



Workers Compensation Security Fund Annual Report 2016-2017



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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 9 Pennsylvania domestic and 39 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, AmeriHealth Casualty Services (AHCS), to provide quality claims management services in pursuit of this goal.

As of June 30, 2017, the Security Fund had a fund balance of \$853,605,083. Benefits paid during 2016-2017 were \$18,610,064. Also, as of June 30, 2017, there were 914 pending claims with reserves totaling \$256,567,657. 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, 2,353 reserve reviews were completed.

Periodically, the Security Fund subjects the claims data to analysis by an independent outside actuary to determine ultimate liability. Aon Global Risk Consulting was retained to assist the Security Fund by performing an actuarial analysis of the WCSF liabilities to assist in financial planning and determining strategy for the Fund. The most recent independent analysis issued September 5, 2017, was completed by Aon Risk Solutions. Aon determined that based on data valued as of March 31, 2017, ultimate liabilities were \$373,926,954.

Since September 1, 2009, AHCS has provided the Bureau of Special Funds with claims administration and managed care services for the Security Fund program. AHCS is a wholly owned subsidiary of Independence Blue Cross of Philadelphia, Pennsylvania. AHCS is a full service provider of workers' compensation and disability third party administrative (TPA) services, including occupational health networks and medical case management. AHCS currently employs 114 workers' compensation professionals, including the six claim professionals and one Nurse Case Manager dedicated to the Security Fund at its locations in Camp Hill and Philadelphia, Pennsylvania.

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

- A team of six 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 AHCS 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 AmeriHealth Casualty Services 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

AmeriHealth Casualty Services
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 31st 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, AHCS, 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. AHCS electronically exchanges health insurance benefits entitlement information, on a quarterly basis, with CMS and submits the Section 111 reporting for the Security Fund.

The Security Fund has a Memorandum of Understanding with PACE in the Department of Aging to provide pharmacy benefits management services. The maximum amount allowed by the WC Act for prescription medications is 10% above the Average Wholesale Price (AWP). Through the PACE Program, the Security Fund receives 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 48 estates and currently has 914 open claims. The reserves on these claims, including indemnity, medical, rehabilitation and claim expense, total approximately \$256,567,657. When liquidations 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 to 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 was one new liquidation for the Security Fund in the fiscal year 2016-2017; Castlepoint National Insurance Company, April 1, 2017.

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 AHCS's online tools: *AHClaims* and Business Objects.

Liquidator	Date of Liquidation	Domiled 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	15	406	96%	\$24,450,525.66	\$2,156,528.86	\$26,607,054.52
American Mutual Liability Insurance Co.	3/9/89	MA	734	25	709	97%	\$43,913,129.95	\$3,021,966.10	\$46,935,096.05
American Universal Insurance Co.	1/8/91	RI	24	1	23	96%	\$1,787,199.31	\$800,875.66	\$2,588,074.97
Atlantic Mutual Insurance Co.	4/27/11	NY	38	15	23	61%	\$2,423,756.96	\$1,156,563.63	\$3,580,320.59

Cal Comp Insurance Co.	9/26/00	CA	1	0	1	100%	\$0.00	\$0.00	\$0.00
Carriers Insurance Co.	1/16/86	IA	82	1	81	99%	\$9,949,459.36	\$58,127.90	\$10,007,587.26
Castlepoint National Insurance Company	4/1/17	CA	31	25	6	22%	\$36,070.59	\$2,226,620.28	\$2,262,690.87
Casualty Reciprocal Exchange	8/18/04	MO	218	23	195	90%	\$21,050,012.69	\$9,812,587.33	\$30,862,600.02
Centennial Insurance Co.	4/27/11	NY	23	11	12	52%	\$2,244,572.57	\$1,987,387.32	\$4,231,959.89
Commercial Compensation Casualty Co.	9/26/00	CA	533	4	529	99%	\$10,729,555.63	\$521,204.41	\$11,250,760.04
Consolidated Mutual Insurance Co.	5/31/79	NY	5	0	5	100%	\$264,753.17	\$0.00	\$264,753.17
Credit General Insurance Co.	1/5/01	OH	470	7	463	99%	\$15,713,068.64	\$1,931,679.09	\$17,644,747.73
Employers Casualty Co.	2/11/94	TX	70	1	69	99%	\$7,399,764.48	\$413,860.38	\$7,813,624.86
Employers National Ins. Co.	2/11/94	TX	3	0	3	100%	\$377,694.41	\$0.00	\$377,694.41
Enterprise Insurance Co.	2/24/87	CA	1	0	1	100%	\$232.00	\$0.00	\$232.00
Freestone Insurance Co.	8/15/14	DE	353	28	325	93%	\$12,355,193.74	\$4,198,481.45	\$16,553,675.19
Fremont Indemnity Company	7/2/03	CA	37	2	35	95%	\$5,154,408.91	\$3,891,266.17	\$9,045,675.08
Frontier Insurance Co.	11/16/12	NY	12	4	8	67%	\$1,547,292.69	\$2,748,154.28	\$4,295,446.97
Ideal Mutual Insurance Co.	2/7/85	NY	489	6	483	99%	\$12,006,770.32	\$652,485.70	\$12,659,256.02
Imperial Casualty and Indemnity Co.	5/12/10	OK	56	1	55	98%	\$2,214,477.64	\$730,615.34	\$2,945,092.98

