



# Workers Compensation Security Fund 2012-2013



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## EXECUTIVE SUMMARY

The Pennsylvania Workers' Compensation Security Fund (Security Fund) is part of the Bureau of Special Funds (Bureau) in the Pennsylvania Insurance Department. The Security Fund provides claim payments to individuals entitled to benefits under the Pennsylvania Workers' Compensation Act when the insurance companies that were originally providing benefits are insolvent and in liquidation. To date, claims have originated from seven Pennsylvania domestic and 37 foreign liquidated insurers.

The goal of the Security Fund is to administer all eligible claims consistent with the Pennsylvania Workers' Compensation Act, the Security Fund Act, and insurance industry's best claim practices while operating in a cost effective, efficient and responsible manner. The Bureau works together with a third party administrator, CompServices, Inc. (CSI), to provide quality claims management services in pursuit of this goal.

As of June 30, 2013, the Security Fund had a fund balance of \$693,019,500. Benefits paid during 2012-2013 were \$21,039,422. Also as of June 30, 2013, there were 1,229 pending claims with reserves totaling \$275,553,612. The ongoing review of each claim to address appropriate reserving is of primary importance to ensure the appropriate funding necessary to meet the Security Fund's fiduciary responsibility. Over the past fiscal year, 2,322 reserve reviews were completed.

Periodically, the Security Fund subjects the claims data to analysis by an independent outside actuary to determine ultimate liability. The most recent independent analysis of February 6, 2014 was completed by Aon Risk Solutions. Aon determined that based on data valued as of September 30, 2013 ultimate liabilities were \$411,522,814. This amount reflects not only case reserves but also incurred but not reported (including loss development on reported claims).

Since September 1, 2009, CSI has provided the Bureau of Special Funds with claims administration and managed care services for the Security Fund program. CSI is a wholly owned subsidiary of Independence Blue Cross of Philadelphia, Pennsylvania. CSI is a full service provider of workers' compensation and disability third party administrative (TPA) services, including occupational health networks and medical case management. CSI currently employs over 193 workers' compensation professionals, including the eight claim professionals and one Nurse Case Manager dedicated to the Security Fund at its locations in Camp Hill and Pittsburgh, Pennsylvania.

As third party administrator, CSI provides the following to fulfill the Security Fund's requirements of obtaining quality claims administration:

- A team of eight claim professionals experienced in Pennsylvania and Black Lung workers' compensation exposures
- A medical network which provides savings through in-house repricing capabilities
- Information systems that integrate all claim service processes, including record storage, into one internet accessible interface.

The services provided by or coordinated through CSI include:

- All customary workers' compensation claims administration services
- Coordination of claim related services, such as vocational rehabilitation, repricing and prescription drug management programs
- The processing of electronic data transfer of medical, indemnity and expense related payments to the Commonwealth for payment by the Department of Treasury
- The provision of necessary reports for the Security Fund to evaluate and monitor claims activity and program operations
- Regular electronic reporting to Centers for Medicare & Medicaid Services (CMS) including all required claim reporting services and data collection
- Reporting of monthly and quarterly claims and administrative expenses to all Liquidators in NAIC UDS format.

The Security Fund or CompServices, Inc. may be contacted through the addresses below:

PA Workers' Compensation Security Fund  
901 North Seventh Street  
Harrisburg, PA 17102  
717-783-8093  
[www.insurance.pa.gov](http://www.insurance.pa.gov)

CompServices, Inc.  
100 Corporate Center Drive, Suite 101  
Camp Hill, PA 17011  
1-800-719-2889

## SECURITY FUND BACKGROUND

*The Pennsylvania Workers' Compensation Security Fund (Security Fund) was created by an Act of the Pennsylvania legislature on July 11, 1937, known as Act 470 (the Act). The purpose of the Act at that time was to "establish funds to provide security for the payment of benefits in the event of the insolvency of an insurance carrier authorized to write workers' compensation insurance in this Commonwealth: and to provide for the administration thereof." The Act was amended on April 13, 1988; becoming Act 48; to include certain "insurers under the Federal Longshore and Harbor Workers' Compensation Act."*

The Security Fund serves as a guaranty fund which provides claims payments to individuals entitled to benefits under the Pennsylvania Workers' Compensation law (statutory benefits). These benefits would have been paid by insurance companies licensed in Pennsylvania except that such companies have been placed in liquidation by a court in their state of domicile. The responsibility of the Security Fund is limited to those benefits payable in accordance with the requirements of the Security Fund Act, the Pennsylvania Workers' Compensation Act (WC Act) or Longshore and Harbor Workers' Compensation Act, as applicable.

The Security Fund generates income from its investments and receives distributions from the estates of liquidated insurers.

In addition, funds are generated from an assessment on workers' compensation written premiums of insurance companies currently providing workers' compensation coverage in the state of Pennsylvania. If, due to the payment of liabilities, the Security Fund balance is reduced below \$500 million as of December 31<sup>st</sup> of any year, an assessment is issued. The most recent assessment was issued in 2009 based on the December 31, 2008 fund balance.

A contracted third party administrator, CSI, provides claims administration services to the Security Fund including managed care services, auditing provider invoices and coordination with Security Fund outside counsel on matters of litigation.

The Security Fund is required to meet the mandatory reporting requirements as set forth under Section 111 of CMS. Since the inception of the Medicare Program in 1965, Medicare has been the secondary payer of workers compensation benefits. CSI electronically exchanges health insurance benefits entitlement information quarterly with CMS and submits the Section 111 reporting for the Security Fund.

The Security Fund has also engaged in a Memorandum of Understanding with PACE in the Department of Aging to provide pharmacy benefits management. The maximum allowed by the WC Act for prescription medications is 10% above the Average Wholesale Price (AWP). Through the PACE Program, the Security Fund is provided a discount on the cost of prescription medication that is below the AWP.

## LIQUIDATION PROCESS

The Security Fund was created for the purpose of assuring that payment of valid workers' compensation benefits are made to those entitled individuals as provided by the Pennsylvania Act who were insured by an insurance carrier previously authorized to write workers' compensation insurance in Pennsylvania but was deemed insolvent and placed into liquidation.

The Security Fund has effectively managed the liquidation of 44 estates and currently has 1,229 open claims. The reserves on these claims including indemnity, medical, rehabilitation and claim expense totals approximately \$275,553,612. When liquidation does occur, it is important for the Security Fund to be prepared. This preparation includes specific liquidation procedures and a commitment from Security Fund staff and the contracted claims administrator to provide timely reviews of all open claim files and assure all eligible claimants and providers are paid on a timely and accurate basis. The Security Fund's objective is to have all eligible claimants continue to receive their indemnity benefits immediately and without interruption. Pertinent legal issues also need to be addressed promptly on open claims. Many times the Security Fund will place a request with the Department of Labor and Industry for a "stay" of all legal proceedings involving the liquidated company. The stay is usually included in the liquidation order and is typically in effect for 90 days from the date of the order. This provides the Security Fund time to properly identify and address the legal issues on the claim files.

There were three new liquidations for the Security Fund in the fiscal year 2012-2013: Frontier Insurance Company, Lumbermen's Mutual Casualty Company and Ullico Casualty Company.

The following list of open and closed claims, broken down by liquidator, provides an overview of claims status. Other claim information is provided to the Security Fund through ad-hoc reports developed on CSI's online tools: *CSinet* and Business Objects.

