pennsylvania
INSURANCE DEPARTMENT

WORKERS COMPENSATION SECURITY FUND ANNUAL REPORT 2011-2012

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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 34 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, 2012, the Security Fund had a fund balance of $647,978,941. Benefits paid during 2011-2012 were $25,251,206. Also as of June 30, 2012, there were 1,134 pending claims with reserves totaling $249,057,164. 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, 2,596 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 January 16, 2012 was completed by Aon Global Risk Consulting. Aon determined that based on data valued as of June 30, 2011 ultimate liabilities were $391,999,856. 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 230 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

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

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 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, 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 to CMS to meet 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. Through the PACE Program, the Security Fund is provided a discount on the cost of prescription medications of 12% below Average Wholesale Price.

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 41 estates and currently has 1,134 open claims. The reserves on these claims including indemnity, medical, rehabilitation and claim expense totals approximately $249,057,164. 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 no new liquidations for the Security Fund in the fiscal year 2011-2012.

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%	$23,473,109	$2,806,938	$26,280,047
American Mutual Liability Insurance Co.	3/9/89	MA	734	42	692	94%	$42,268,577	$6,470,771	$48,739,348
American Universal Insurance Co.	1/8/91	RI	24	1	23	96%	$1,619,388	$830,412	$2,449,800
Atlantic Mutual Insurance Company	4/27/11	NY	37	28	9	24%	$902,214	$3,244,317	$4,146,531
Cal Comp Insurance Co.	9/26/00	CA	1	0	1	100%	$0	$0	$0

Liquidator	Date of Liquidation	Domiciled State	Total Claims	Open Count	Closed Count	Percentage Closed	Paid to Date	Outstanding	Incurred
Carriers Insurance Company	1/16/86	IA	82	3	79	96%	$9,908,659	$340,669	$10,249,328
Casualty Reciprocal Exchange Insurance	8/18/04	MO	218	34	184	84%	$17,475,615	$9,712,650	$27,188,265
Centennial Insurance Company	4/27/11	NY	22	18	4	18%	$615,628	$3,653,621	$4,269,249
Commercial Compensation Ins Co	9/26/00	CA	533	5	528	99%	$10,083,750	$1,312,472	$11,396,222
Consolidated Mutual Insurance Company	5/31/79	NY	5	0	5	100%	$267,487	$0	$267,487
Credit General Insurance Co.	1/5/01	OH	470	9	461	98%	$14,822,096	$3,618,914	$18,441,010
Employers Casualty Ins Co	2/11/94	TX	70	6	64	91%	$7,006,635	$892,706	$7,899,341
Employers National Ins. Co.	2/11/94	TX	3	0	3	100%	$377,694	$0	$377,694
Enterprise Insurance Co	2/24/97	CA	1	0	1	100%	$232	$0	$232
Fremont Insurance Company	7/2/03	CA	37	4	33	89%	$3,769,900	$1,304,914	$5,074,814
Ideal Mutual Insurance Co.	2/7/85	NY	489	7	482	99%	$11,707,576	$993,927	$12,701,502
Imperial Insurance Company	5/12/10	TX	56	8	48	86%	$1,817,071	$1,209,668	$3,026,740
Integrity Insurance Company	3/25/87	NJ	58	0	58	100%	$446,376	$0	$446,376
Intercontinental	1/12/90	IL	4	0	4	100%	$8,130	$0	$8,130

Liquidator	Date of Liquidation	Domiciled State	Total Claims	Open Count	Closed Count	Percentage Closed	Paid to Date	Outstanding	Incurred
Legion Insurance Company	7/28/03	PA	738	75	663	90%	$52,447,332	$20,101,373	$72,548,705
LMI Insurance Company	5/22/00	OH	21	4	17	81%	$1,327,113	$1,469,198	$2,796,311
Mastercare Insurance Company	7/14/03	NJ	12	0	12	100%	$779,329	$0	$779,329
Midland Insurance Company	4/3/86	NY	176	3	173	98%	$11,579,413	$75,107	$11,654,519
Mission Insurance Company	2/24/87	CA	175	13	162	93%	$9,498,414	$2,119,808	$11,618,222
Mission National Insurance Co.	2/24/87	CA	75	5	70	93%	$4,330,372	$213,269	$4,543,641
Northeastern Fire Insurance Co.	6/1/84	PA	1	0	1	100%	$20,996	$0	$20,996
Park Avenue Insurance	11/20/09	OK	1	0	1	100%	$35,199	$0	$35,199
PHICO Insurance Company	2/1/02	PA	1,831	148	1,683	92%	$73,092,602	$42,056,565	$115,149,168
Reliance Insurance Company	10/3/01	PA	3,028	195	2,833	94%	$162,045,549	$62,085,453	$224,131,003
Rockwood Insurance Co.	8/26/91	PA	1,869	164	1,705	91%	$131,963,480	$27,248,366	$159,211,846
Security Fund Defense Only	1/0/00	0	48	0	48	100%	$42,401	$0	$42,401
Shelby Casualty Insurance Co.	8/1/06	TX	7	2	5	71%	$253,846	$200,475	$454,320
Shelby Insurance Co.	8/1/06	TX	8	4	4	50%	$212,232	$248,776	$461,008

Liquidator	Date of Liquidation	Domiciled State	Total Claims	Open Count	Closed Count	Percentage Closed	Paid to Date	Outstanding	Incurred
State Auto Insurance Assoc.	12/22/92	IN	15	0	15	100%	$52,874	$0	$52,874
State Capital Insurance Co.	6/21/04	NC	4	0	4	100%	$343,732	$0	$343,732
The Home Insurance Company	6/13/03	NH	619	199	420	68%	$37,506,072	$31,850,947	$69,357,018
Transit Casualty Insurance Co.	12/3/85	MO	60	0	60	100%	$1,324,870	$0	$1,324,870
United Community Insurance Co.	7/7/94	NY	191	5	186	97%	$12,116,326	$442,928	$12,559,255
Villanova Insurance Co.	7/28/03	PA	291	20	271	93%	$21,516,361	$5,111,684	$26,628,045
Warwick Insurance Company	6/22/93	NJ	5	0	5	100%	$170,141	$0	$170,141
Western Employers Ins. Co.	4/19/91	CA	40	1	39	98%	$1,737,714	$111,011	$1,848,725
Westmoreland Casualty Insurance	9/27/88	PA	3,830	110	3,720	97%	$181,850,320	$19,330,225	$201,180,545
TOTALS			***16,310***	***1,134***	***15,176***	***93%***	***$850,816,827***	***$249,057,164***	***$1,099,873,990***

CLAIM HIGHLIGHTS 2011-2012

CSI utilizes a comprehensive claims administration system application. *CSinet* allows the Security Fund and Liquidators to monitor current claims activity and view claim images, payments, and reserves through remote access to the CSI claim system.