Integrity Insurance Company	3/25/87	NJ	58	0	58	100%	\$446,376.48	\$0.00	\$446,376.48
Intercontinental Insurance Co.	1/12/90	IL	4	0	4	100%	\$8,129.56	\$0.00	\$8,129.56
Legion Insurance Co.	7/28/03	PA	740	42	698	95%	\$59,052,484.04	\$14,828,217.99	\$73,880,702.03
Lincoln General Insurance Co.	11/5/15	PA	3	3	0	0%	\$48,175.46	\$725,223.60	\$773,399.06
LMI Insurance Co.	5/22/00	OH	21	4	17	81%	\$1,862,752.82	\$1,240,728.38	\$3,103,481.20
Lumbermens Mutual Casualty Co.	5/10/13	IL	188	113	75	39%	\$11,680,736.18	\$37,230,744.01	\$48,911,480.19
Lumbermen's Underwriting Alliance	5/23/16	MO	38	12	26	68%	\$331,822.47	\$2,171,668.56	\$2,503,491.03
Mastercare Insurance Company	7/14/03	NJ	12	0	12	100%	\$779,329.22	\$0.00	\$779,329.22
Midland Insurance Co.	4/3/86	NY	176	1	175	99%	\$11,651,348.33	\$33,871.60	\$11,685,219.93
Mission Insurance Co.	2/24/87	CA	175	11	164	94%	\$10,660,352.84	\$2,842,317.61	\$13,502,670.45
Mission National Insurance Co.	2/24/87	CA	75	1	74	99%	\$4,431,194.23	\$90,266.12	\$4,521,460.35
Northeastern Fire Insurance Co.	6/1/84	PA	1	0	1	100%	\$20,995.80	\$0.00	\$20,995.80
Park Avenue Property and Casualty Insurance Co.	11/20/09	OK	1	0	1	100%	\$35,199.09	\$0.00	\$35,199.09
PHICO Insurance Co.	2/1/02	PA	1,832	104	1,728	94%	\$88,728,253.80	\$38,223,371.24	\$126,951,625.04
Reliance Insurance Co.	10/3/01	PA	3,043	120	2,923	96%	\$182,109,612.17	\$53,960,131.68	\$236,069,743.85
Rockwood Insurance Co.	8/26/91	PA	1,909	119	1,790	94%	\$141,611,382.05	\$21,211,445.87	\$162,822,827.92

Security Fund Defense Only	n/a	PA	n/a	n/a	n/a	n/a	\$42,400.85	\$0.00	\$42,400.85
Shelby Casualty Insurance Co.	8/1/06	TX	7	2	5	71%	\$351,081.56	\$131,477.78	\$482,559.34
The Shelby Insurance Co.	8/1/06	TX	8	3	5	75%	\$350,690.28	\$66,950.61	\$417,640.89
State Auto Insurance Assoc.	12/22/92	IN	15	0	15	100%	\$52,873.73	\$0.00	\$52,873.73
State Capital Insurance Co.	6/21/04	NC	4	0	4	100%	\$343,732.02	\$0.00	\$343,732.02
The Home Insurance Co.	6/13/03	NH	623	135	488	78%	\$49,280,211.69	\$27,797,597.85	\$77,077,809.54
Transit Casualty Co.	12/3/85	MO	60	0	60	100%	\$1,324,870.28	\$0.00	\$1,324,870.28
Ullico Casualty Co.	5/30/13	DE	156	10	146	94%	\$8,244,137.45	\$4,992,804.30	\$13,236,941.75
United Community Insurance Co.	7/7/94	NY	191	2	189	99%	\$12,269,616.18	\$540,217.60	\$12,809,833.78
Villanova Insurance Co.	7/28/03	PA	291	8	283	97%	\$24,292,717.57	\$2,701,010.67	\$26,993,728.24
Warwick Insurance Co.	6/22/93	NJ	5	0	5	100%	\$170,141.26	\$0.00	\$170,141.26
Western Employers Ins. Co.	4/19/91	CA	40	1	39	98%	\$1,758,205.13	\$4,969.19	\$1,763,174.32
Westmorelan d Casualty Insurance	9/27/88	PA	3,833	54	3,779	99%	\$188,975,411.67	\$11,466,238.51	\$200,441,650.18
TOTALS			17,110	914	16,196	95%	\$974,532,172.93	\$256,567,657.07	\$1,231,099,830.00

CLAIM HIGHLIGHTS 2016-2017

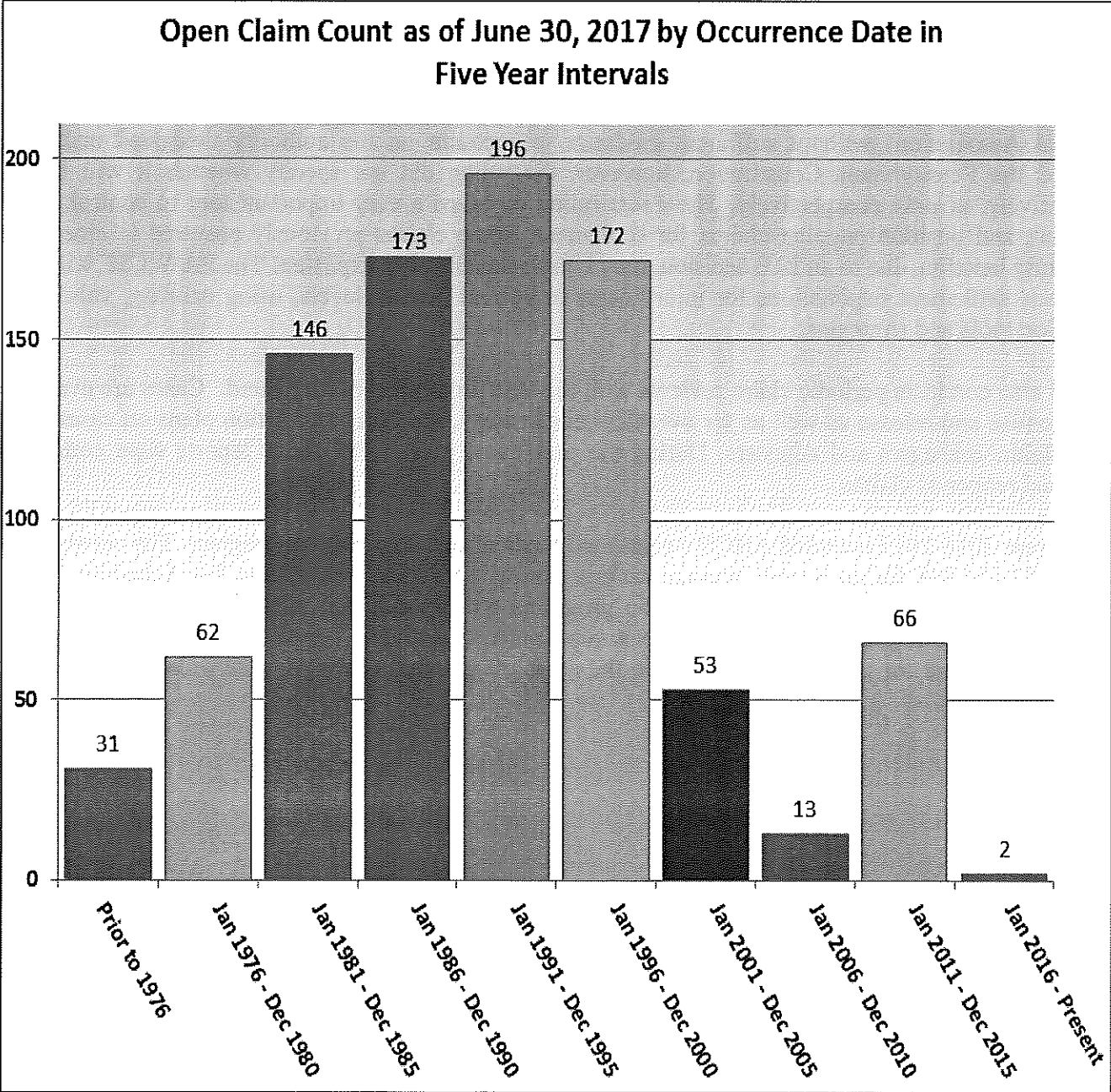
The Security Fund utilizes reports from AHCS to monitor the number of claims closed in any given fiscal year, and also the type of claims involved in the closing process, such as medical-only, legal, indemnity-only, rehabilitation-only or expense/record only. The Security Fund had a total of 914 claims (356 indemnity claims and 558 medical claims) open as of June 30, 2017.

