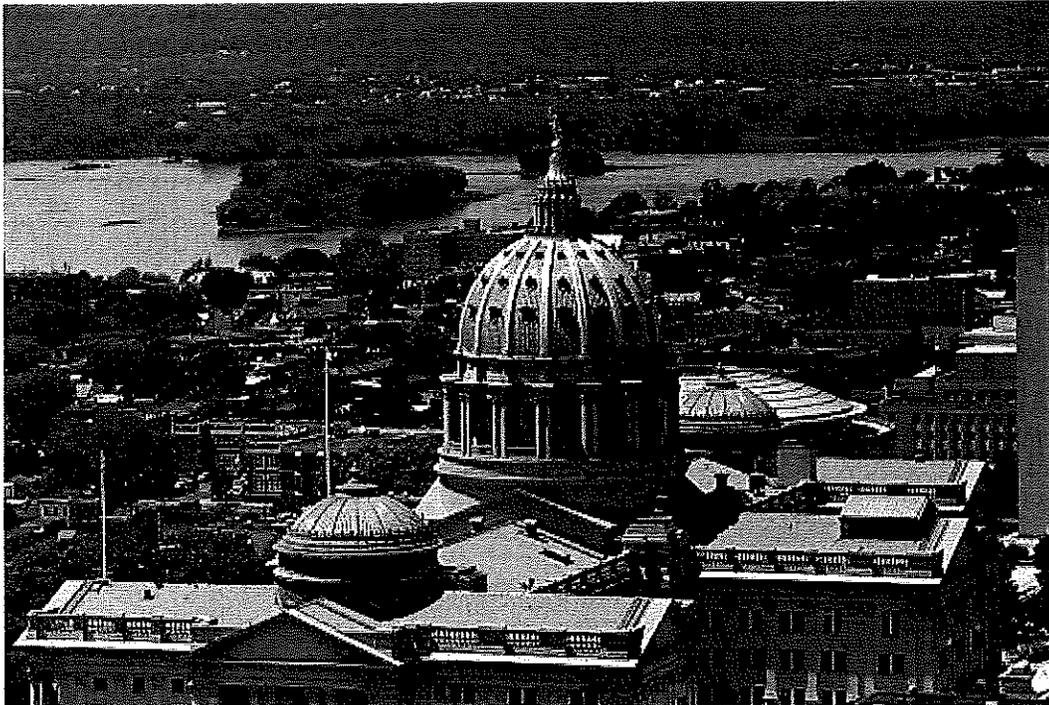


# Workers Compensation Security Fund Annual Report 2018-2019





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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 8 Pennsylvania domestic and 42 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 to provide quality claims management services in pursuit of this goal. Prior to April 1, 2019 when the Bureau contracted with TRISTAR, the claims management services were provided by AmeriHealth Casualty Services (ACH) from 2009-2019.

As of June 30, 2019, the Security Fund had a fund balance of \$964,477,227. Benefits paid during 2018-2019 were \$23,317,179. Also, as of June 30, 2019, there were 995 pending claims with reserves totaling \$257,459,613. 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.

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 June 20, 2019, was completed by Aon Risk Solutions. Aon determined that based on data valued as of December 31, 2018, ultimate liabilities were \$378,712,629.

Since April 1, 2019, TRISTAR Risk Enterprise Management (TRISTAR) has provided the Bureau of Special Funds with claims administration and managed care services for the Security Fund program. TRISTAR is a wholly owned subsidiary of Tristar Insurance Group a national property and casualty claims administrator headquartered in Long Beach, CA with Pennsylvania based offices in Harrisburg and Philadelphia, PA. TRISTAR is a full service provider of workers' compensation, property, casualty, and disability third party administrative (TPA) services, including medical bill review services and medical case management. TRISTAR currently employs over 400 workers' compensation professionals, including the seven (7) claim professionals and one (1) Nurse Case Manager dedicated to the Security Fund at its location in Harrisburg, Pennsylvania.

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

- A team of seven 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 TRISTAR 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 TRISTAR Insurance Group 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)

TRISTAR Insurance Group  
River Chase Office Center  
4431 North Front Street, Suite 103  
Harrisburg, PA 17011  
1-717-941-1061  
[www.tristargroup.net](http://www.tristargroup.net)

## 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, TRISTAR Insurance Group, 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. TRISTAR electronically exchanges health insurance benefits entitlement information, on a quarterly basis, with CMS and submits the Section 111 reporting for the Security Fund.

Prior to the April 1, 2019 transition of services to Tristar, the Security Fund had 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 received 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. These individuals were insured by an insurance carrier previously authorized to write workers' compensation insurance in Pennsylvania that was deemed insolvent and placed into liquidation.