Liquidator	Date of Liquidation	Domiciled State	Total Claims	Open Count	Closed Count	Percentage Closed	Paid to Date	Outstanding	Incurred
American Mutual Insurance Co. of Boston	3/9/89	MA	421	21	400	95%	\$23,695,042	\$3,029,530	\$26,724,572
American Mutual Liability Insurance Co.	3/9/89	MA	734	41	693	94%	\$42,698,271	\$6,146,629	\$48,844,900
American Universal Insurance Co.	1/8/91	RI	24	1	23	96%	\$1,644,546	\$805,255	\$2,449,800
Atlantic Mutual Insurance Company	4/27/11	NY	36	25	11	31%	\$1,251,769	\$2,829,421	\$4,081,190
Cal Comp Insurance Co.	9/26/00	CA	1	0	1	100%	\$0	\$0	\$0

<b>Carriers Insurance Company</b>	1/16/86	IA	82	1	81	99%	\$9,927,176	\$67,891	\$9,995,067
<b>Casualty Reciprocal Exchange Insurance</b>	8/18/04	MO	218	34	184	84%	\$18,124,909	\$8,912,257	\$27,037,165
<b>Centennial Insurance Company</b>	4/27/11	NY	23	20	3	13%	\$994,198	\$3,891,894	\$4,886,092
<b>Commercial Compensation Ins Co</b>	9/26/00	CA	533	4	529	99%	\$10,318,876	\$3,993,623	\$14,312,499
<b>Consolidated Mutual Insurance Company</b>	5/31/79	NY	5	0	5	100%	\$267,487	\$0	\$267,487
<b>Credit General Insurance Co.</b>	1/5/01	OH	470	8	462	98%	\$15,010,825	\$4,314,275	\$19,325,100
<b>Employers Casualty Ins Co</b>	2/11/94	TX	70	4	66	94%	\$7,155,071	\$705,995	\$7,861,065
<b>Employers National Ins. Co.</b>	2/11/94	TX	3	0	3	100%	\$377,694	\$0	\$377,694
<b>Enterprise Insurance Co</b>	2/24/87	CA	1	0	1	100%	\$232	\$0	\$232
<b>Fremont Insurance Company</b>	7/2/03	CA	37	4	33	89%	\$4,257,593	\$4,714,250	\$8,971,843
<b>Frontier Insurance Company</b>	11/16/12	NY	7	5	2	29%	\$265,958	\$1,687,886	\$1,953,843
<b>Ideal Mutual Insurance Co.</b>	2/7/85	NY	489	6	483	99%	\$11,774,748	\$875,924	\$12,650,672
<b>Imperial Insurance Company</b>	5/12/10	OK	56	5	51	91%	\$2,181,361	\$1,200,778	\$3,382,139
<b>Integrity Insurance Company</b>	3/25/87	NJ	58	0	58	100%	\$446,376	\$0	\$446,376
<b>Intercontinental</b>	1/12/90	IL	4	0	4	100%	\$8,130	\$0	\$8,130
<b>Legion Insurance Company</b>	7/28/03	PA	738	67	671	91%	\$53,569,520	\$18,552,113	\$72,121,633

<b>LMI Insurance Company</b>	5/22/00	OH	21	4	17	81%	\$1,549,142	\$1,161,842	\$2,710,983
<b>Lumbermens Mutual Casualty Company</b>	5/10/13	IL	162	145	17	10%	\$32,742	\$20,998,895	\$21,031,637
<b>Mastercare Insurance Company</b>	7/14/03	NJ	12	0	12	100%	\$779,329	\$0	\$779,329
<b>Midland Insurance Company</b>	4/3/86	NY	176	2	174	99%	\$11,594,773	\$74,833	\$11,669,606
<b>Mission Insurance Company</b>	2/24/87	CA	175	11	164	94%	\$9,709,981	\$2,359,617	\$12,069,598
<b>Mission National Insurance Co.</b>	2/24/87	CA	75	4	71	95%	\$4,368,196	\$217,932	\$4,586,128
<b>Northeastern Fire Insurance Co.</b>	6/1/84	PA	1	0	1	100%	\$20,996	\$0	\$20,996
<b>Park Avenue Insurance</b>	11/20/09	OK	1	0	1	100%	\$35,199	\$0	\$35,199
<b>PHICO Insurance Company</b>	2/1/02	PA	1,832	136	1,696	93%	\$76,243,115	\$40,338,804	\$116,581,919
<b>Reliance Insurance Company</b>	10/3/01	PA	3,034	175	2,859	94%	\$167,076,848	\$59,000,136	\$226,076,984
<b>Rockwood Insurance Co.</b>	8/26/91	PA	1,879	151	1,728	92%	\$133,946,202	\$25,276,056	\$159,222,258
<b>Security Fund Defense Only</b>	1/0/00	0	48	0	48	100%	\$42,401	\$0	\$42,401
<b>Shelby Casualty Insurance Co.</b>	8/1/06	TX	7	2	5	71%	\$328,753	\$16,940	\$345,693
<b>Shelby Insurance Co.</b>	8/1/06	TX	8	4	4	50%	\$255,696	\$321,185	\$576,881
<b>State Auto Insurance Assoc.</b>	12/22/92	IN	15	0	15	100%	\$52,874	\$0	\$52,874
<b>State Capital Insurance Co.</b>	6/21/04	NC	4	0	4	100%	\$343,732	\$0	\$343,732



<b>The Home Insurance Company</b>	6/13/03	NH	620	183	437	70%	\$40,271,428	\$31,415,538	\$71,686,967
<b>Transit Casualty Insurance Co.</b>	12/3/85	MO	60	0	60	100%	\$1,324,870	\$0	\$1,324,870
<b>Ullico Casualty Company</b>	5/30/13	DE	47	44	3	6%	\$0	\$2,682,345	\$2,682,345
<b>United Community Insurance Co.</b>	7/7/94	NY	191	3	188	98%	\$12,159,830	\$322,523	\$12,482,353
<b>Villanova Insurance Co.</b>	7/28/03	PA	291	16	275	95%	\$22,223,263	\$10,377,036	\$32,600,298
<b>Warwick Insurance Company</b>	6/22/93	NJ	5	0	5	100%	\$170,141	\$0	\$170,141
<b>Western Employers Ins. Co.</b>	4/19/91	CA	40	1	39	98%	\$1,749,978	\$102,305	\$1,852,283
<b>Westmoreland Casualty Insurance</b>	9/27/88	PA	3,832	102	3,730	97%	\$183,606,980	\$19,159,905	\$202,766,885
<b>TOTALS</b>			<b>16,546</b>	<b>1,229</b>	<b>15,317</b>	<b>93%</b>	<b>\$871,856,249</b>	<b>\$275,553,612</b>	<b>\$1,147,409,862</b>

## CLAIM HIGHLIGHTS 2012-2013

The Security Fund, with reports from CSI, monitors the number of claims closed in any given fiscal year, and also what type of claims were involved in the closing process, such as medical-only, legal, indemnity-only, rehabilitation-only or expense/record only.