On June 21, 2017, the Pennsylvania Supreme Court issued its decision in *Protz v. WCAB (Derry Area School District)*, Nos 6 WAP 2016, 7 WAP 2017, holding that Section 306(a.2) of the Workers' Compensation Act (77 P.S. § 511.2) is an unconstitutional delegation of legislative authority. The Court determined the IRE process constitutes a delegation of legislative authority to a private entity (the American Medical Association) without sufficient guidance or restraint on the authority delegated and therefore violated the Pennsylvania Constitution; however, the ruling did not specify whether it will be applied retroactively, or only prospectively. The *Protz* ruling removed a very important tool to control indemnity exposure and position ongoing claims for settlement. Some claims previously postured to close ongoing indemnity benefits, due to an IRE decision, may be reinstated to full exposure. The PA WCSF will continue to pursue settlement negotiations for injury cases at current pricing levels, using existing, valid exposure reduction tools and strategies.

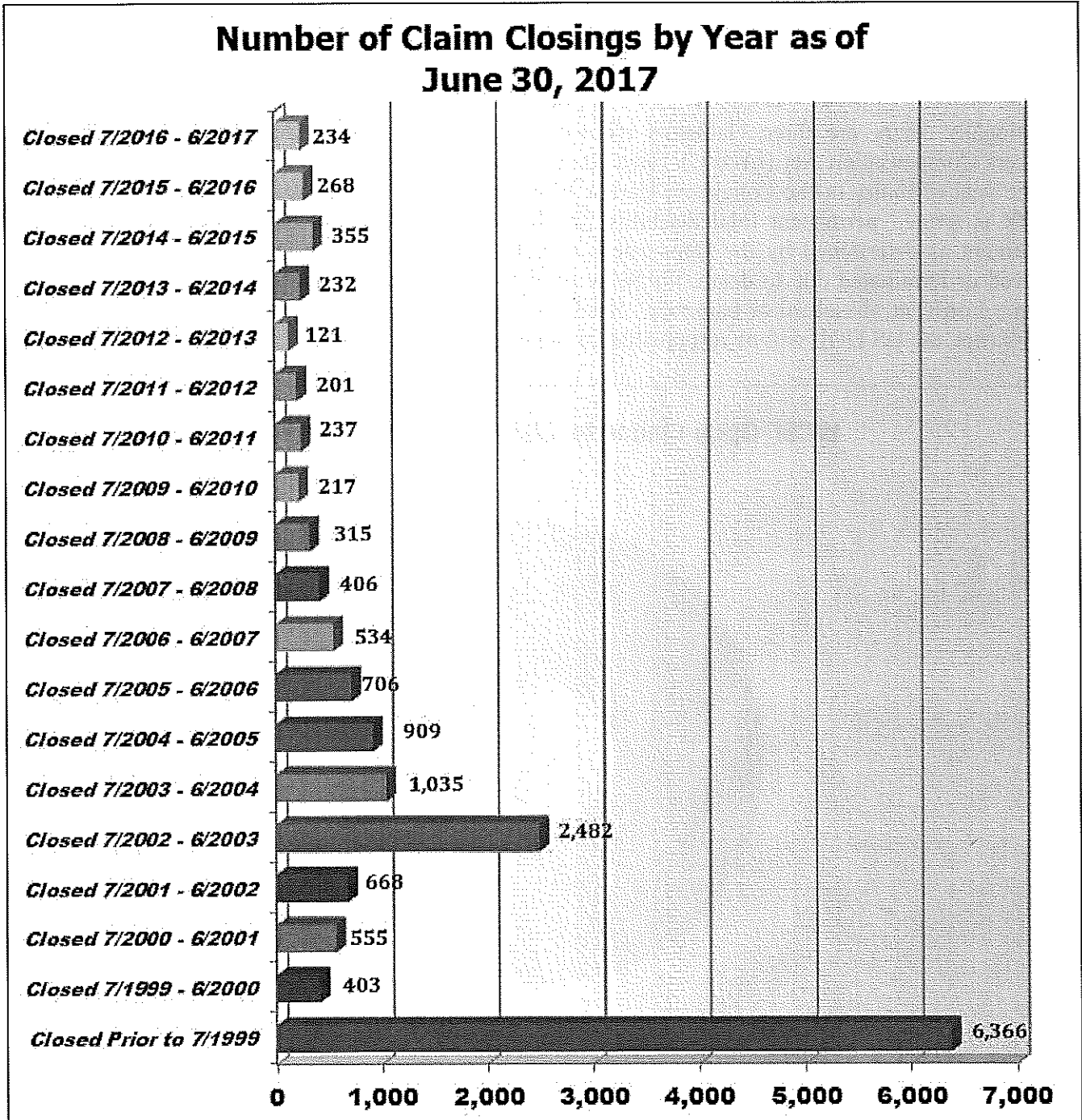
AHCS also conducts periodic claim reviews with the staff from the Security Fund. Cases are evaluated for compromise and release as well as for overall claim strategy, reserving and action plans on cases reviewed with claims managers and adjusters. During the past fiscal year, 1,497 status reports were completed for open and reopened claims.