The Security Fund has effectively managed the liquidation of 50 estates and currently has 995 open claims. The reserves on these claims, including indemnity, medical, rehabilitation and claim expense, total approximately \$257,459,613. 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 2018-2019; Northwestern Mutual Insurance Company of Milwaukee, May 2, 2019.

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 TRISTAR's online tools: *iCAST*

Liquidator	Date of Liquidation	State	Total Claims	Open	Closed	%	Paid to Date	Outstanding	Incurred
American Mutual Ins. Co. of Boston	3/9/1989	MA	421	15	406	96%	\$24,811,767.60	\$2,176,734.28	\$26,988,501.88
American Mutual Liability Ins. Co.	3/9/1989	MA	734	19	715	97%	\$44,527,295.21	\$2,569,284.00	\$47,096,579.21
American Universal Ins. Co.	1/8/1991	RI	24	1	23	96%	\$1,853,928.62	\$996,964.09	\$2,850,892.71
Atlantic Mutual Insurance Company	4/27/2011	NY	38	11	27	71%	\$2,592,063.92	\$1,063,457.57	\$3,655,521.49
California Comp Ins. Co.	9/26/2000	CA	1	0	1	100%	\$0.00	\$0.00	\$0.00

Carriers Ins. Co.	1/16/1986	IA	82	1	81	99%	\$9,960,522.02	\$51,454.40	\$10,011,976.42
Castlepoint National Insurance Company	4/1/2017	CA	36	10	26	72%	\$833,111.81	\$4,605,499.03	\$5,438,610.84
Casualty Reciprocal Exchange	8/18/2004	MO	218	18	200	92%	\$22,109,365.00	\$6,302,566.31	\$28,411,931.31
Centennial Insurance Company	4/27/2011	NY	23	8	15	65%	\$2,421,379.04	\$1,192,963.66	\$3,614,342.70
Commercial Compensation Casualty Co.	6/26/2000	CA	533	3	530	99%	\$10,857,915.33	\$445,704.13	\$11,303,619.46
Consolidated Mutual Ins. Co.	5/31/1979	NY	5	0	5	100%	\$284,671.37	\$0.00	\$284,671.37
Credit General Ins. Co.	1/5/2001	OH	470	7	463	99%	\$16,193,122.93	\$1,922,453.43	\$18,115,576.36
Employers Casualty Ins. Co.	2/11/1994	TX	70	1	69	99%	\$7,453,068.38	\$405,382.48	\$7,858,450.86
Employers National Ins. Co.	2/11/1994	TX	3	0	3	100%	\$377,694.41	\$0.00	\$377,694.41
Enterprise Ins. Co.	2/24/1987	CA	1	0	1	100%	\$232.00	\$0.00	\$232.00
Freestone Insurance Company	8/15/2014	DE	354	3	351	99%	\$12,970,366.22	\$3,205,989.02	\$16,176,355.24
Fremont Compensation Ins	7/2/2003	CA	37	2	35	95%	\$5,513,574.33	\$3,157,971.75	\$8,671,546.08
Frontier Insurance Company	11/16/2012	NY	12	4	8	67%	\$2,000,063.05	\$4,220,896.76	\$6,220,959.81
Guarantee Insurance Company	11/27/2017	CA	550	257	293	53%	\$16,308,330.09	\$44,282,162.80	\$60,590,492.89
Ideal Mutual Ins. Co.	2/7/1985	NY	489	5	484	99%	\$12,135,922.21	\$454,660.33	\$12,590,582.54
Imperial Casualty and Indemnity Company	5/12/2010	OK	56	1	55	98%	\$2,801,319.19	\$514,516.16	\$3,315,835.35
Integrity Ins. Co.	3/25/1987	NJ	58	0	58	100%	\$446,376.48	\$0.00	\$446,376.48