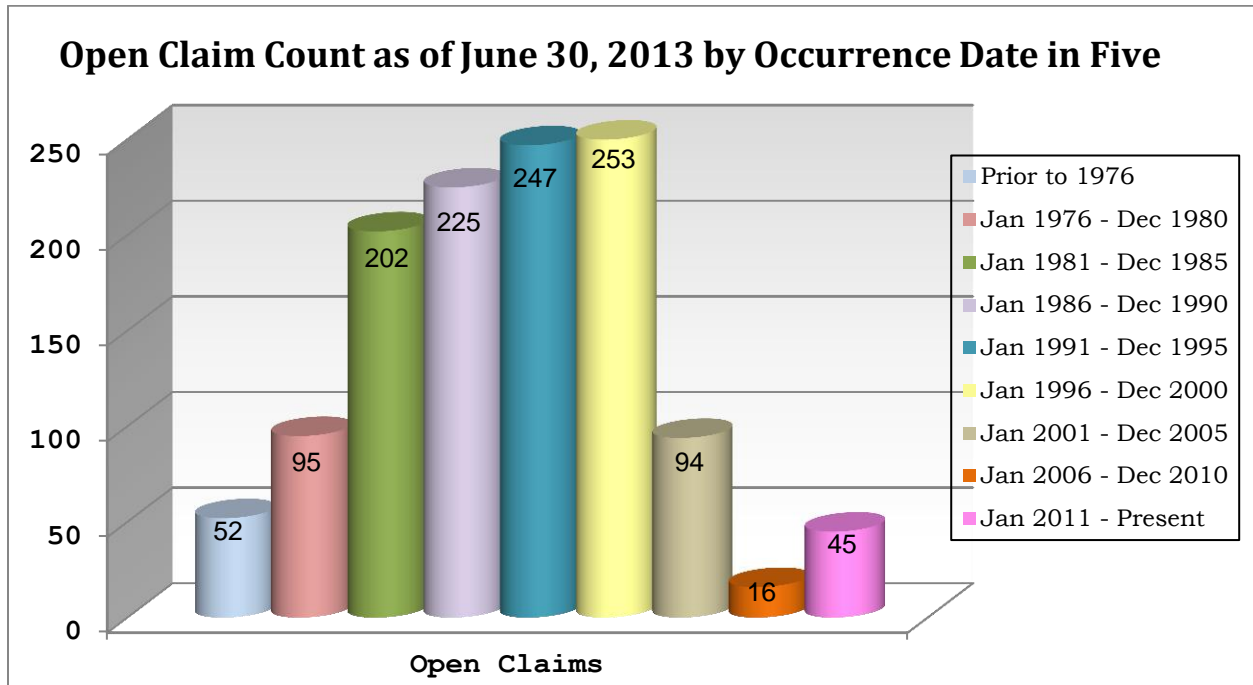
The Security Fund has 587 indemnity claims and 642 medical claims open as of June 30, 2013. The increase in both categories from the previous year is due to the three liquidations in 2012-2013. The net increase of 86 medical claims is due to the liquidation of Lumbermens Mutual Casualty which had been in run-off for several years. The run-off period allowed Lumbermens to close many of the indemnity portions of claims, leaving only the medical as active portions of the claims.

During the fiscal year 2010-2011, CSI implemented a new funded employment strategy as a means of settlement for the claims that the injured workers remained out of work and settlement negotiations for compromising and releasing the Security Fund from liability had stalled. A total of 26 cases have been assigned to the firm Perivolas, LLC. Of the 26 cases, two cases were fully resolved and one case resolved the indemnity benefits in fiscal year 2012-2013. The resolution of the three cases reduced outstanding lifetime reserves by \$1,348,850. Claims continue to be reviewed quarterly with Perivolas and new assignments are referred on a case-by-case basis depending on the most recent medical release to return the claimant to some type of gainful employment. Since inception, 16 cases have fully resolved and six cases resolved indemnity only with only two remaining unresolved, one was cancelled and one moving forward in litigation.

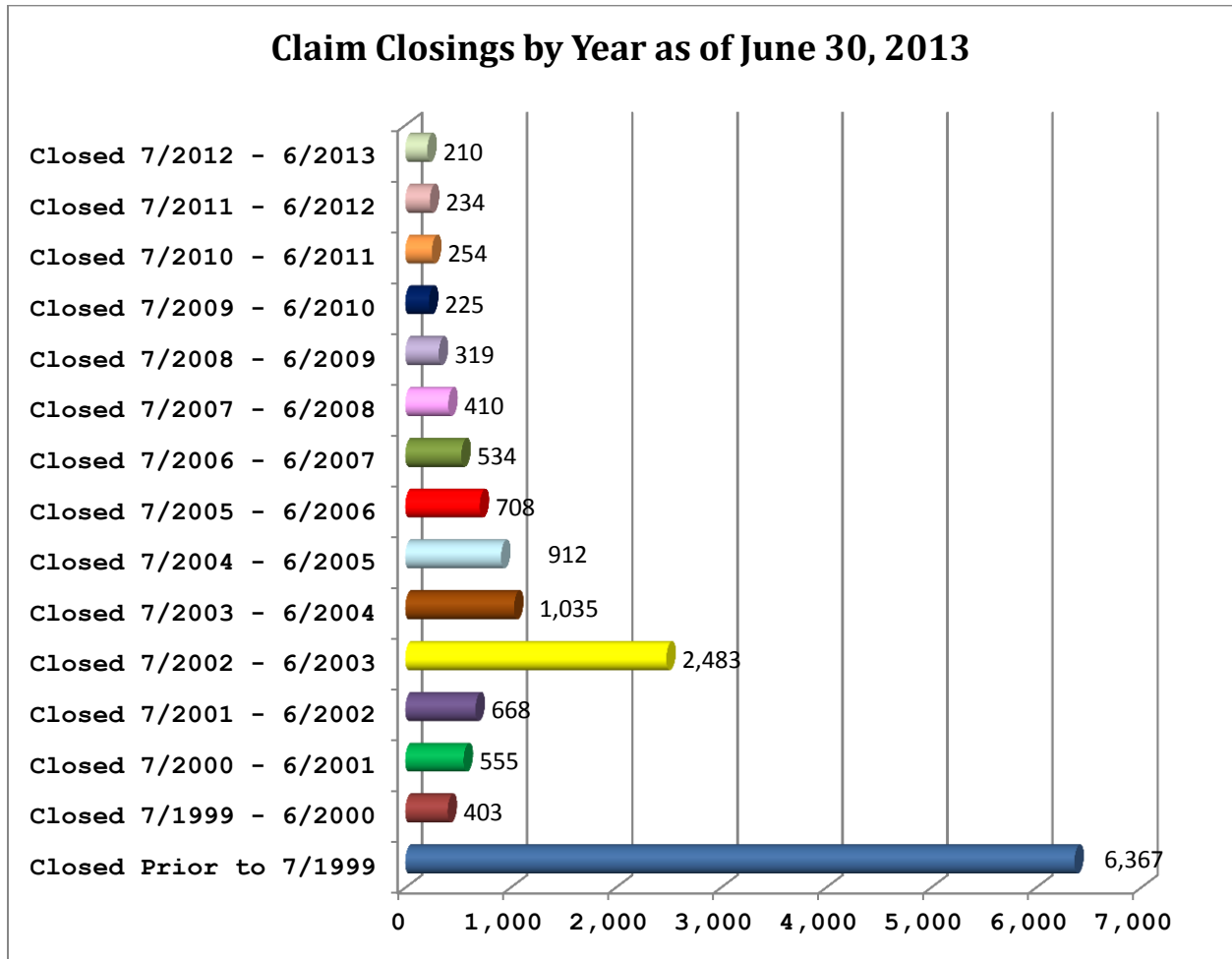
CSI also conducts periodic claim reviews with the staff from the Security Fund. Cases are evaluated for compromise and release as well as for overall claim strategy, reserving and action plans on cases reviewed with claims managers and adjusters. During the past fiscal year, 1,934 status reports were completed on the open claims.

Fiscal year 2012-2013 included CSI's continued medical cost containment program. The network savings totaled \$1,483,086 for an overall average savings below the Pennsylvania State Fee Schedule of 11%. In 2011-2012 65% of the pharmacy payments were processed through either PACE or CSI's pharmacy manager. In 2012-2013 70% of the pharmacy payments were processed through PACE or one of CSI's pharmacy management programs. New strategies include the utilization of CSI's pharmacy benefits manager for those injured workers who engage pharmacies not billing through the PACE network. The pharmacy program realized an increase use in network utilization by five percent. Additional strategies incorporated this year will continue to increase the network utilization by processing out of network bills through a program implemented by CSI's new pharmacy benefits manager.

There are currently 61 open claims being handled by CompServices, Inc. that occurred in the period from January 2006 to present. The largest number of open claims from any period represents the occurrence range from January 1996 through December 2000. There are 52 remaining open claims with an occurrence date prior to 1976. The chart below gives a stratification of all open claims by occurrence date.