All Security Fund claims are tracked by type of accident, type of injury, body part injured and most common body part injured. The most common type of accident is strain/sprain, with the highest concentration of bodily injury occurring in the low back area.

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 had 418 claimants on temporary total disability as of June 30, 2011. The number of claimants on disability has been reduced to 346 a reduction of 20.8%, as of June 30, 2012. In fiscal year July 1, 2011 through June 30, 2012, the Security Fund received 16 new claims and was able to close 284 claims in this fiscal year leaving a total of 1,134 open 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. Twenty-five cases were assigned to the firm Perivolas, LLC. Of the 25 cases, five cases were fully resolved and eight cases resolved the indemnity benefits in fiscal year 2011-2012. The resolution of the five cases reduced outstanding lifetime reserves by $1,532,649. 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.

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 and action plans on cases reviewed with claims supervisors and adjusters. During the past fiscal year, 1,828 status reports were completed on the open claims.

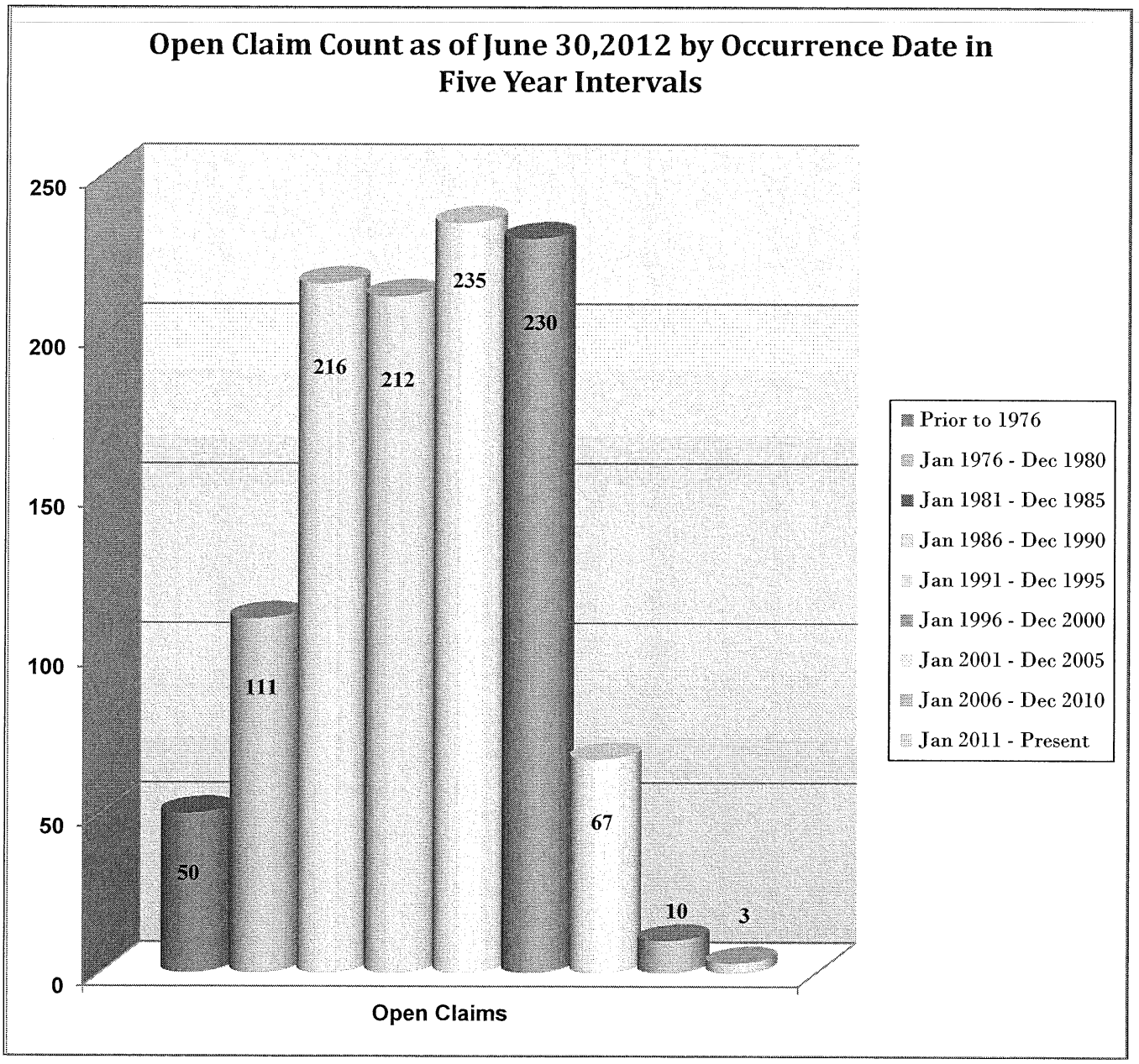
One of the highlights for fiscal year 2010-2011 was the implementation of the new CMS reporting requirements set forth under Section 111 of the Medicare secondary payer statue. Meeting these reporting requirements involved considerable data collection and reconciliation within CSI's system to allow for smooth and accurate electronic filing. CSI continues to make the quarterly filings to continue to meet the reporting requirements of CMS. There were a total of 1,025 claims reported to CMS as Medicare beneficiaries. Of the 1,025 claims, the ongoing responsibility for the Security Fund to be the primary beneficiary has decreased by 187 due to settlement or death of the beneficiary. The numbers will continue to rise or decline based on the Medicare eligibility of the claimants and the settlements of their claims.