Intercontinental Ins. Co.	1/12/1990	IL	4	0	4	100%	\$8,129.56	\$0.00	\$8,129.56
Legion Ins. Co.	7/28/2003	PA	740	34	706	95%	\$68,451,774.39	\$13,768,118.35	\$82,219,892.74
Lincoln General Insurance Company	11/5/2015	PA	3	1	2	67%	\$138,029.65	\$575,037.59	\$713,067.24
LMI Insurance Co.	5/22/2000	OH	21	2	19	90%	\$2,120,157.68	\$218,104.52	\$2,338,262.20
Lumbermens Mutual Casualty Co	5/10/2013	IL	191	94	97	51%	\$15,078,563.68	\$25,267,109.45	\$40,345,673.13
Lumbermens Underwriting Alliance (LUA)	5/23/2016	MO	41	9	32	78%	\$771,202.67	\$992,301.58	\$1,763,504.25
MasterCare Ins. Co.	7/14/2003	NJ	12	0	12	100%	\$779,329.22	\$0.00	\$779,329.22
Midland Ins. Co.	4/3/1986	NY	176	0	176	100%	\$11,655,292.56	\$0.00	\$11,655,292.56
Mission Ins. Co.	2/24/1987	CA	175	9	166	95%	\$11,039,229.99	\$2,610,161.66	\$13,649,391.65
Mission National Ins. Co.	2/24/1987	CA	75	1	74	99%	\$4,449,416.92	\$65,574.24	\$4,514,991.16
Northeastern Fire Ins Co.	6/1/1984	PA	1	0	1	100%	\$20,995.80	\$0.00	\$20,995.80
Northwestern National Insurance Co Milwaukee	5/2/2019	WI	0	0	0	0%	\$0.00	\$0.00	\$0.00
Park Avenue Property & Casualty	11/20/2009	OK	1	0	1	100%	\$35,199.09	\$0.00	\$35,199.09
PHICO Ins. Co.	2/1/2002	PA	1,832	95	1,737	95%	\$93,476,890.10	\$35,381,773.09	\$128,858,663.19
Reliance Ins. Co.	10/3/2001	PA	3,045	106	2,939	97%	\$196,000,873.41	\$44,282,073.16	\$240,282,946.57
Rockwood Ins. Co.	8/26/1991	PA	1,920	100	1,820	95%	\$144,782,179.71	\$18,120,983.95	\$162,903,163.66
Shelby Casualty	8/1/2006	TX	7	2	5	71%	\$353,545.01	\$32,090.22	\$385,635.23

Insurance Company									
Shelby Insurance Company	8/1/2006	TX	8	2	6	75%	\$353,593.85	\$53,358.84	\$406,952.69
State Auto Ins. Co.	12/22/1992	IN	15	0	15	100%	\$52,873.73	\$0.00	\$52,873.73
State Capital Ins. Co.	6/21/2004	NC	4	0	4	100%	\$343,732.02	\$0.00	\$343,732.02
The HOME Ins. Co.	6/13/2003	NH	623	115	508	82%	\$55,429,644.00	\$23,308,883.01	\$78,738,527.01
Transit Casualty Ins. Co.	12/3/1985	MO	60	0	60	100%	\$1,324,870.28	\$0.00	\$1,324,870.28
Ullico Casualty Company	5/30/2013	DE	156	5	151	97%	\$9,584,539.90	\$4,012,020.89	\$13,596,560.79
United Community Ins. Co.	7/7/1994	NY	191	2	189	99%	\$12,388,465.54	\$496,694.14	\$12,885,159.68
Villanova Ins. Co.	7/28/2003	PA	291	7	284	98%	\$25,110,418.08	\$2,027,352.81	\$27,137,770.89
Warwick Ins. Co.	6/22/1993	NJ	5	0	5	100%	\$170,141.26	\$0.00	\$170,141.26
Western Employers Ins. Co.	4/19/1991	CA	40	1	39	98%	\$1,758,316.55	\$4,857.77	\$1,763,174.32
Westmoreland Casualty Co.	9/27/1988	PA	3,833	44	3,789	99%	\$190,514,673.76	\$8,674,457.85	\$199,189,131.61
Grand Total			17,685	995	16,690	94%	\$1,042,644,167.62	\$257,459,613.32	\$1,300,103,780.94