Fiscal year 2016-2017 included AHCS's continued medical cost containment program. The network savings totaled \$2,654,848 for an overall average savings below the Pennsylvania State Fee Schedule of 18%. In 2016-2017 the Security Fund continued the programs with PACE and AHCS's pharmacy management program to monitor and identify areas for pharmacy benefits savings. Together, these programs positioned the Security Fund for measurable savings in the areas of generic utilization, mail order and other targeted savings actions.

There are currently 81 open claims being handled by AmeriHealth Casualty Services 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 1991 through December 1995. There are 31 remaining open claims with an occurrence date prior to 1976. The chart below gives a stratification of all open claims by occurrence date.

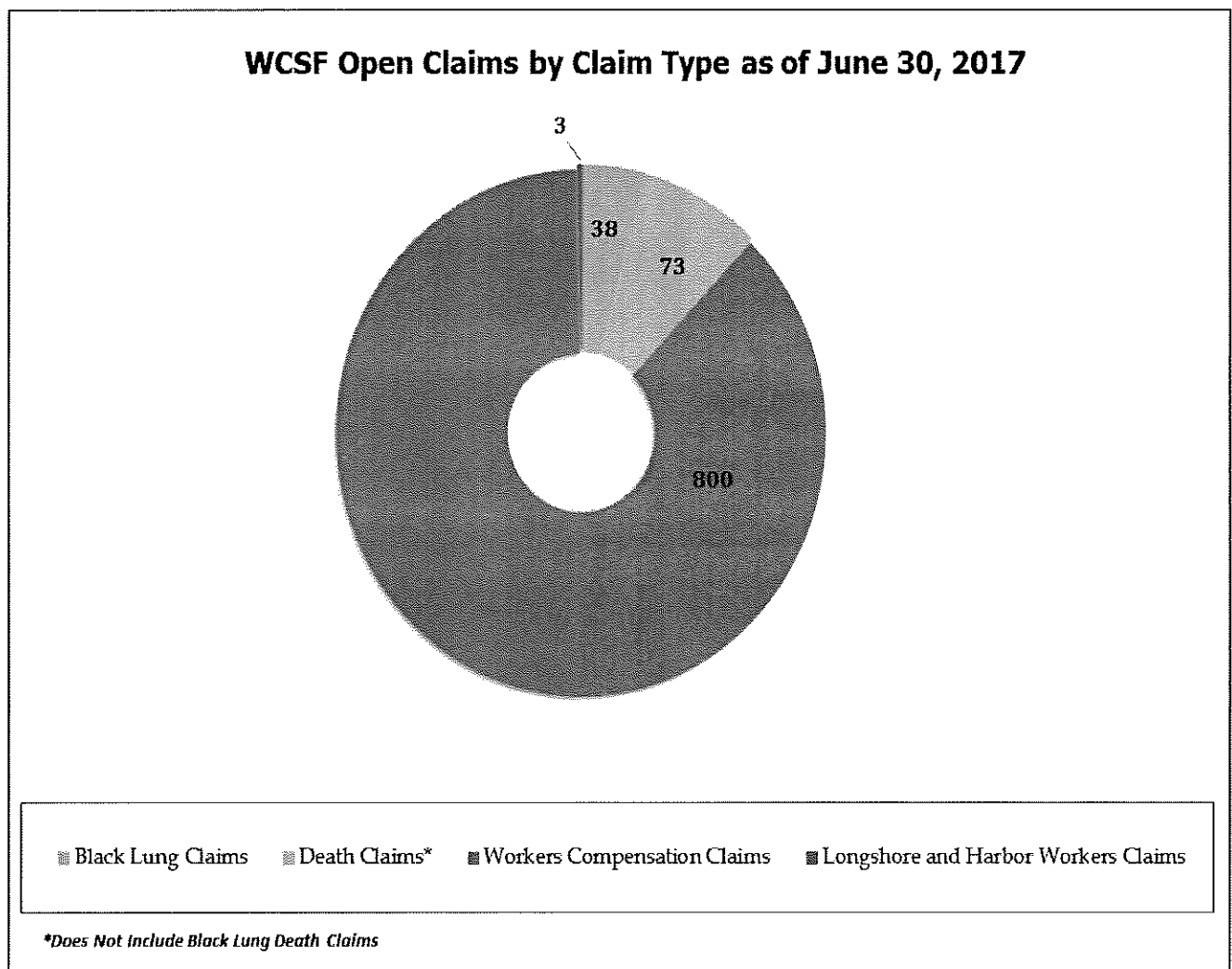


In fiscal year 2016-2017, AHCS closed 234 claims. In fiscal year 2015-2016, 268 claims were closed which was a decrease from the preceding fiscal year in which 355 claims were closed.