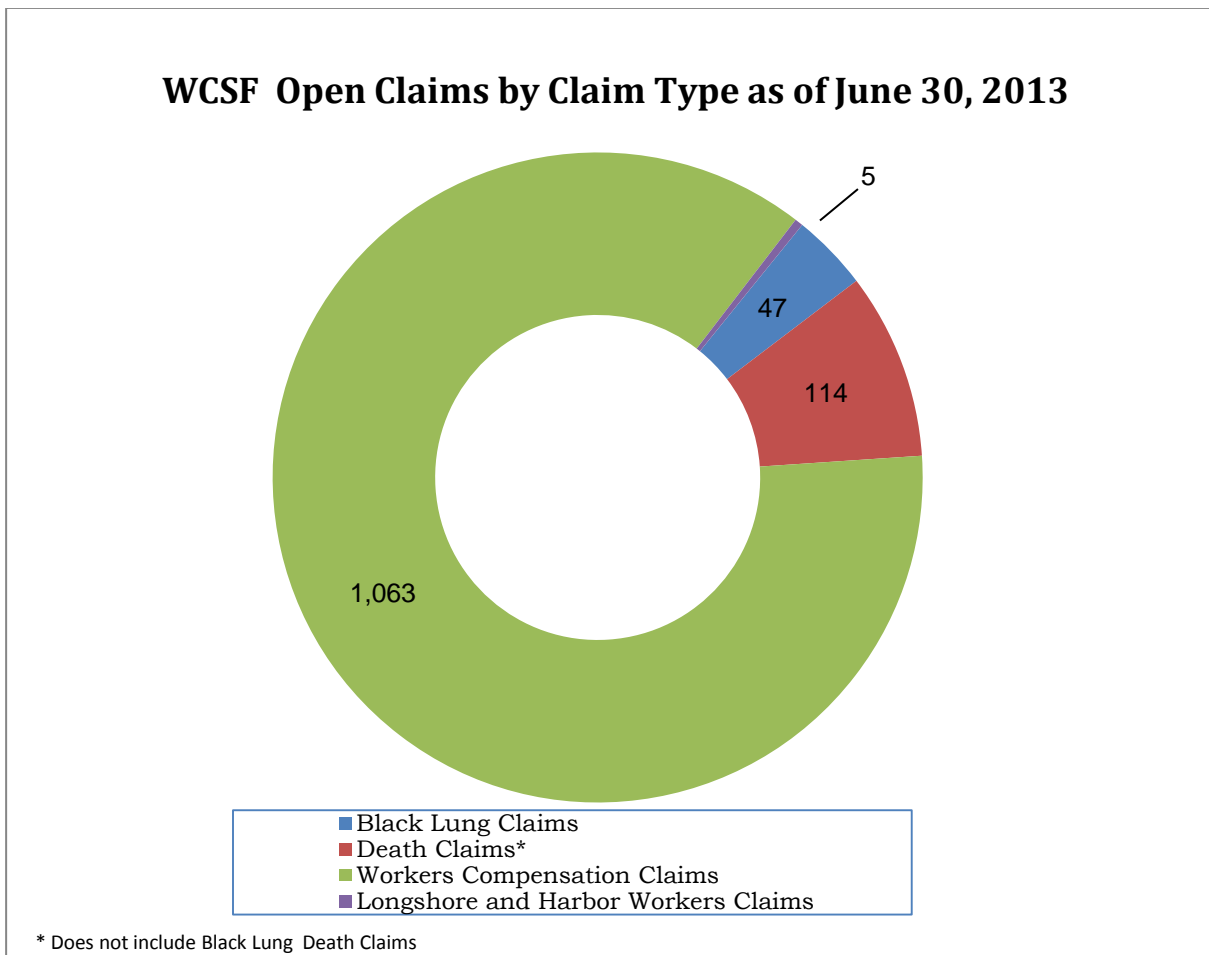


In fiscal year 2012-2013 CSI was able to close 210 claims. In fiscal year 2011-2012, 234 claims were closed which was a decrease from the preceding fiscal year in which 254 claims were closed.

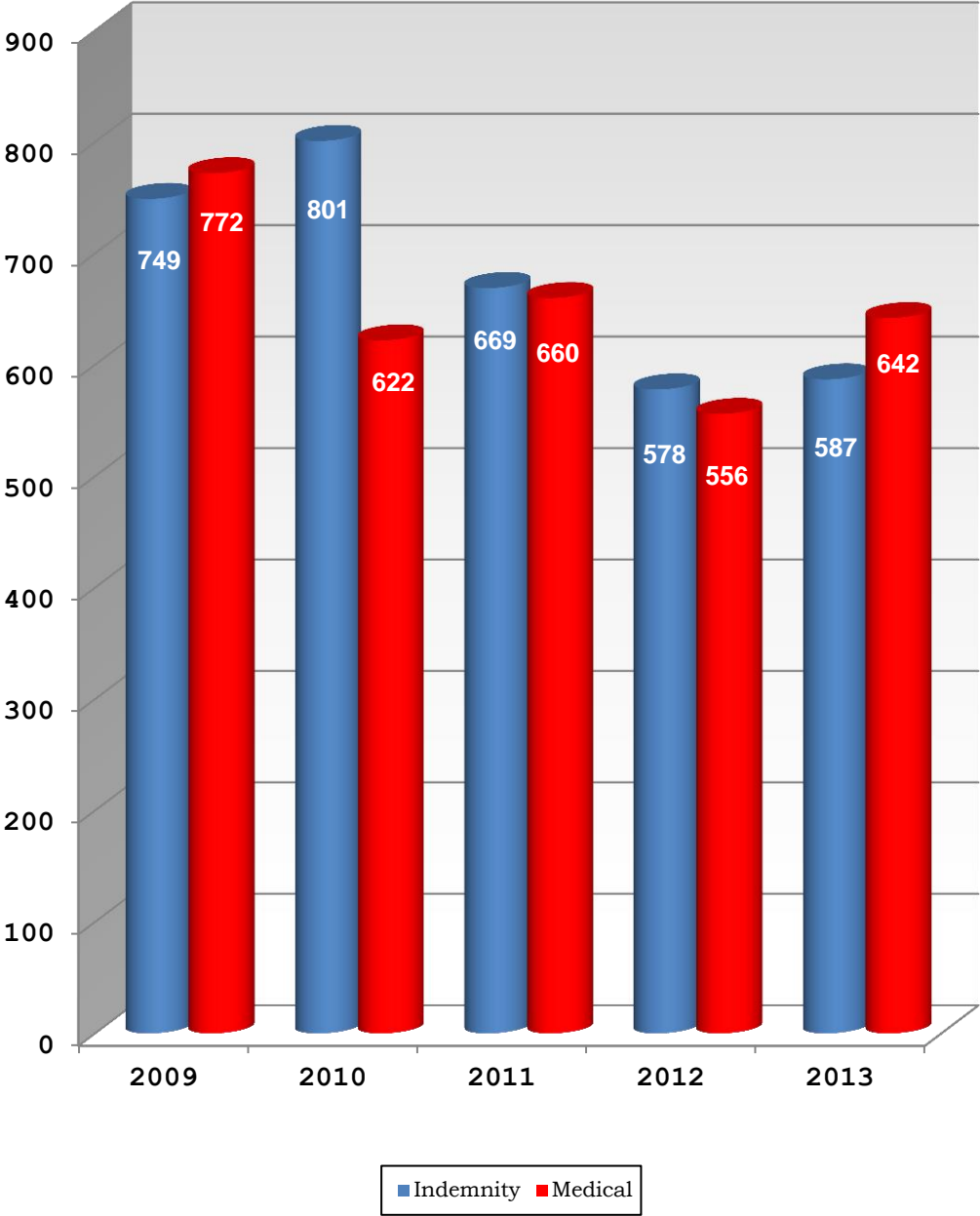


Currently, there are 1,229 open claims. The majority of these claims are workers' compensation indemnity/medical claims. In addition, there are 114 open death claims with beneficiaries still receiving benefits. As of June 30, 2013, there were 47 open Federal Black Lung claims being administered by CSI. As Federal Black Lung benefits cannot be settled, the closure is based solely on the death of the miner or beneficiary dependent. The Supreme Court on June 28, 2012 upheld the constitutionality of the Patient Protection and Affordable Care Act (PPACA). This PPACA includes a provision that eligible survivors of a miner who was receiving benefits, filed after January 1, 2005 and pending on or after March 23, 2010, are automatically entitled to benefits. After the death of the miner, CSI and the Security Fund review each claim and automatic award to the surviving widow for timely payments or file appeals based upon further investigation of the claim.