## CLAIM HIGHLIGHTS 2018-2019

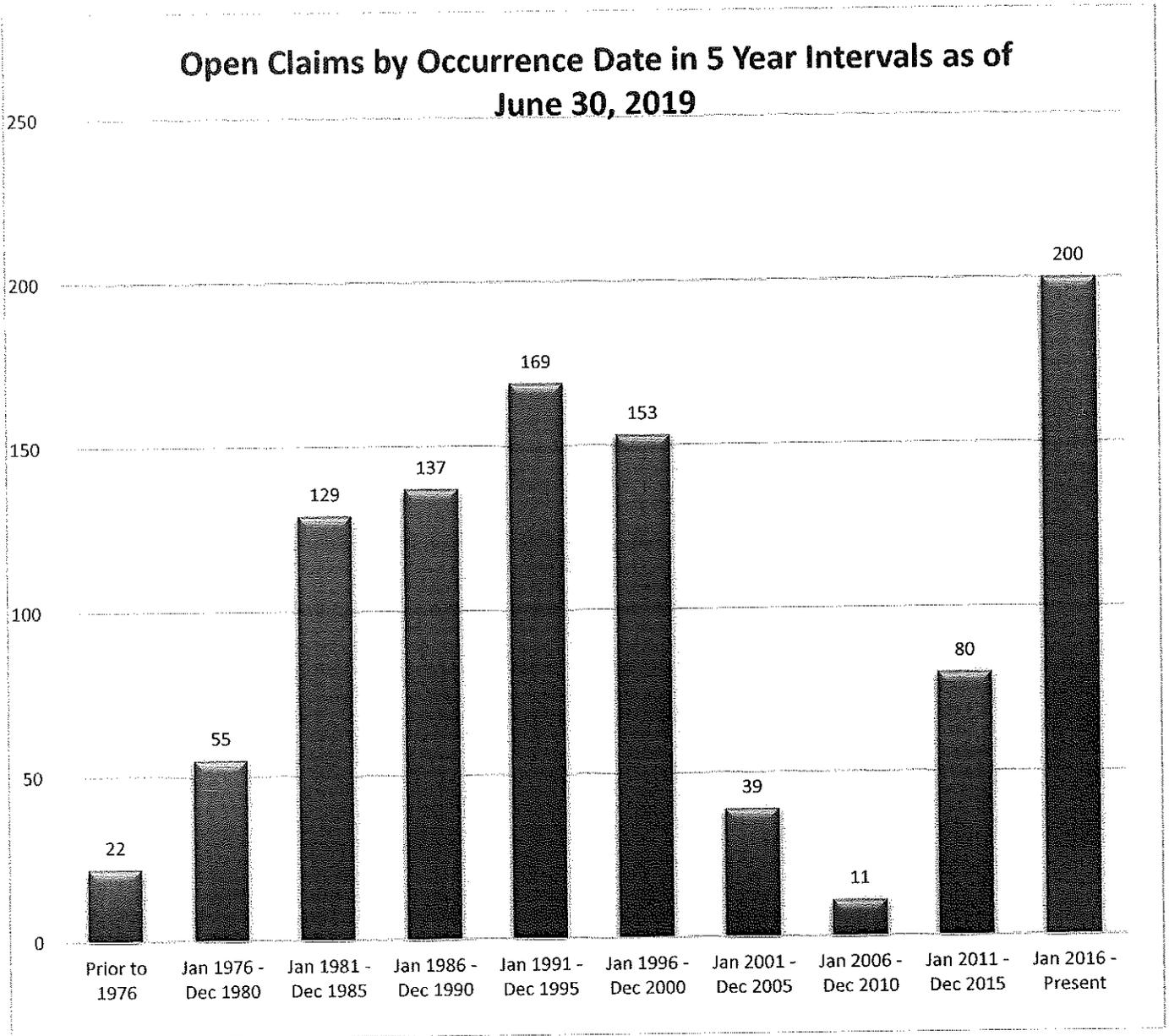
The Security Fund utilizes reports from TRISTAR to monitor the number of claims closed in any given fiscal year, and also the type of claims involved in the closing process, such as medical-only, legal, indemnity-only, rehabilitation-only or expense/record only. The Security Fund had a total of 995 claims (435 indemnity claims and 560 medical claims) open as of June 30, 2019.

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. Following the *Protz* ruling, the Pennsylvania General Assembly responded with new legislation. On October 24, 2018 Governor Wolf signed into law House Bill 1840 (now Act 111); thereby restoring the impairment-rating mechanism perceived to be the critical constitutional deficiency identified in the 2017 *Protz* decision. The new law incorporated, by express reference, the Sixth Edition of the Guides.