Fiscal year 2011-2012 included CSI's continued medical cost containment program. The network savings rose to $2,436,859 from the prior fiscal year of $1,386,311 for an overall average savings below the Pennsylvania State Fee Schedule of 17.31%. Additional strategies were implemented in the fiscal year which increased the pharmacy savings by 15% over the prior fiscal year. New strategies include the

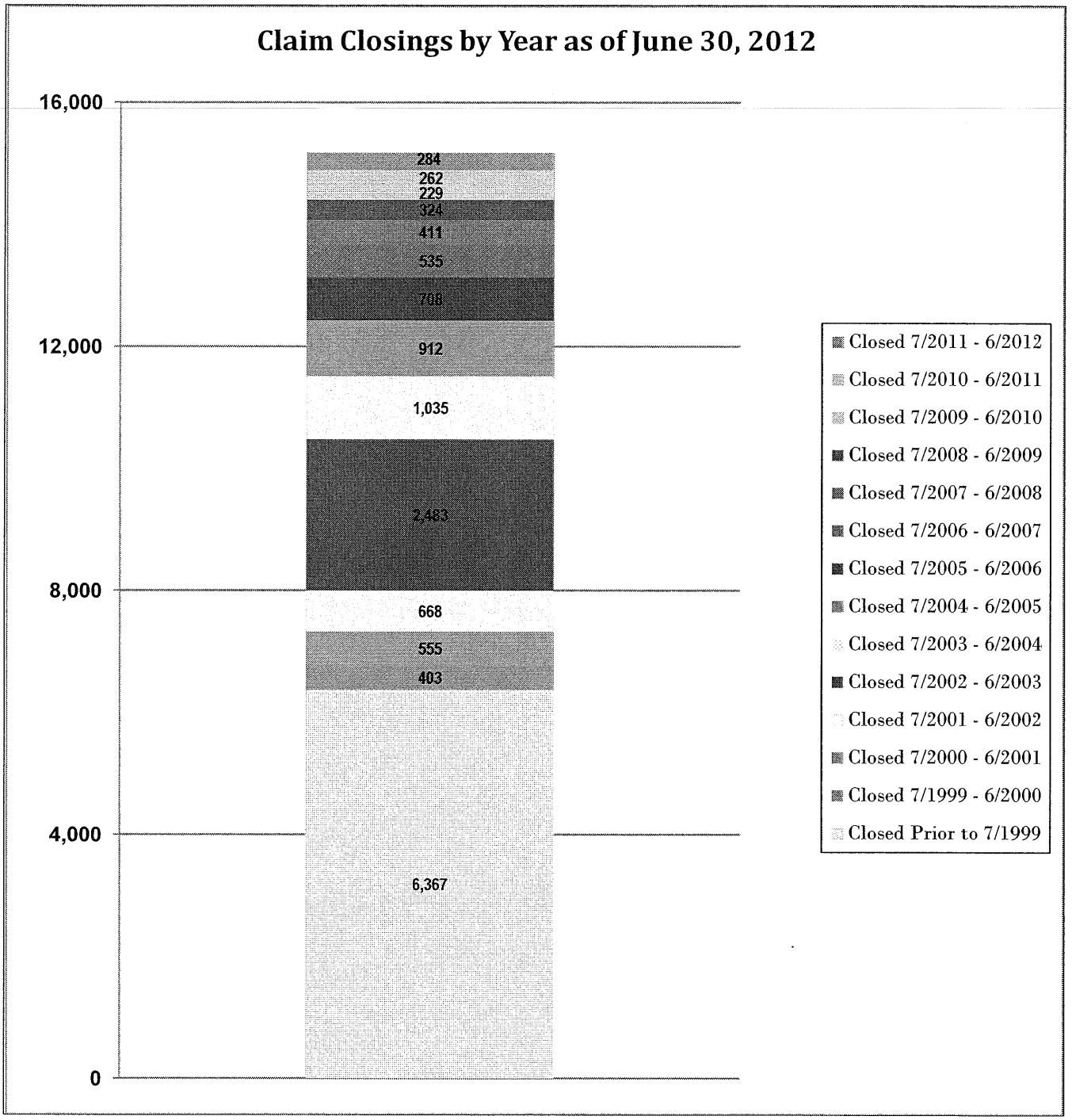
utilization of CSI's pharmacy benefits manager for those injured workers who engage pharmacies not billing through the PACE network. The pharmacy program realized savings at the rate of 30%.

CSI's Medical Director and Nurse Case Manager continue to review files to approach claimants and their treating providers regarding education on the use/misuse of prescription medications as a means to modify the treatment protocol to decrease the use of prescription medications for an overall better quality of life and cost containment measure. Additionally PACE and CSI have contacted prescribing physicians regarding the use of brand name and generic medications, using age appropriate dosages and a proper balance of long and short acting pain medications.

There are currently 13 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 1991 through December 1995. There are 50 remaining open claims with an occurrence date prior to 1976. The chart below gives a stratification of all open claims by occurrence date.