Additionally, there are five claimants receiving benefits provided under the Longshore and Harbor Workers Compensation Act (LHWC). Benefits are paid at the maximum Pennsylvania compensation rate for the year of injury or the Longshore Harbor Workers' Compensation Act rate, whichever is lower. If a benefit is termed permanent total disability, the benefits are increased each year by the cost of living adjustment as determined by the Department of Labor (US DOL) each December. Unless benefits are resolved or terminated due to death, the Security Fund remains liable until such time that the insured has become insolvent, dissolved or bankrupt. Should a LHWC insured become insolvent, dissolved or bankrupt, the US DOL will be responsible for ongoing benefits.



### Open Claim Count by Type as of June 30, 2013



### A. Medical Savings

Type	Charge by Provider	WC Fee Schedule Amt	Paid Amt	Savings Below Fee Sched	% Savings
Dental	94,039	82,930	82,930	0	0%
Hospital	6,466,770	2,821,536	2,730,575	102,984	4%
Pharmacy	6,556,997	6,152,175	5,009,973	1,145,722	19%
Physician	4,861,223	3,004,007	2,847,682	234,380	8%
Manual	1,021,327	1,021,327	1,021,327	0	0%
Rehab	-6,930	-6,930	-6,930	0	0%
<b>Total</b>	<b>18,993,426</b>	<b>13,075,045</b>	<b>11,685,557</b>	<b>1,483,086</b>	<b>11%</b>

Note: The Savings Below Fee schedule is not the net difference between the Fee Schedule Amount and the Paid Amount due to the reconsideration and payment on invoices paid in previous fiscal years.

The Workers' Compensation Act includes a fee schedule which establishes maximum amounts to be paid to healthcare providers, including pharmacies. CSI reprices all eligible Security Fund invoices to fee schedule. In addition, CSI has special arrangements with a network of healthcare providers to receive payment less than the fee schedule which are applied to Security Fund invoices. The Security Fund also has an agreement with PACE and their participating pharmacies to receive payment less than fee schedule. Therefore, as the chart above illustrates, the Security Fund has saved, \$1,483,086 below the Workers' Compensation fee schedule as a result of these arrangements.

Manual payments include payments categorized as medical but which are not for direct medical care. Manual payments include expenditures for Compromise and Release of medical benefits, cost of Medicare Set Asides, and payments to CMS for conditional payment liens. These payments are not subject to fee schedules or savings arrangements, but are included in the overall medical costs of the program.

### B. Prescription Drug Program

In an effort to reduce expenses while having no negative impact on the medical treatment of the claimant, the Security Fund entered into a memorandum of understanding with PACE on July 1, 2010 to provide a discounted savings program for prescription medications. This program provides Security Fund claimants with a comprehensive pharmaceutical cost management program involving no out-of-pocket expense. Magellan Health Services, Inc. is PACE's pharmacy benefit management administrator. PACE saved the Security Fund a net of \$781,095 below the Usual & Customary provider charges for 2012-2013.

While Security Fund claimants have access to nationwide pharmacies and mail order pharmacies through PACE, the Security Fund realizes the PACE discount only if the claimant's prescription is filled by a pharmacy that has agreed to participate in the program. One national pharmacy chain and a few independent pharmacies in Pennsylvania have elected not to participate in the Security Fund's program. The Security Fund also does not realize similar savings when prescriptions are misdirected by participating pharmacies to third party billing companies that bill higher prices than PACE or are dispensed by physician groups. Since pharmacy costs remain a significant part of the overall medical expense for the Security Fund, a

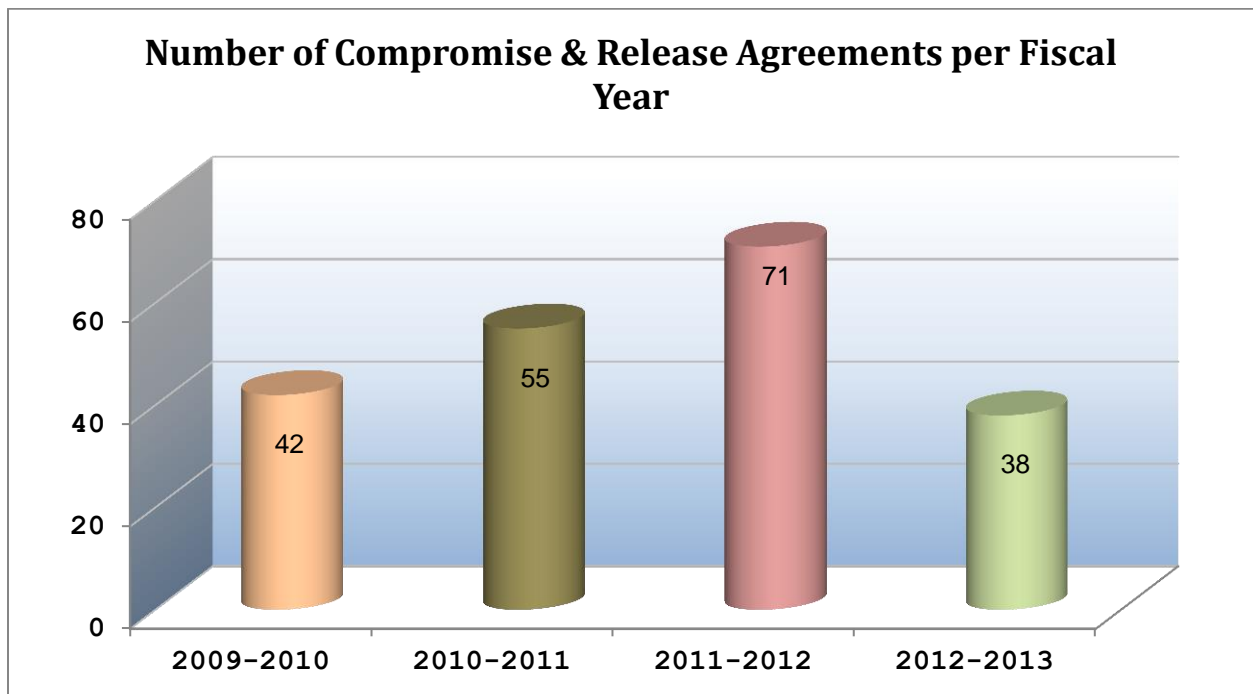
supplemental network and billing mechanism is needed in an effort to obtain discounts on prescriptions not otherwise processed through PACE. Therefore the Security Fund has added the MyMatrixx pharmacy benefits management program through CSI as a means of additional cost savings.

### C. Compromise and Release Agreement

A Compromise and Release Agreement is typically a final settlement of either indemnity benefits, medical benefits or both. The implementation of this agreement provision to the Pennsylvania Workers' Compensation Act has had a proven impact on claims resolution and financial savings to the Security Fund to resolve claims to closure as a lump sum payment or structured settlement.