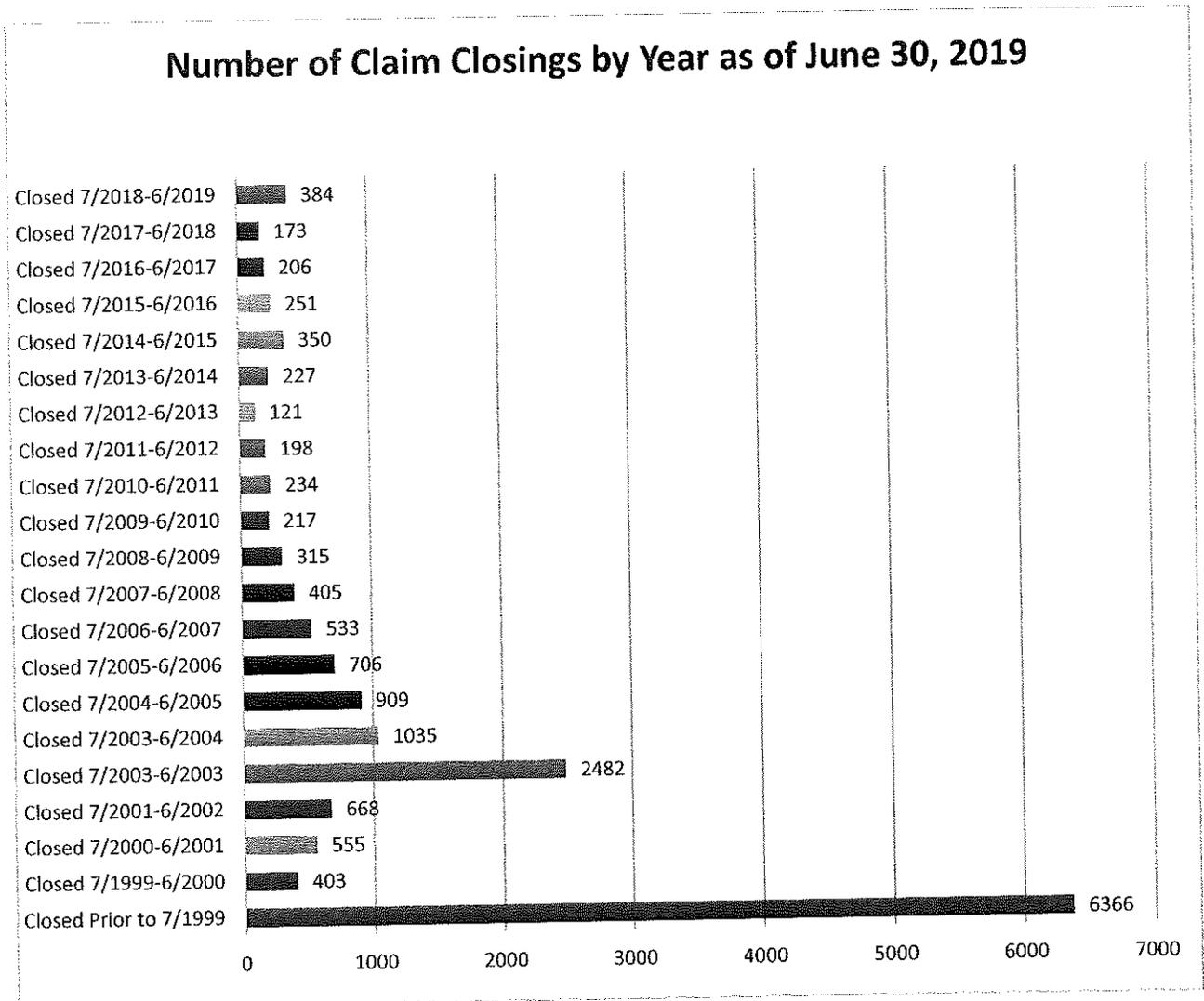
TRISTAR also conducts periodic claim reviews with the staff from the Security Fund. Cases are evaluated for compromise and release as well as for overall claim strategy, reserving and action plans on cases reviewed with claims managers and adjusters.

Fiscal year 2018-2019 included the continuation of a medical cost containment program. The network savings totaled \$373,503 for an overall average savings below the Pennsylvania State Fee Schedule of 8%. In 2018-2019 the Security Fund continued the programs with PACE and the TPA'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 291 open claims being handled by TRISTAR Insurance Group 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 2016 - present. There are 22 remaining open claims with an occurrence date prior to 1976. The chart below gives a stratification of all open claims by occurrence date.