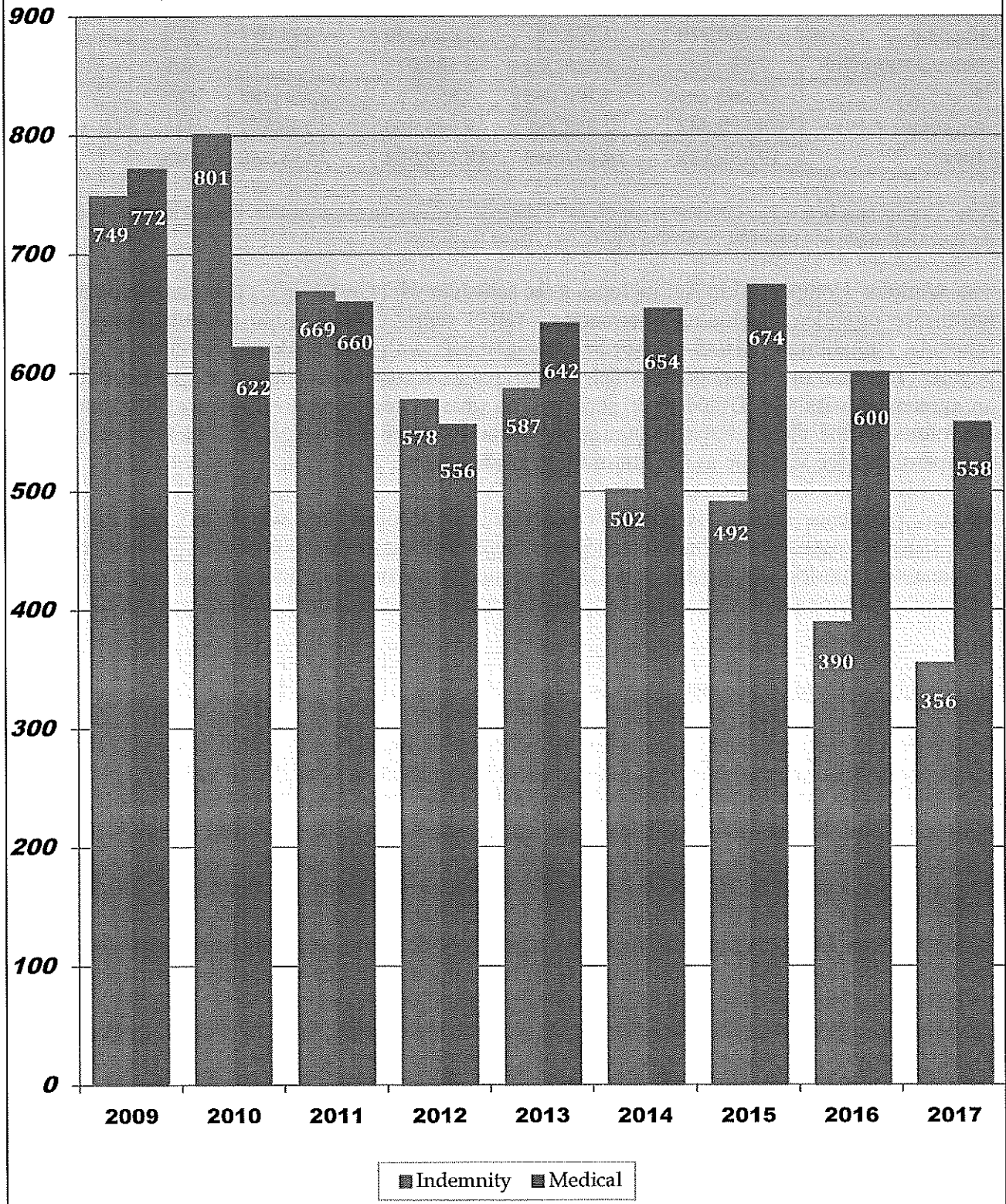


Currently, there are 914 open claims of which 800 are workers' compensation indemnity/medical claims. In addition, there are 73 open death claims with beneficiaries still receiving benefits. As of June 30, 2017, there were 38 open Federal Black Lung claims being administered by AHCS. As Federal Black 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.

Additionally, there are three 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/employer become insolvent, dissolved or bankrupt, the US DOL will be responsible for ongoing benefits.



Open Claim Count by Indemnity & Medical as of June 30, 2017



A. Medical Savings

Type	Charge by Provider	WC Fee Schedule Amt	Paid Amt	Savings Below Fee Sched	% Savings
Dental	4,508	3,606	3,606	0	0%
Hospital	4,760,926	2,296,333	2,025,276	271,057	12%
Manual Payments	2,588,023	2,588,023	2,588,023	0	0%
Pharmacy	7,269,333	7,100,638	4,850,357	2,250,282	32%
Physician	4,572,847	2,838,799	2,705,290	133,509	5%
Total	19,195,637	14,827,399	12,172,552	2,654,848	18%

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. AHCS reprices all eligible Security Fund invoices to fee schedule. In addition, AHCS 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, \$2,654,848 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 \$1,783,795 below the Usual & Customary provider charges for 2016-2017.

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 or directly by physicians. 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 AHCS as a means of additional cost savings.

Generic drugs are required to have the same active ingredient, strength, and dosage form, as the brand name product when meeting rigorous standards before entering the market. myMatrixx and PACE monitor the transition of prescriptions from brand to generic to ensure prescriptions are filled at a brand level only when necessary. With the standards set forth by the FDA there is no detriment to the injured worker for using the generic option available and additional cost savings are realized by the Fund. At the time of fill there are no additional steps required from the injured worker or pharmacy to receive a generic medication that is available. Brand medications accounted for 23.6% of the prescriptions filled. In addition, myMatrixx and PACE also offer an option for injured workers who meet criteria to use a mail service to receive their medications monthly. This alternative provides a convenient option for prescriptions to be delivered to their home, continued access to a pharmacist, and increased savings for the Fund. Mail service remains continuous for the injured worker and requires no extra steps to participate. Almost 2.2% of prescriptions were filled through the mail service offered through myMatrixx and PACE with continued efforts to make the resource available to all injured workers.