If medical benefits are settled under the terms of a Compromise and Release Agreement, CSI ensures the requirements of the CMS are met by establishing a Medicare Set Aside account when necessary. CSI also address any MSPRC liens with CMS as part of the final claims closing process after a Compromise and Release has been executed.

From July 1, 2012 through June 30, 2013 CSI settled 38 claims by way of Compromise and Release. The chart below illustrates the total number of cases settled since the Security Fund and CompServices, Inc contracted for services in 2009.





#### D. Fraud Prevention Measures

The Act, known as Act 44, was amended in 1993. These amendments made several important changes including the implementation of specific insurance fraud provisions that are directed against all parties involved in the system including the injured worker. A perpetrator of fraud can be the subject of a fraud prosecution that could result in fines up to \$50,000 and possibly several years in prison. These amendments were expanded by the 1996 amendments, which made it a criminal offense for an employee to knowingly, with the intent to defraud, fail to make certain necessary reports on work status. These amendments, known as Act 57, likewise make it an offense to receive total disability benefits while employed or to receive partial disability benefits in excess of the amount permitted based on wages earned.

The Security Fund considers falsification of work related information as insurance fraud and, in conjunction with CSI, has utilized legislative tools to address the issue of workers' compensation fraud.

CSI, through its parent company Independence Blue Cross, employs a full time internal auditor to oversee all internal and external fraud investigations as well as SAS 70 Type II compliance. CSI has received a qualified rating from Ernst & Young based on SAS 70 audits conducted over the last 2 years. With the support of Independence Blue Cross Corporate Financial Investigations Department, the auditor has the support needed for investigation of all matters of fraud affecting CompServices.

CSI subscribes to the Central Index Bureau in an effort to identify and deter fraud on part of the claimant.

#### E. Liquidations

There were three new liquidations for the fiscal year of 2012-2013, Frontier Insurance Company effective November 16, 2012 adding a total of seven claims, Lumbermens Mutual Casualty Company effective May 10, 2013 adding a total of 162 claims and finally Ullico Casualty Company effective May 30, 2013 adding a total of 47 claims.

#### F. Technological Enhancements

The associates at CSI use a state-of-the-art application for processing workers' compensation claims. StoneRiver, CSI's software vendor of 15 years, upgraded their fully integrated policy, claims handling, medical case management and bill repricing system, and rebranded it as CompSuite. It is a web-based application that CSI rolled out the first quarter of 2013.

CSI takes advantage of their parent company's computer network infrastructure, which includes redundant data centers and dual carrier communications to all sites. In the event of a disaster, the backup system can be put into production in minutes with no loss of data.

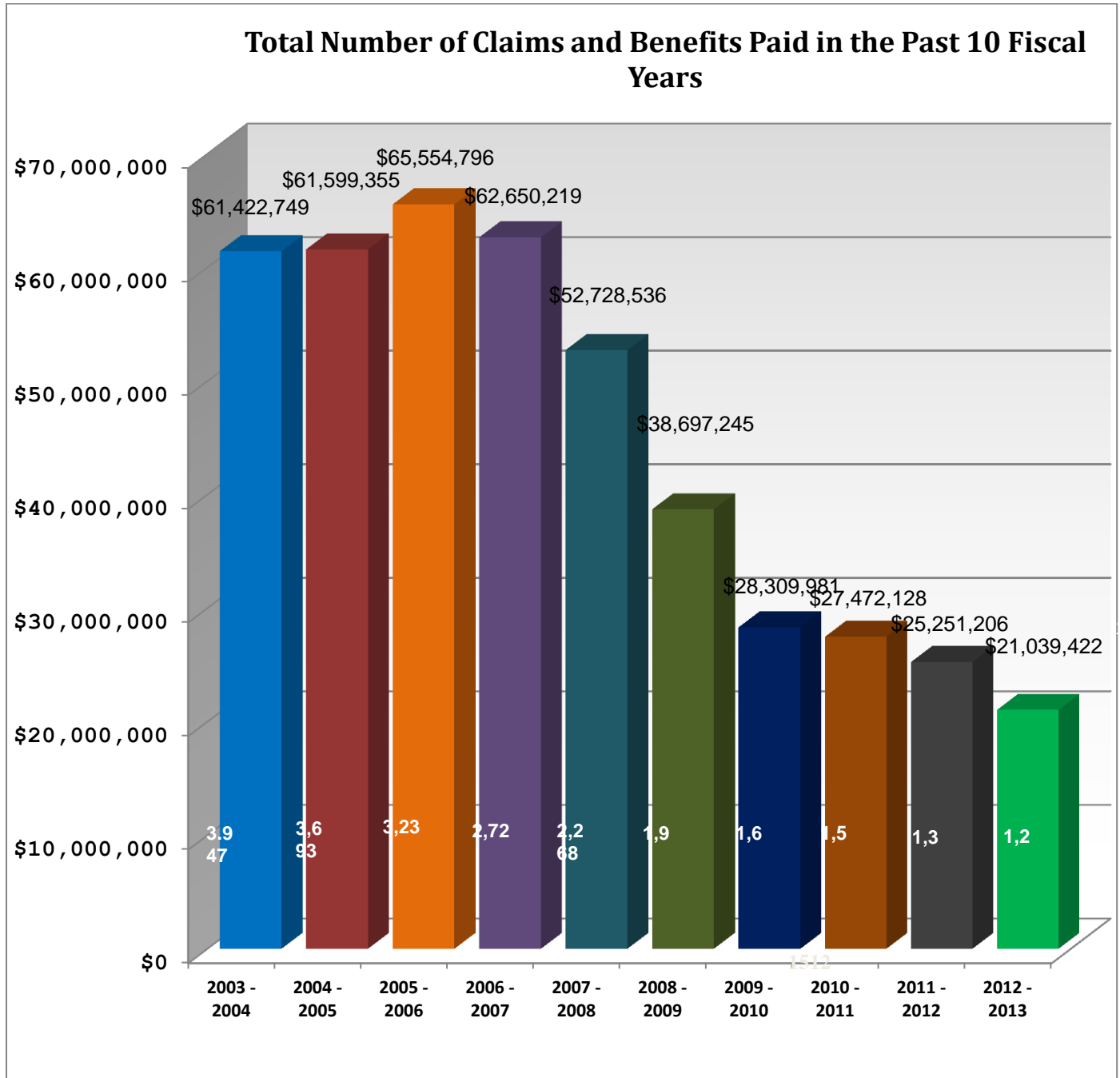
A component of the PACE program includes several data exchanges with CSI. CompServices, Inc provides data on claimants eligible for pharmacy benefits. The program with PACE also permits the CSI adjusters to specifically regulate the type and quantity of medications allowed for the workers' compensation injury of each claimant. PACE provides weekly data feeds on the pharmacy and administrative costs to the Security Fund which CSI loads to each of the electronic claims files.

Administratively, the paperless workflow process continues to be an efficient user tool. The Security Fund staff, as well as the majority of the Liquidators, have secured viewing access directly through the internet. Viewer access provides instant access to claim payments, claim reserves, claim activity and file documents. During fiscal year 2012-2013, very little paper flowed between the Security Fund and CSI, which continued to eliminate time consuming tasks such as paper filing and onsite paper file audits for the Security Fund, Liquidators and Reinsurers.

The Security Fund Web Page is located on the Insurance Department's website <http://www.insurance.pa.gov>. This web page provides valuable information to consumers who have inquiries regarding the Security Fund's background, contact information and answers to frequently asked questions.