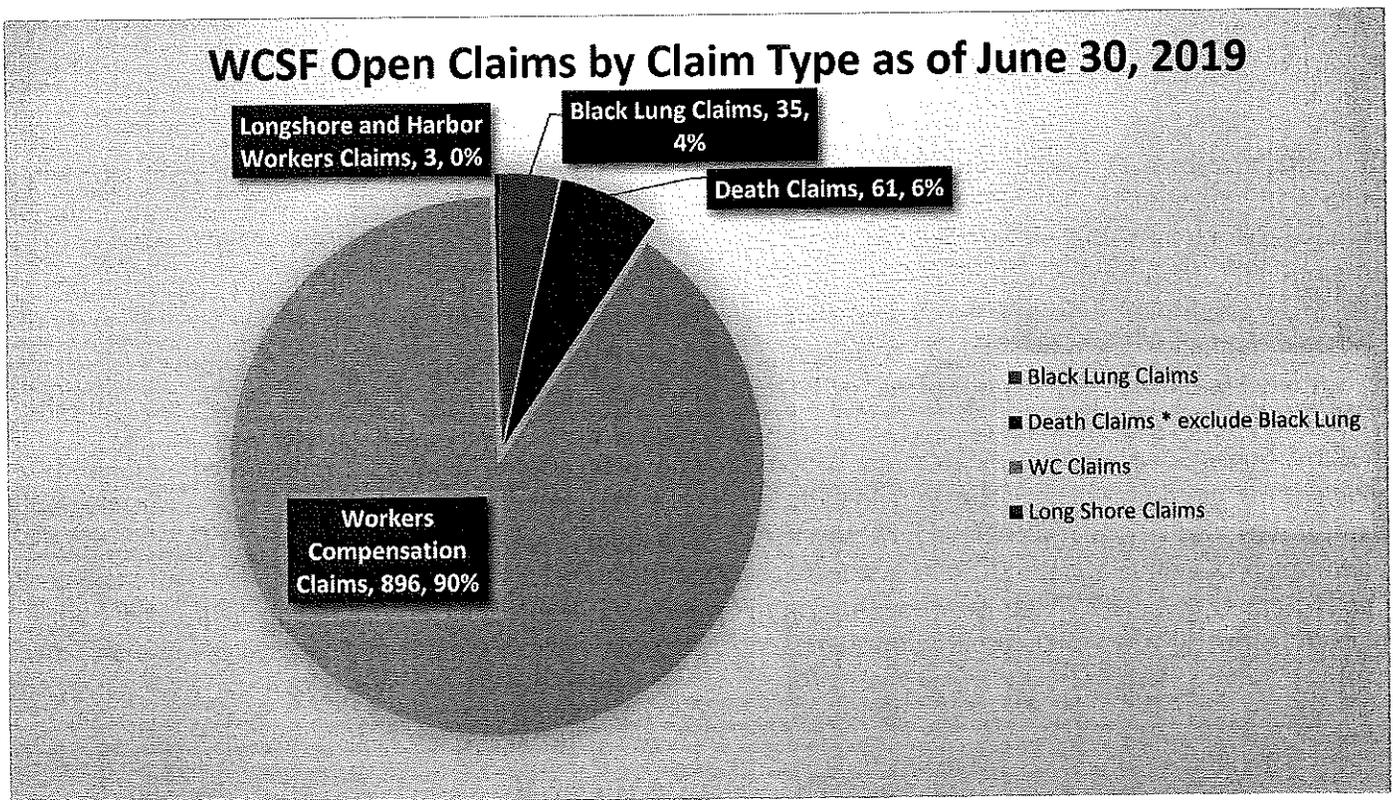


In fiscal year 2018-2019, a total of 384 claims were closed. In fiscal year 2017-2018, 173 claims were closed which was a decrease from the preceding fiscal year in which 206 claims were closed.