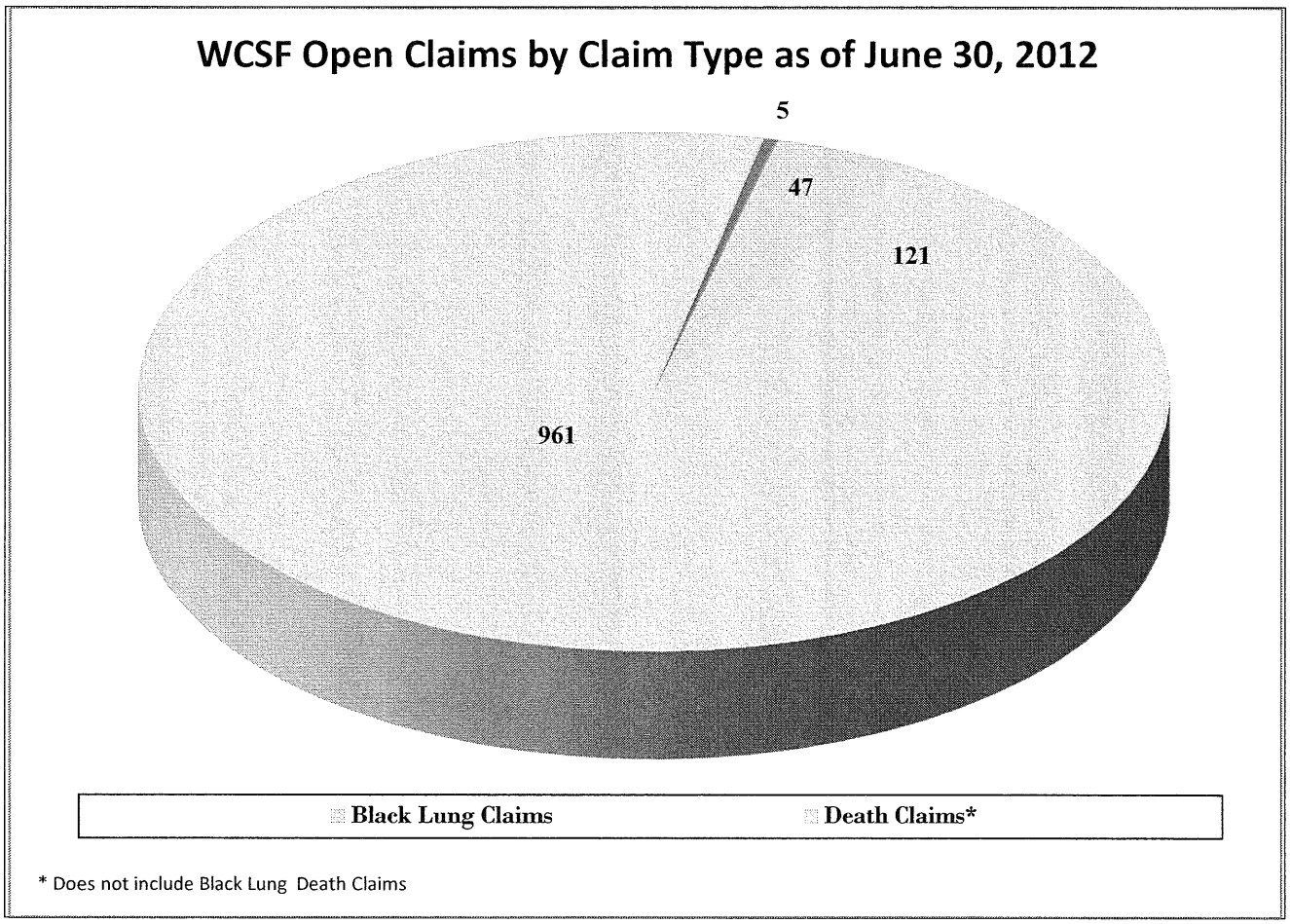


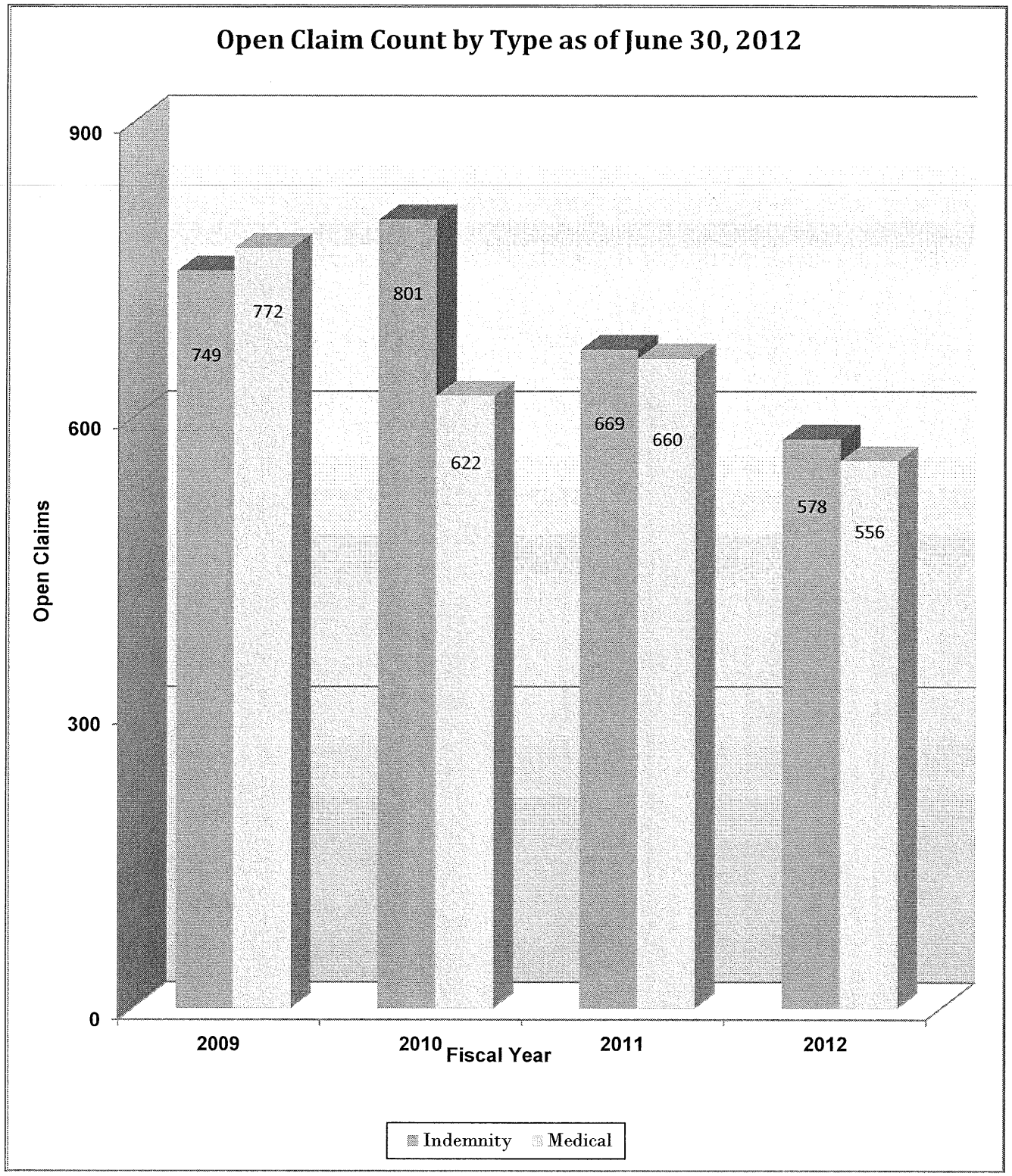
In fiscal year 2011-2012 CSI was able to close 284 claims. In fiscal year 2010-2011, 262 claims were closed which was an increase from the preceding fiscal year in which 229 claims were closed.



Currently, there are 1,134 open claims. The majority of these claims are workers' compensation indemnity claims. In addition, there are 121 open death claims with beneficiaries still receiving benefits. As of June 30, 2012, 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. 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. The new provisions of the PPACA extending the eligibility to widows may increase reporting of new claims to the Security Fund.

Additionally, there are five claimants receiving benefits provided under the Longshore and Harbor Workers Compensation Act. 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, 2012
900
600
300
0
Open Claims
749
772
801
622
669
660
578
556
2009
2010
2011
2012
Fiscal Year
Indemnity
Medical

A. Medical Savings

Type	Charge by Provider	WC Fee Schedule Amt	Paid Amt	Savings Below Fee Schedule	% Savings
Dental	30,290	19,055	19,055	0	0%
Hospital	4,371,155	2,019,436	1,969,426	40,277	2%
Pharmacy	8,317,782	7,787,444	5,525,796	2,312,378	30%
Physician	4,678,999	2,920,552	2,810,152	84,204	3%
Manual	1,357,021	1,357,021	1,357,021	0	0%
Rehab	-23,341	-23,341	-23,341	0	0%
Total	**18,731,906**	**14,080,167**	**11,658,109**	**2,436,859**	**17%**

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, $2,436,859 below the Workers' Compensation fee schedule as a result of these arrangements.