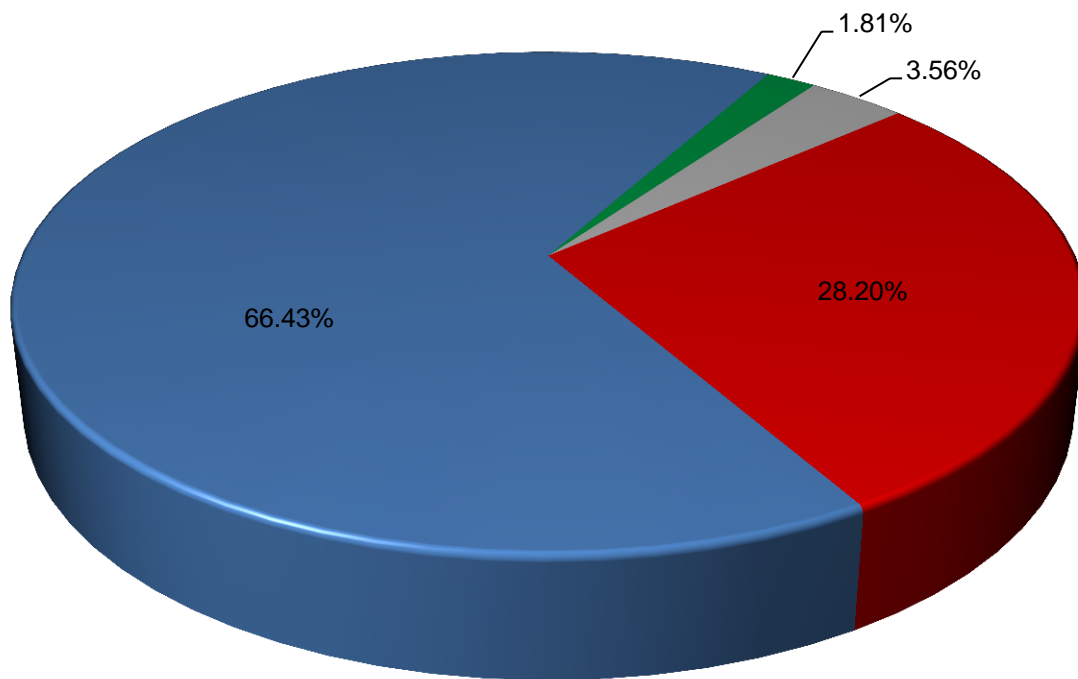
## FINANCIAL HIGHLIGHTS 2012/2013

During fiscal year 2012-2013, the Security Fund paid \$21,039,422 in benefits. Payments have been decreasing since 2006. Payment types are broken down into the following categories: indemnity, medical, expense and legal. Monies paid out by the Security Fund under these categories are illustrated on the following charts.



The vast majority of payments over the past ten years have been indemnity payments, which include Compromise and Release settlement payments. A total of \$579,190,946 has been paid in indemnity benefits, which represents 66.43% of the total payouts over the life of the Security Fund. Medical payments totaling \$245,844,481 represent 28.20% of the total Security Fund payments. Expense payments total \$15,814,237 representing only 1.81% of the total payments with the remaining 3.56% in payments totaling \$31,006,585 for legal expenses.

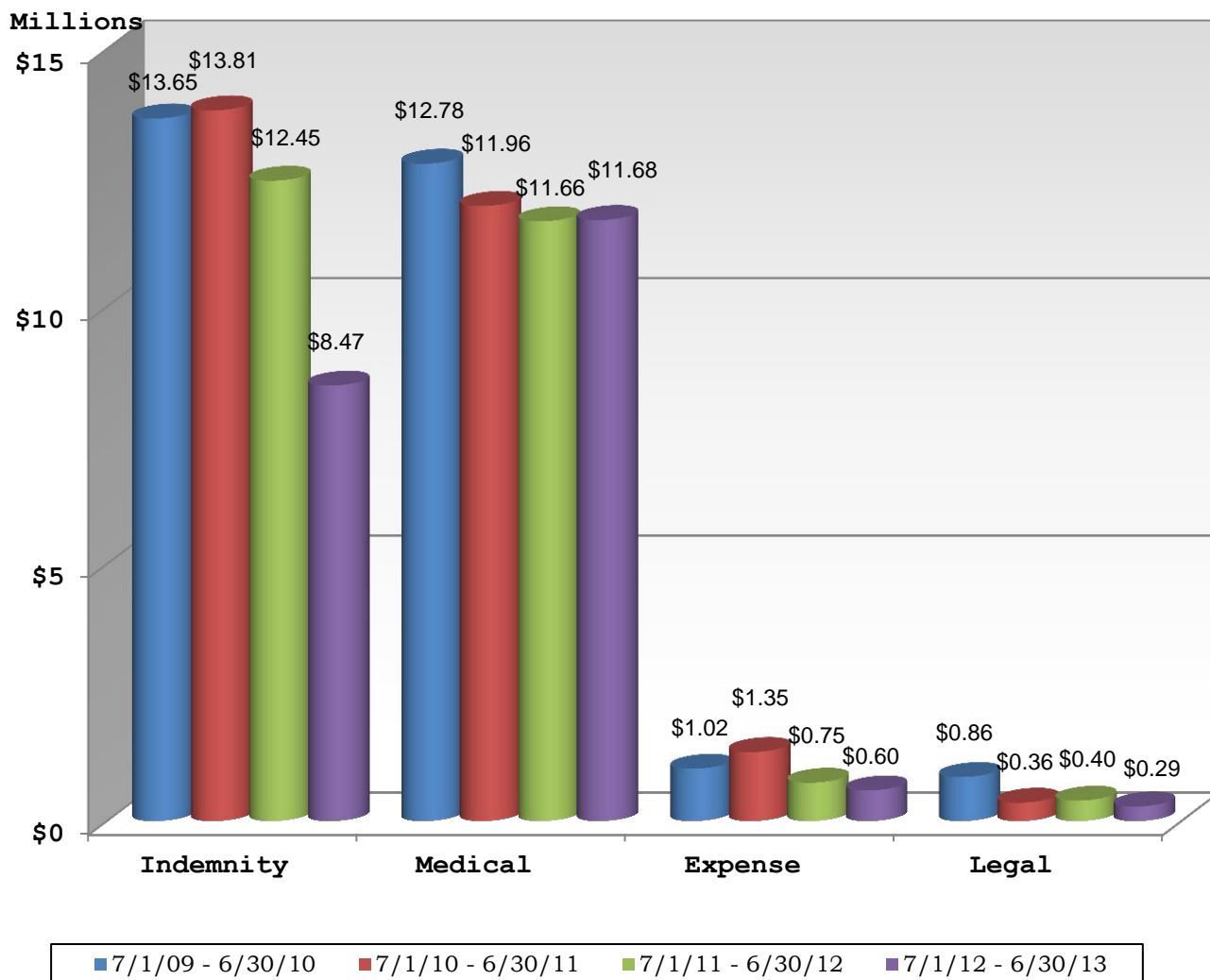
**Percentage of Amount Paid through June 30, 2013 by Financial**