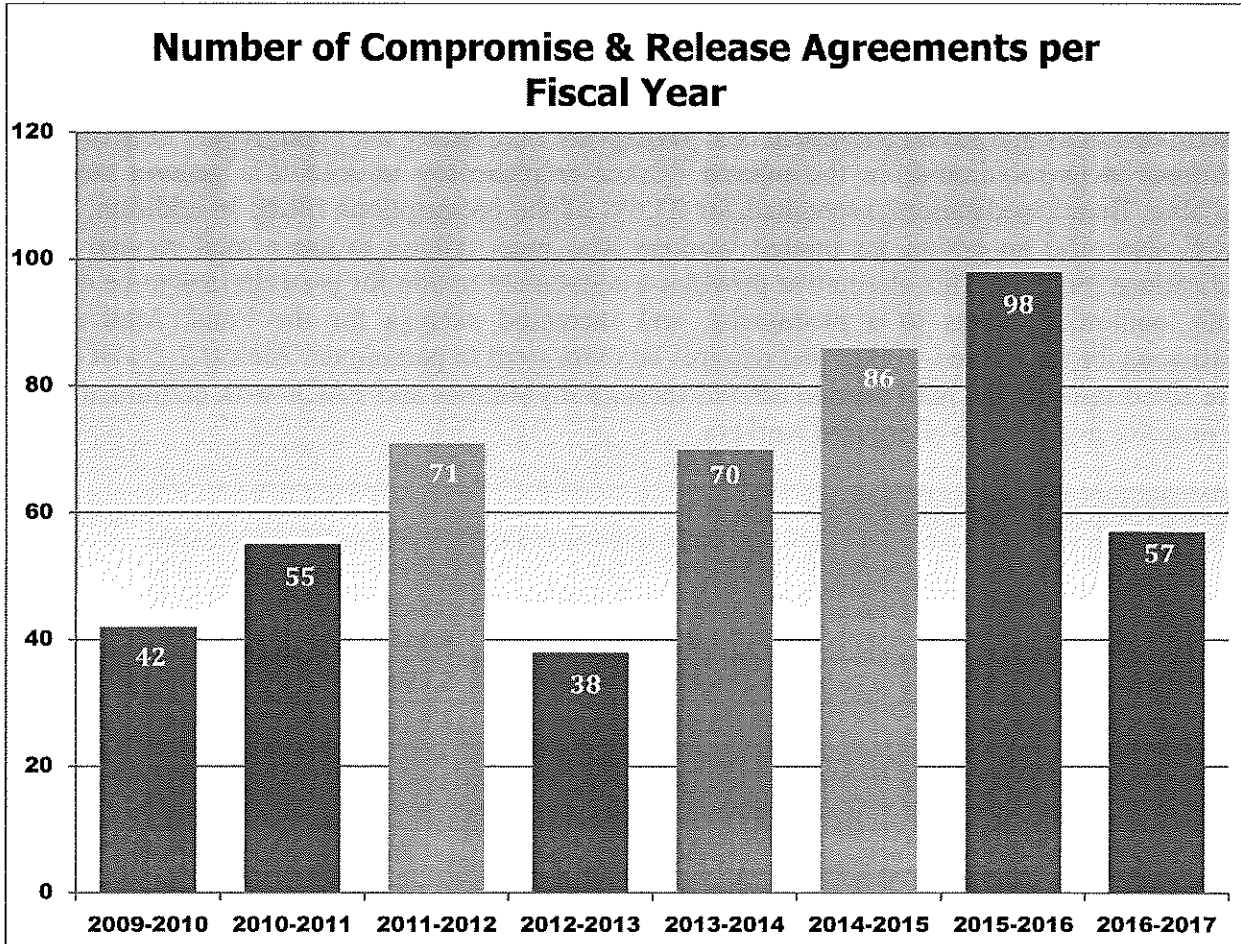
WCSF Pharmacy Subcategories			
<i>Brand vs Generic</i>			
PBM	# Brand	# Generic	# Total
PACE	1,856	6,118	7,974
myMatrixx	1,827	5,793	7,620
	3,683	11,911	15,594
<i>Retail vs Mail Order</i>			
PBM	# Retail	# Mail Order	# Total
PACE	7,880	94	7,974
myMatrixx	7,409	247	7,620
	15,289	341	15,594

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, AHCS ensures the requirements of the Centers for Medicare & Medicaid Services (CMS) are met by establishing a Medicare Set Aside account when necessary. AHCS also addresses any Medicare Secondary Payer Recovery Contractor (MSPRC) liens with CMS as part of the final claims closing process after a Compromise and Release has been executed.

From July 1, 2016, through June 30, 2017 AHCS settled 57 claims by way of Compromise and Release. The chart below illustrates the total number of cases settled since the Security Fund and AmeriHealth Casualty Services 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 AHCS, has utilized legislative tools to address the issue of workers' compensation fraud.

AHCS, through its parent company Independence Blue Cross (IBC), employs a full time internal auditor to oversee all internal and external fraud investigations as well as SOC 1 compliance. AHCS has received a qualified rating from Ernst & Young based on SAS 70/SOC 1 audits conducted over the last 7 years. With the support of the Special Investigations Unit at IBC Corporate Financial Investigations Department, the auditor has the additional support needed to investigate all fraudulent matters affecting AmeriHealth Casualty Services.

AHCS subscribes to the Central Index Bureau in an effort to identify and deter fraud on part of the claimant. AHCS employs database searches prior to writing insurance with a prospective client through Dunn & Bradstreet, New Jersey Attorney General Office of Consumer Affairs and Pennsylvania Department of State License websites to further deter and prevent fraud.

E. Liquidations

There was one new liquidation for the fiscal year of 2016-2017; Castlepoint National Insurance Company effective April 1, 2017, adding a total of 31 claims.

F. Technological Enhancements

A component of the PACE program includes several data exchanges with AHCS. AmeriHealth Casualty Services provides data on claimants eligible for pharmacy benefits. The program with PACE also permits the AHCS 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 AHCS loads to each of the electronic claims files.

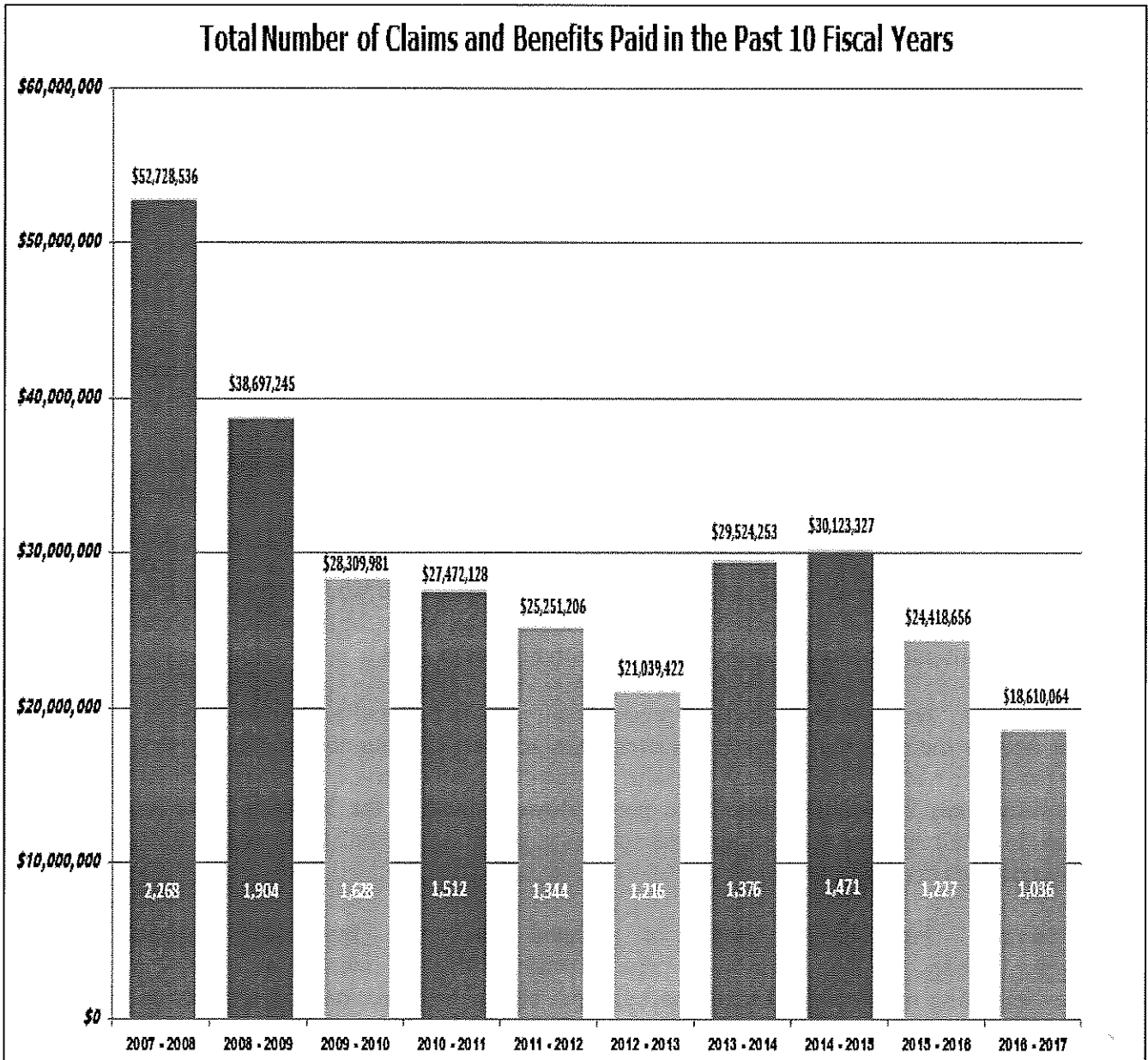
AHCS takes advantage of their parent company's computer network infrastructure, which includes redundant data centers and dual carrier communications to all sites. In the event of a disaster, the backup system can be put into production within 2 hours with no loss of data.

