</u>	
Net investment gain or (loss)		28,551,112

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(6,179,652)	
Finance and service charges not included in premiums	722,468	
Credit balances charged off	3,492,689	
Miscellaneous income	<u>753,125</u>	
Total other income		<u>(1,933,838)</u>
Net income		<u>\$41,313,154</u>

Capital and Surplus Account

Surplus funds per report on examination as of December 31, 1995			\$10,985,644
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$41,572,369		
Net unrealized capital gains or (losses)	2,644,428		
Change in non-admitted assets	<u> </u>	<u>\$1,975,638</u>	
Total gains and losses	<u>\$44,216,797</u>	<u>\$1,975,638</u>	
Net increase in surplus			<u>42,241,159</u>
Surplus funds per report on examination as of December 31, 2003			<u>\$53,226,803</u>

9. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expense reserves of \$4,470,036 and \$311,801, respectively, are the same amounts reported by the Disability Benefits Fund as of the examination date.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices, and was based upon statistical information contained in the Fund's internal records and in its filed annual statements.

10. MARKET CONDUCT ACTIVITIES

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property

Bureau of this Department. The examination's general review was directed at the Company's practices for the treatment of policyholders and claimants.

No problem areas were encountered.

11. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained ten comments and recommendations, which are summarized below with findings of the Fund's subsequent actions thereon. (The page numbers shown below refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Custodial Agreement</u>	
It is recommended that the WC Fund and DB Fund amend its custodial agreements to include the required protective covenants and provisions.	9
The Fund has not complied with this recommendation and it is repeated in this report.	
B. <u>Credit Bank Balances</u>	
It is recommended that the WC Fund post the adjustments to its cash accounts in a timely manner.	9
The Fund has complied with this recommendation.	
C. <u>Annual Statements Filings</u>	
It is recommended that the Fund file its annual statements on or before the first day of March each year, in compliance with Section 307(a)(1) of the New York Insurance Law. This recommendation applies to both the Workers' Compensation Fund and Disability Benefits Fund.	10
The fund has complied with this recommendation.	
D. <u>Premiums and Agents Balances in Course of Collection</u>	
It is recommended that the WC Fund's management establish procedures to collect premiums on a timely basis.	17

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The Fund has complied with this recommendation. Although the ratio of overdue premiums to ledger asset premiums has shown a steady decline since 1998, the ratio as of the examination date still remains high. The Fund's management indicated that this high ratio was due to the credit risk inherent in the type of insureds that the Fund is mandated to accept.

E. Supplemental Benefits – Loss Payments Recoverable

- i. It is recommended that the Fund continue to review the rejected items and supply any additional information necessary to support its claim for reimbursement from the Workers' Compensation Board. 20

The Fund has complied with this recommendation.

- ii. It is recommended that an aging of this account be established and that an analysis of historical collection rates be developed for use by management in order to ensure payment in a timely manner and to help determine any amounts that are uncollectible and should be not admitted or written off.

The Fund has complied with this recommendation.

F. Unearned Premiums

- i. It is recommended that the WC Fund revise its unearned premium formula to include the correct number of billing days for policies with Bill Plan #13. 22

The Fund has complied with this recommendation.

- ii. It is recommended that the WC Fund revise its unearned premium formula so that no unearned premiums are reported for policies, which have expired as of the date of determination. 22-23

The Fund has complied with this recommendation.

- iii. It is recommended that the Fund reconcile the written premiums on its unearned premium run to the written premiums reported in its filed annual statement. 23

The Fund has complied with this recommendation.

G. Premiums, Agents' Balances and Installments Booked but Deferred and not yet Due

- i. It is recommended that the DB Fund report earned but unbilled premiums in its annual statement as written premiums and premiums receivable and not netted against unearned premiums as prescribed in Chapter 14 of the Accounting Practices and Procedures Manual for Fire and Casualty 29

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Insurance Companies published by the National Association of Insurance Commissioners.

The Fund has complied with this recommendation.

- ii. It is recommended that the DB Fund establish a not admitted asset equal to 10 percent of earned but unbilled premiums in excess of collateral specifically held and identifiable on a per policy basis as prescribed in Chapter 14 of the Accounting Practices and Procedures Manual for Fire and Casualty Insurance Companies published by the National Association of Insurance Commissioners.

The Fund has complied with this recommendation.

H. Losses

It is recommended that the DB Fund review the open claim files for policy periods 1993 and prior and adjust the reserves to reflect the actual liability on those claims.

31

The Fund has complied with this recommendation.

I. Unearned Premiums

It is recommended that the DB Fund report earned but unbilled premiums in its annual statement as written premiums and premiums receivable and not netted against unearned premiums as prescribed in Chapter 14 of the Accounting Practices and Procedures Manual for Fire and Casualty Insurance Companies published by the National Association of Insurance Commissioners.

34

The Fund has complied with this recommendation.

J. Treatment of Policyholders and Claimants

It is recommended that the WC Fund pay its medical claims on a more timely basis in compliance with Section 13-g(1) of the New York Workers' Compensation Law.

35

The Fund has complied with this recommendation.

12. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Abandoned Property Law</u></p> <p>It is recommended that the Fund comply with the provisions of Section 1316 the New York Abandoned Property Law and file the abandoned property reports on a timely basis.</p>	<p>7</p>
<p>B. <u>Custodial Agreement</u></p> <p>It is recommended that the Fund update its custodial agreement to reflect the name of the current custodian.</p> <p>It is again recommended that the Fund amend its custodial agreement to include the required protective covenants and provisions.</p>	<p>7</p> <p>8</p>

Respectfully submitted,

_____/S/
James Murphy
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

JAMES MURPHY, being duly sworn, deposes and says that the foregoing report, subscribed to by him, is true to the best of his knowledge and belief.

_____/S/
James Murphy

Subscribed and sworn to before me
this _____ day of _____, 2005.

Appointment No. 22212

*STATE OF NEW YORK
INSURANCE DEPARTMENT*

*I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

James Murphy

as proper person to examine into the affairs of the

STATE INSURANCE FUND

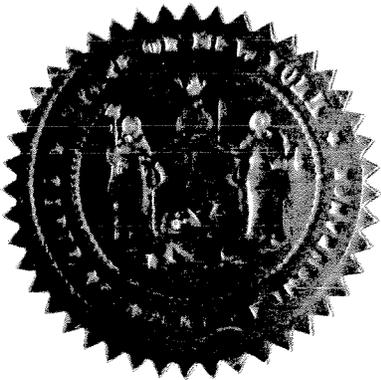
and to make a report to me in writing of the condition of the said

Fund

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 23rd day of April, 2004




GREGORY V. SERIO
Superintendent of Insurance