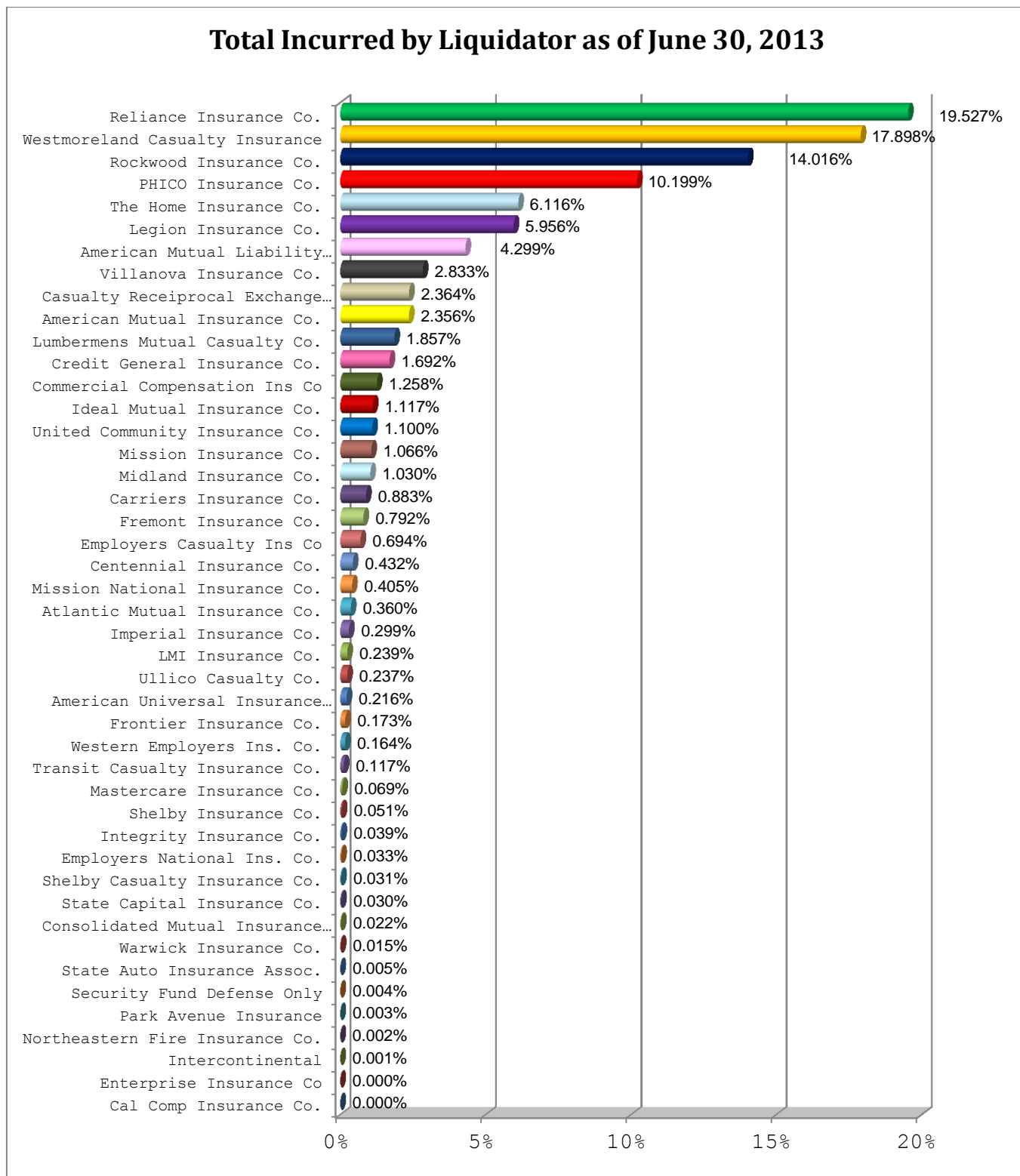
■ Indemnity \$579,190,946	■ Expense \$15,814,237	■ Legal \$31,006,585	■ Medical \$245,844,481
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Over the past two fiscal years, there is a significant decrease in indemnity payments due to settlement of benefits. During this current fiscal year, indemnity payments decreased by \$3,980,000. Expenses decreased by \$150,000. Legal expenses decreased by \$110,000. Medical payments increased slightly by \$20,000.

**Amount Paid by Fiscal Year and Financial Category**

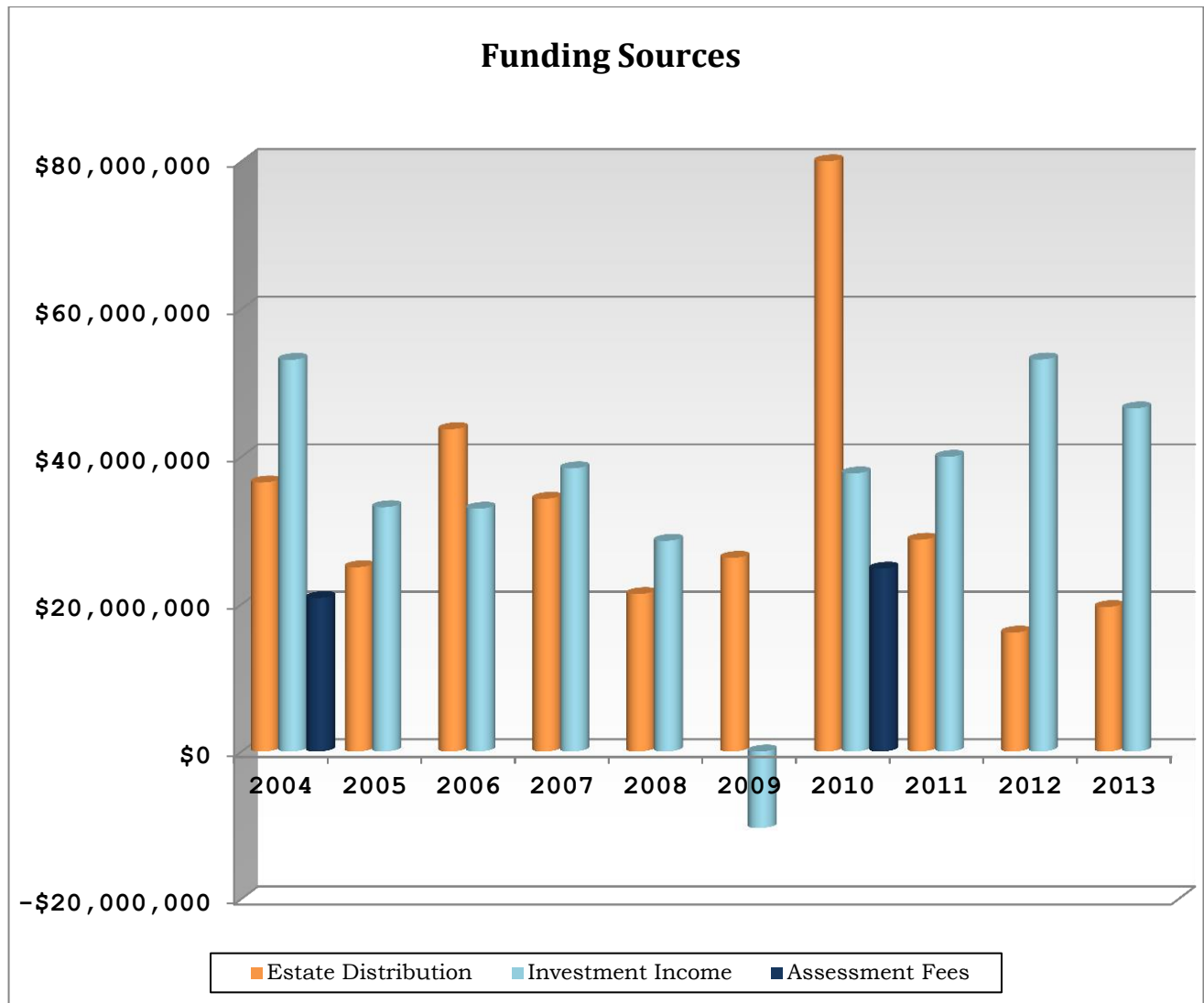


The chart below illustrates the total incurred amount from the inception of the Security Fund, which is the total of the reserve plus paid amounts, by liquidator as of June 30, 2013. Reliance Insurance Company and Westmoreland Casualty Insurance were the two top liquidators by incurred values.



### A. Funding

Funding for the Security Fund comes from three sources: Assessments levied on member insurers, distributions obtained from the estates of insolvent insurers, and investment income. Estate distributions are an essential funding source for the Security Fund; when there is a high level and frequency of distributions from receiverships, there is less need for assessments on member companies.





**Workers Compensation Security Funds-Bureau of Special Funds**

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