Administratively, the paperless workflow process continues to be an efficient user tool. The Security Fund staff, as well as the majority of the Liquidators, has 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 2016-2017, very little paper flowed between the Security Fund and AHCS, 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.

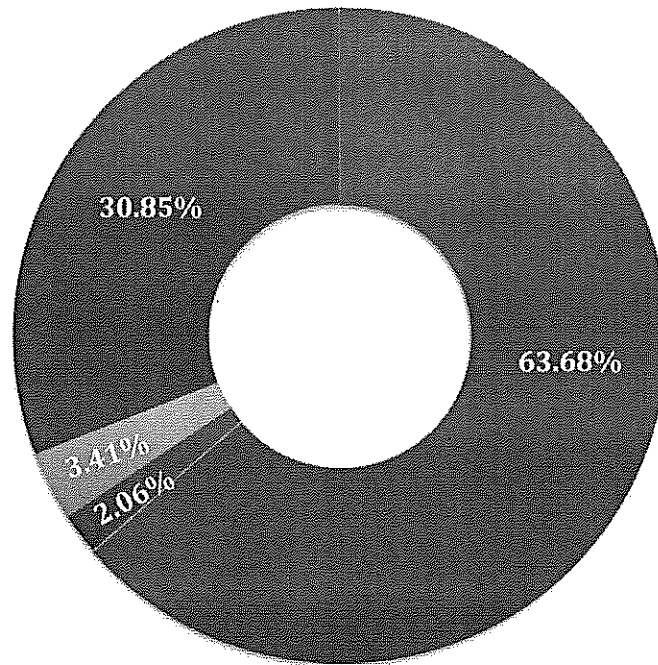
FINANCIAL HIGHLIGHTS 2016/2017

During fiscal year 2016-2017, the Security Fund paid \$18,610,064 in benefits. Due to several liquidations in 2012-13 and 2014-15, this resulted in increased benefit payments for these fiscal years. 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.



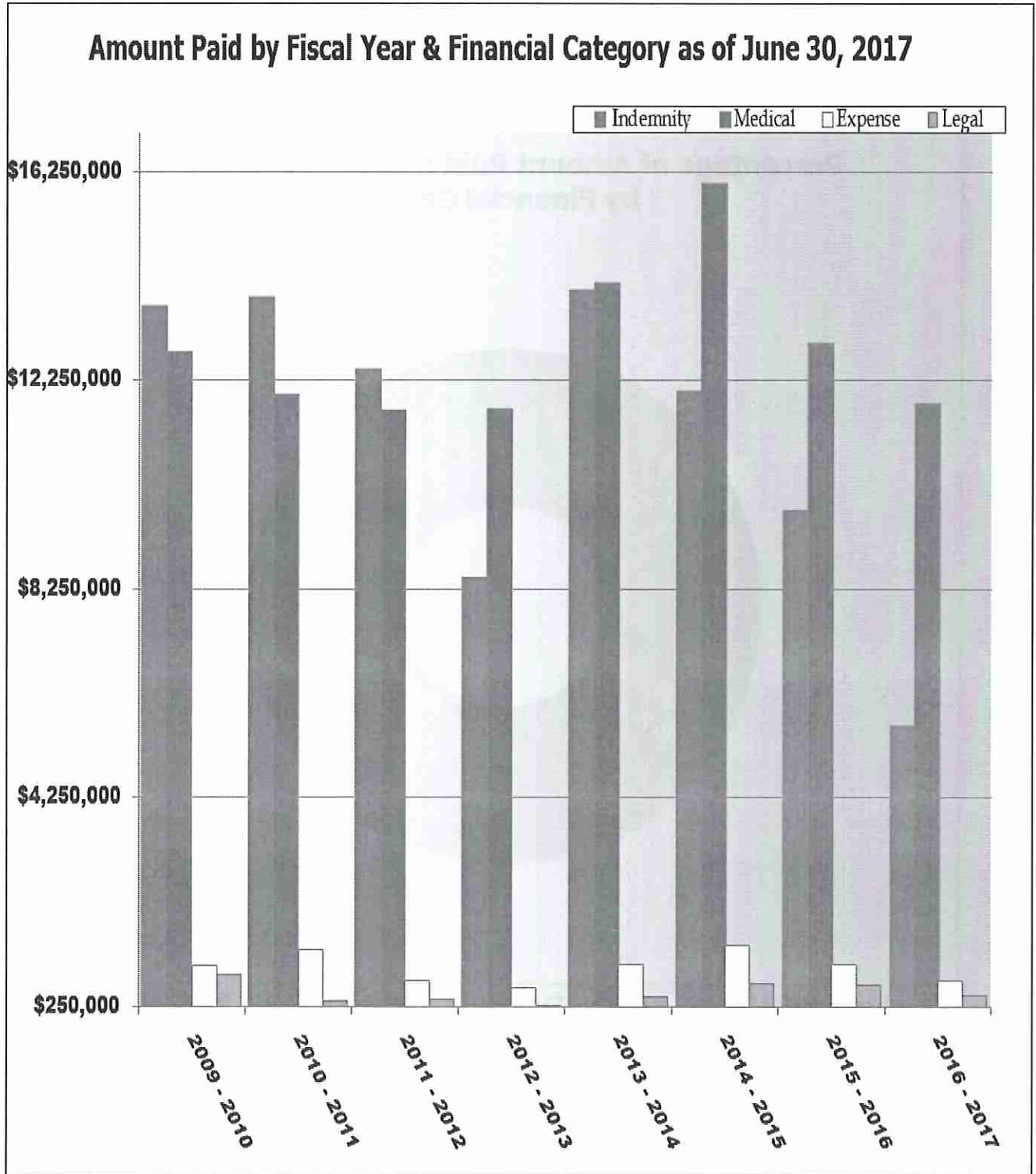
The vast majority of payments over the past ten years have been indemnity payments, which include Compromise and Release settlement payments. A total of \$620,543,448 has been paid in indemnity benefits, which represents 63.68% of the total payouts over the life of the Security Fund. Medical payments totaling \$300,642,242 represent 30.85% of the total Security Fund payments. Expense payments total \$20,092,450 representing only 2.06% of the total payments with the remaining 3.41% in payments totaling \$33,254,034 for legal expenses.