As pharmacy costs represent the largest category of medical payments, the Security Fund has taken an aggressive approach to reduce the cost of prescriptions. Letters were sent to the treating providers to change brand name prescription to generic, independent medical examinations were conducted to address the use of medications as well as the Medical Director of CSI contacted treating physicians regarding the use of narcotic and opiate medications in excess of $10,000/month to address a change in treatment plan. CSI, with approval, is denying new prescription orders for certain medications which are being prescribed for off label use.

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.

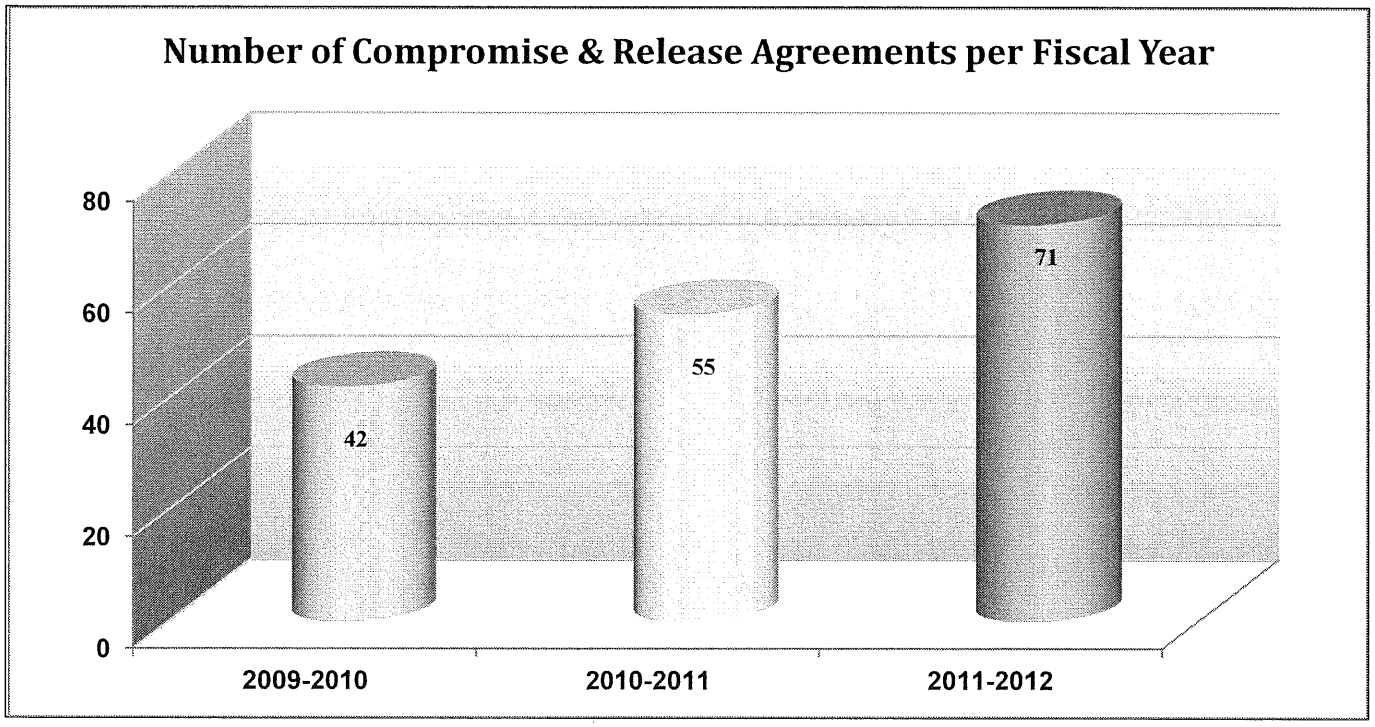
While Security Fund claimants have access to nationwide pharmacies and mail order pharmacies through PACE, the Security Fund realizes the PACE discount only if the claimant's prescription is filled by a pharmacy that has agreed to participate in the program. One national pharmacy chain and a few independent 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. 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 NPS 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, 2011 through June 30, 2012 CSI settled 71 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. The overall success of the relationship is proven by the increase in number of settlements.



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 has partnered with Global Options, a nationwide surveillance and special investigations unit (SIU) provider. In addition to Global Options, CSI, through its parent company Independence Blue Cross, employs a full time internal auditor who oversees all internal and external fraud investigations and SAS 70 Type II compliance.

E. Liquidations

There were no new liquidations for the fiscal year of July 1, 2011-June 30, 2012. One known carrier has been placed into rehabilitation and it is expected that the claims will be received by the guaranty funds during the next fiscal year.

F. Technological Enhancements

CSI's continued use of the most updated technology allows for strict security measures in compliance with privacy regulations protecting all claims data, as well as payment data and other related information.

CSI has a comprehensive workers' compensation system which integrates claims administration and processing applications, medical bill review, managed care and litigation management. CSI maintains two iSeries M50 model 8403s. The production machine is located in a secure facility in the Hershey, Pennsylvania area. The disaster recovery machine, which CSI has obtained through its parent company, Independence Blue Cross, is located in the Reading, Pennsylvania area. The second iSeries is a complete duplicate of the production box; replication is instantaneous. All CSI offices are connected via high-speed, redundant, frame relay lines utilizing two different carriers. These locations at two sites (Hershey, PA and Reading, PA) are disaster recovery facilities that guarantee near 100% system uptime.