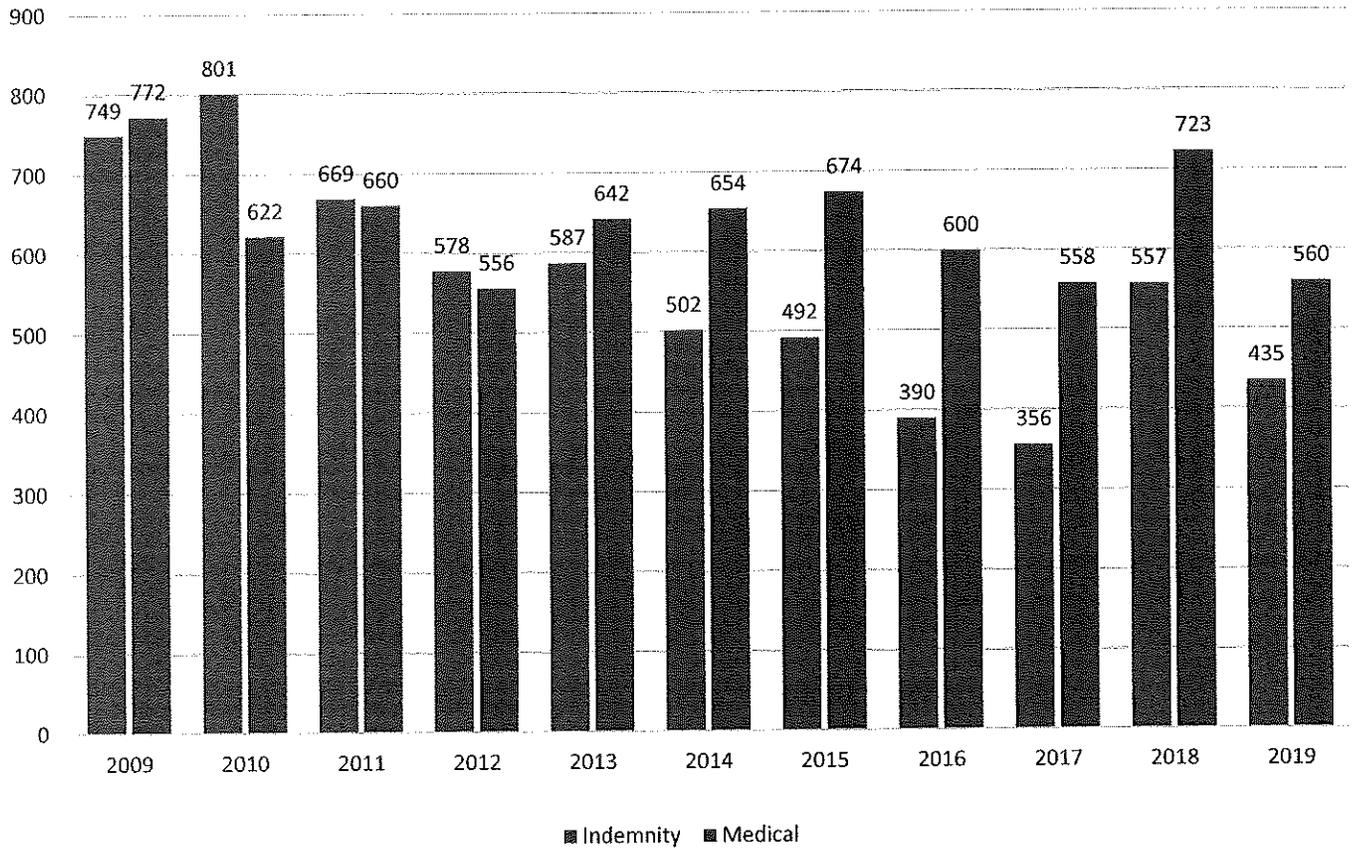


Currently, there are 995 open claims of which 896 are workers' compensation indemnity/medical claims. In addition, there are 61 open death claims with beneficiaries still receiving benefits. As of June 30, 2019, there were 35 open Federal Black Lung claims being administered by TRISTAR. As Federal Black 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. In accordance with the WCSF Act, if the LHWC insured/employer becomes insolvent, is dissolved or declares bankruptcy these claims will be turned over to the US DOL.



### Open Claim Count by Indemnity & Medical as of June 30, 2019



A. Medical Savings

Type	Charge by Provider	WC Fee Schedule Amt	Paid Amt	Savings Below Fee Sched	% Savings
Medical	\$3,505,071	\$2,048,924	\$1,836,212	\$156,632	8%
Pharmacy	\$1,885,892	\$1,630,922	\$1,471,868	\$158,920	10%
Dental	\$2,91	\$2,189	\$2,189	\$0.00	0%
Hospital	\$1,956,632	\$985,194	\$920,893	\$57,950	6%
Total	\$7,350,506	\$4,667,231	\$4,231,164	\$373,503	8%

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. All eligible Security Fund invoices are repriced to fee schedule. In addition, there are special arrangements with a network of healthcare providers to receive payment less than the fee schedule which are applied to Security Fund invoices. Prior to the April 1, 2019 transition of services to Tristar, the Security Fund had an agreement with PACE and their participating pharmacies to receive payment less than fee schedule.

## B. Prescription Drug Program

To reduce expenses, without negatively impacting 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. Prior to the April 1, 2019 transition of services to Tristar, this program provided 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 \$804,204 below the Usual & Customary provider charges for 2018-2019.

While Security Fund claimants have access to nationwide pharmacies and mail order pharmacies through PACE, the Security Fund realized the PACE discount only if the claimant's prescription was filled by a pharmacy that agreed to participate in the program. Since pharmacy costs remain a significant part of the overall medical expense for the Security Fund, a supplemental network and billing mechanism was needed to obtain discounts on prescriptions not otherwise processed through PACE; therefore, the Security Fund also utilized Select One Medical (S1) pharmacy benefits management program, through AmeriHealth Casualty Services (AHC), as a means of additional cost savings prior to the April 1, 2019 transition to Tristar.

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. PACE monitors 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 20.799% of the prescriptions filled. In addition, PACE also offers 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 1.26% of prescriptions were filled through the mail service offered through S1 and PACE with continued efforts to make the resource available to all injured workers.