Percentage of Amount Paid through June 30, 2017 by Financial Category

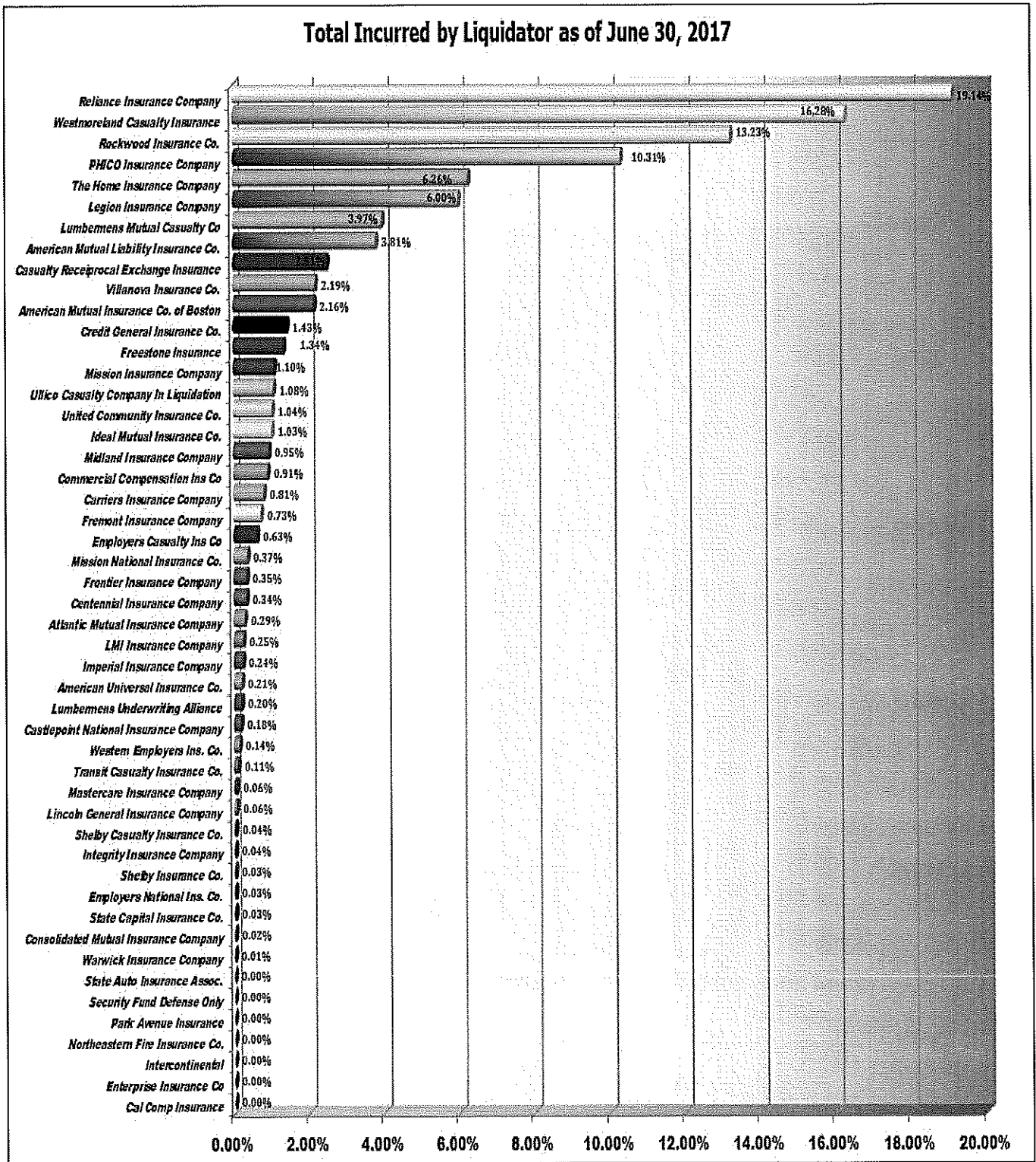


■ Indemnity \$620,543,448 ■ Expense \$20,092,450 ■ Legal \$33,254,034 ■ Medical \$300,642,242

There is a decrease across all lines for Indemnity, Medical, Expense and Legal lines over the past fiscal year. Total reductions include Indemnity by \$4,141,518, Medical by \$1,146,903, Expense by \$311,359 and Legal by \$208,812. The decrease across the board is due to the number of resolutions in fiscal year 2014-2015 and 2015-2016.



The chart below illustrates the total incurred amount from the inception of the Security Fund. The incurred is defined as the sum of the claim reserve and the amount paid by liquidations as of June 30, 2017. Reliance Insurance Company and Westmoreland Casualty Insurance were the two top liquidators by incurred values.



A. Funding

Funding for the Security Fund is derived 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.