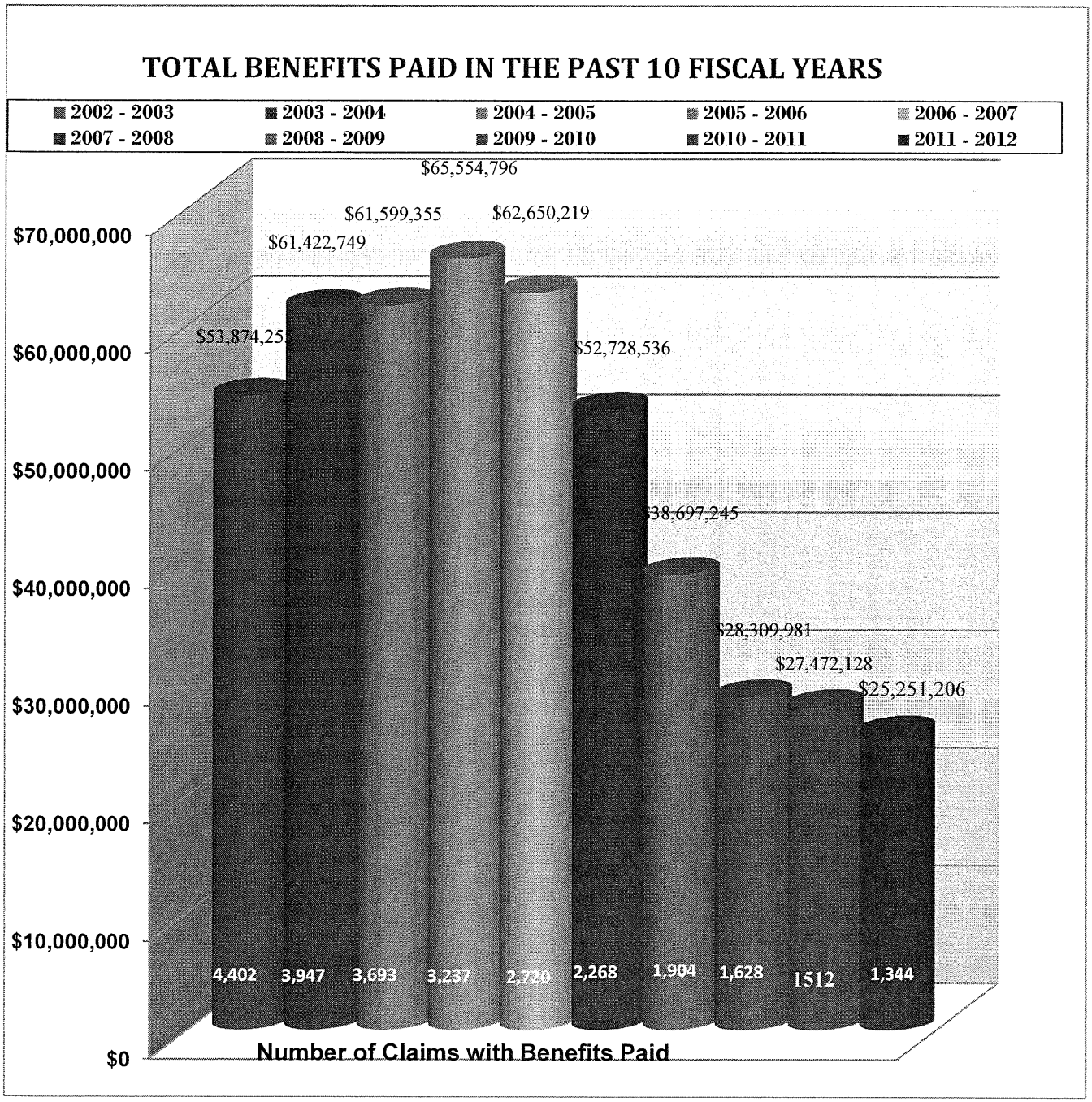
A component of the PACE program includes several data exchanges with CSI. CompServices, Inc provides data on claimants eligible for pharmacy benefits. The program with PACE also permits the CSI adjusters to specifically regulate the type and quantity of medications allowed for the workers' compensation 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 2011-2012, 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.

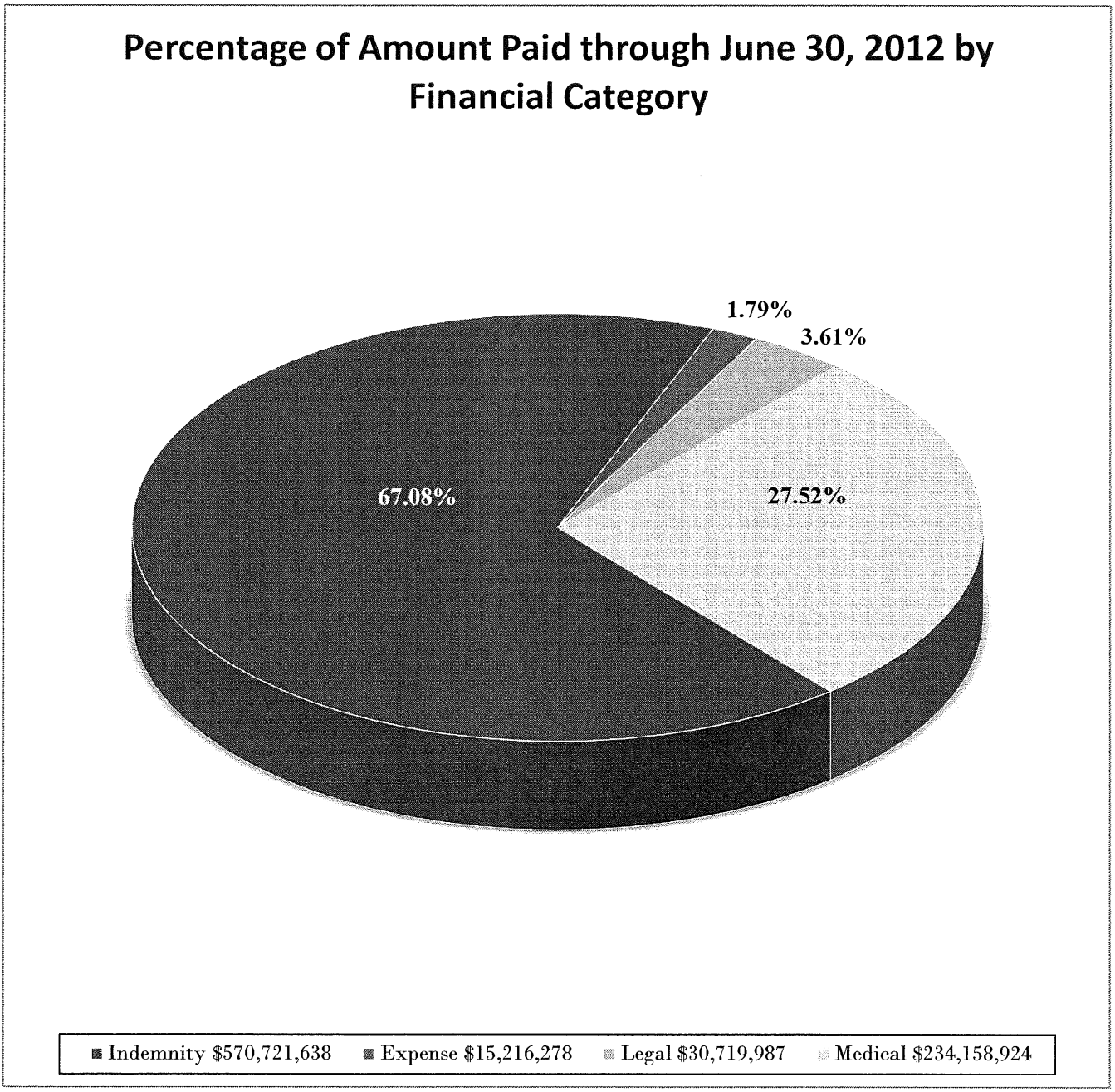
The Security Fund Web Page is located on the Insurance Department's website http://www.insurance.pa.gov. This web page provides valuable information to consumers who have inquiries regarding the Security Fund's background, contact information and answers to frequently asked questions.

FINANCIAL HIGHLIGHTS 2011/2012

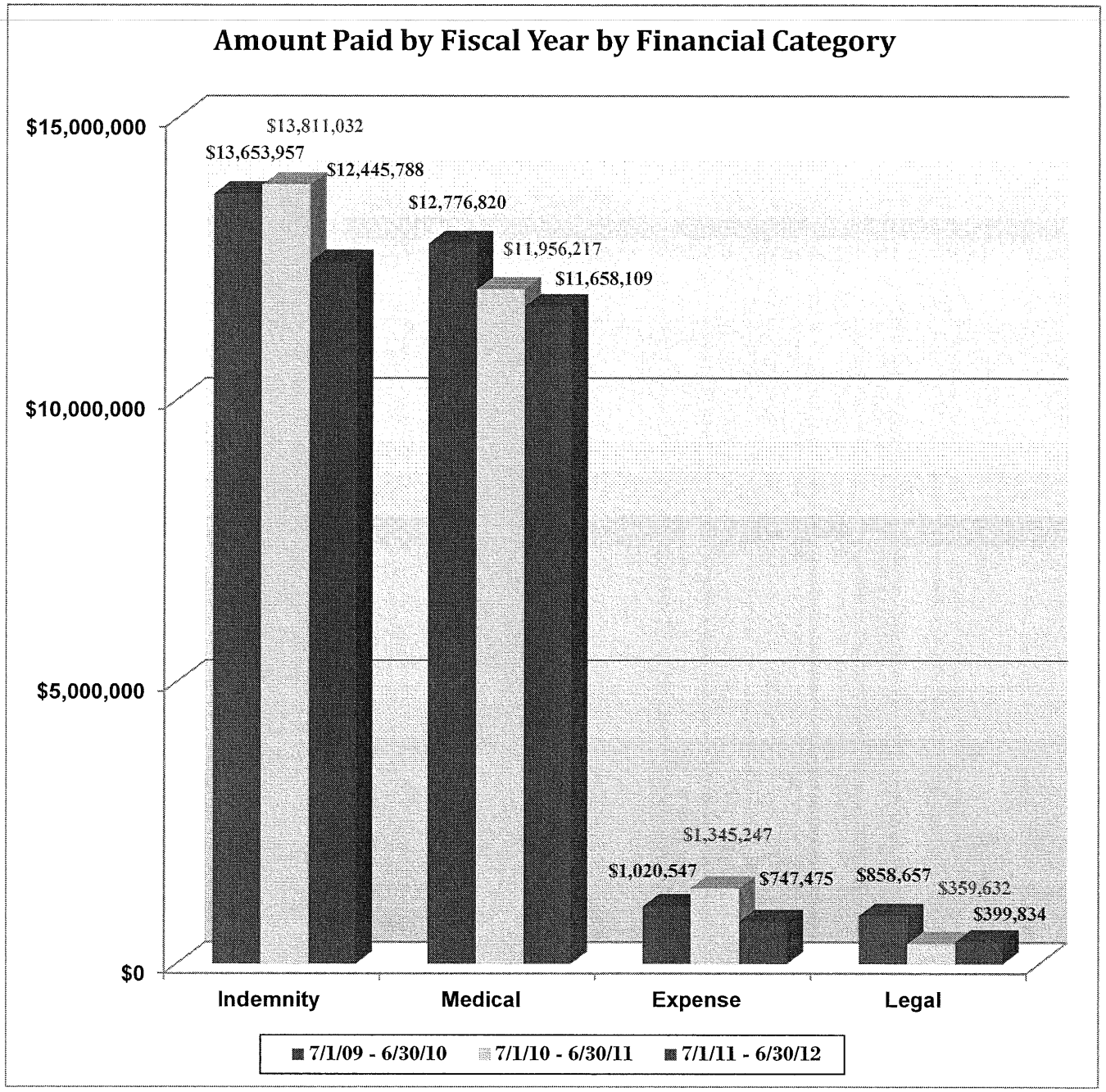
During fiscal year 2011-2012, the Security Fund paid $25,251,206 in benefits. Payments have been decreasing since 2006. Payment types are broken down into the following categories: indemnity, medical, expense and legal. Monies paid out by the Security Fund under these categories are illustrated on the following charts.



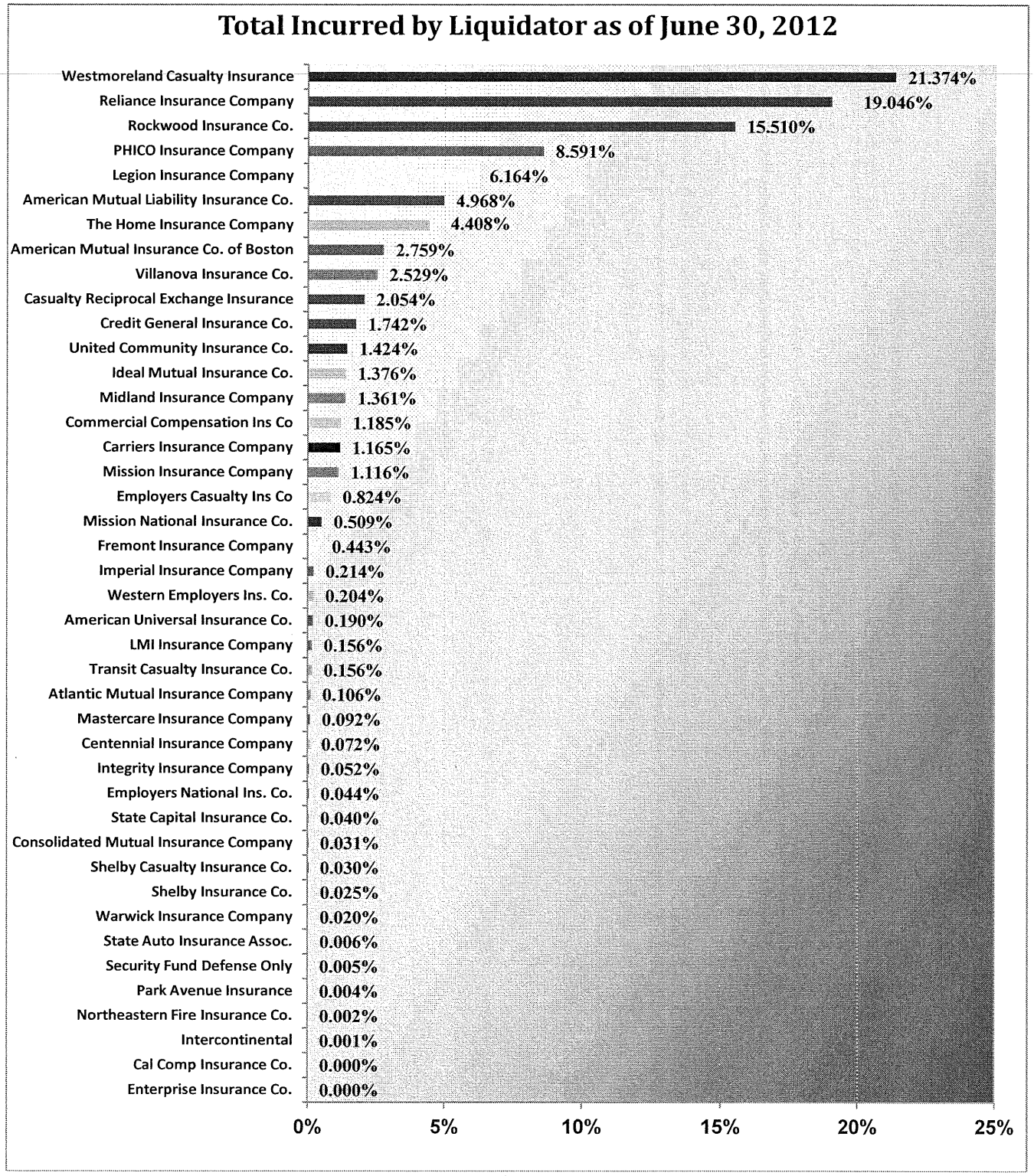
Indemnity benefits make up the majority of benefits paid in any fiscal year. The vast majority of payments over the past ten years have been indemnity payments, which include Compromise and Release settlement payments. A total of $570,721,638 has been paid in indemnity benefits, which represents 67.08% of the total payouts over the life of the Security Fund. Medical payments totaling $234,158,924 represent 27.52% of the total Security Fund payments. Expense payments total $15,216,278 representing only 1.79% of the total payments with the remaining 3.61% in payments totaling $30,719,987 for legal expenses.

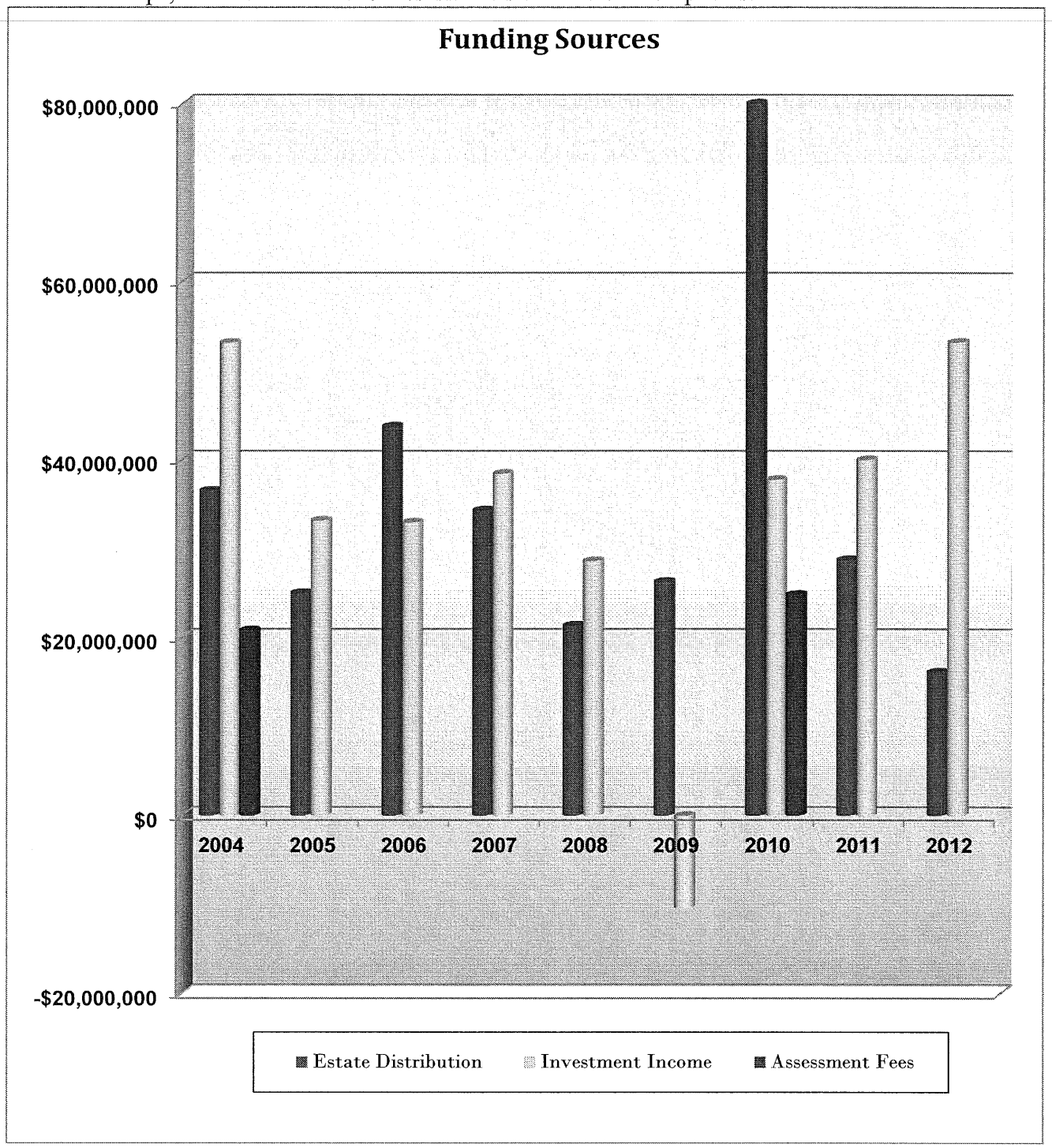


Over the past three fiscal years, medical payments continued to decrease. The spike in indemnity payments rose in the fiscal year 7/1/2010-6/30/2011 due to the addition of new liquidations and settlement of benefits. During this current fiscal year, indemnity payments decreased by $1,365,244 . Medical payments continued to decrease by $298,108. Expenses decreased by by $597,772. Legal expenses increased slightly by $40,202.



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, 2012. 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.