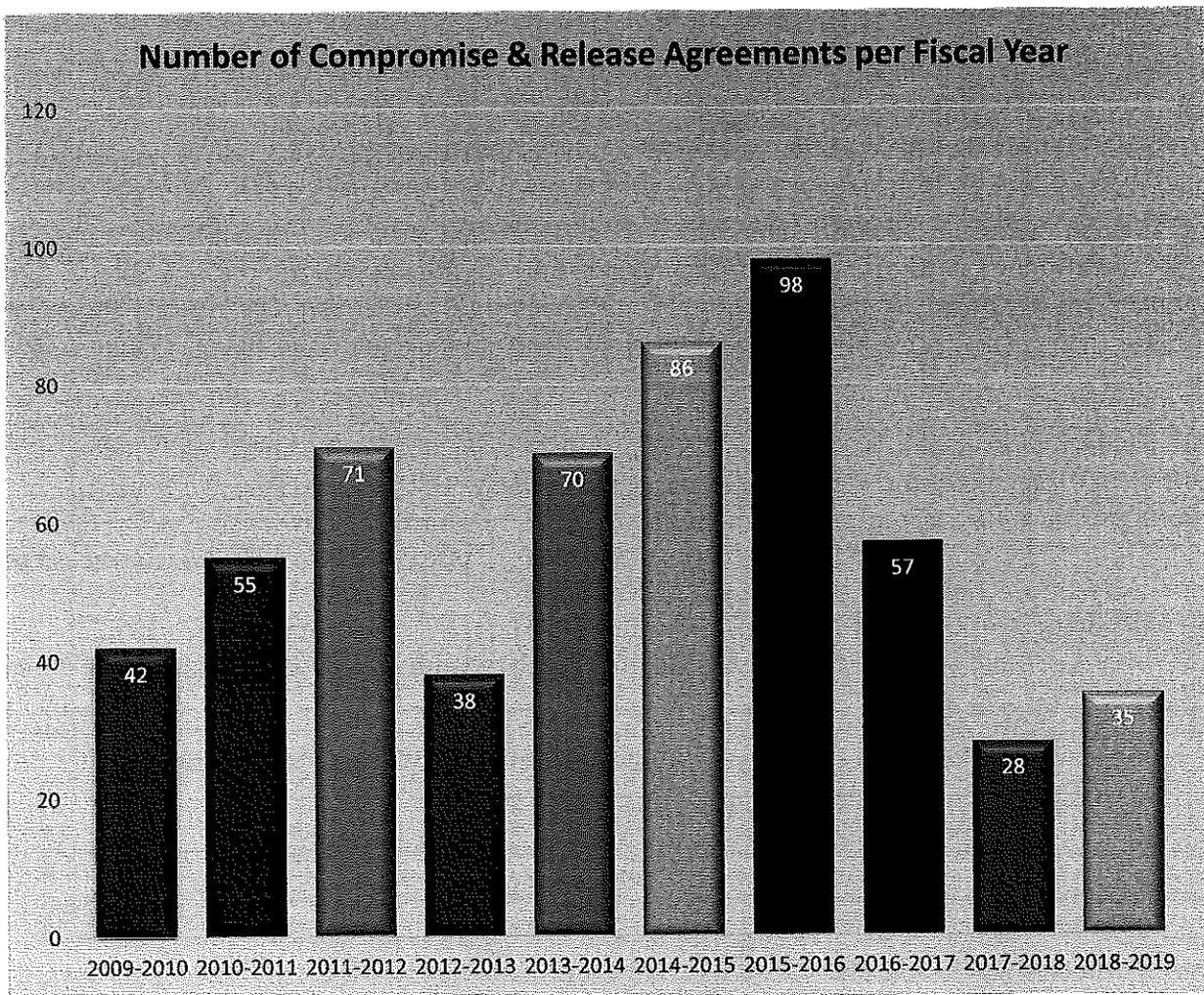
<b>WCSF Pharmacy Subcategories</b>			
<b>Brand vs Generic</b>			
<b>PBM</b>	<b># Brand</b>	<b># Generic</b>	<b># Total</b>
PACE	1,154	4,150	5,304
S1	418	1,836	2,254
OPTUM	662	2,154	2,816
	<b>2,234</b>	<b>8,140</b>	<b>10,374</b>
<b>Retail Vs Mail Order</b>			
<b>PBM</b>	<b># Retail</b>	<b># Mail Order</b>	<b># Total</b>
PACE	5,231	73	5,304
S1	2,232	22	2,254
OPTUM	2,773	43	2,816
	<b>10,236</b>	<b>138</b>	<b>10,374</b>

### 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, TRISTAR ensures the requirements of the Centers for Medicare & Medicaid Services (CMS) are met by establishing a Medicare Set Aside account when necessary. TRISTAR 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, 2018, through June 30, 2019 a total of 35 claims were settled by way of Compromise and Release. The chart below illustrates the total number of cases settled since 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 TRISTAR, has utilized legislative tools to address the issue of workers' compensation fraud.

TRISTAR employs a full time financial investigator to oversee all internal and external fraud investigations as well as SOC 1 compliance. TRISTAR has received a qualified rating from Deloitte based on SAS 70/SOC 1 audits conducted over the last 17 years. The auditor has full authority and support needed to investigate all fraudulent matters affecting TRISTAR.

TRISTAR subscribes to the Central Index Bureau in an effort to identify and deter fraud on part of the claimant. TRISTAR employs database searches throughout the jurisdictions in which it does business including Federal databases such as OFAC and the SSN National Death Index to further deter and prevent fraud.

#### E. Liquidations

There was one new liquidation for the fiscal year of 2018-2019; Northwestern National Insurance Company of Milwaukee.

#### F. Technological Enhancements

A component of the PACE program included several data exchanges with the Third Party Administrator. The TPA provides data on claimants eligible for pharmacy benefits. The program with PACE permitted the adjusters to specifically regulate the type and quantity of medications allowed for the workers' compensation injury of each claimant. PACE provided weekly data feeds on the pharmacy and administrative costs to the Security Fund which the TPA loaded to each of the electronic claim files.

TRISTAR's computer network infrastructure is resilient and 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 4 hours with no loss of data.

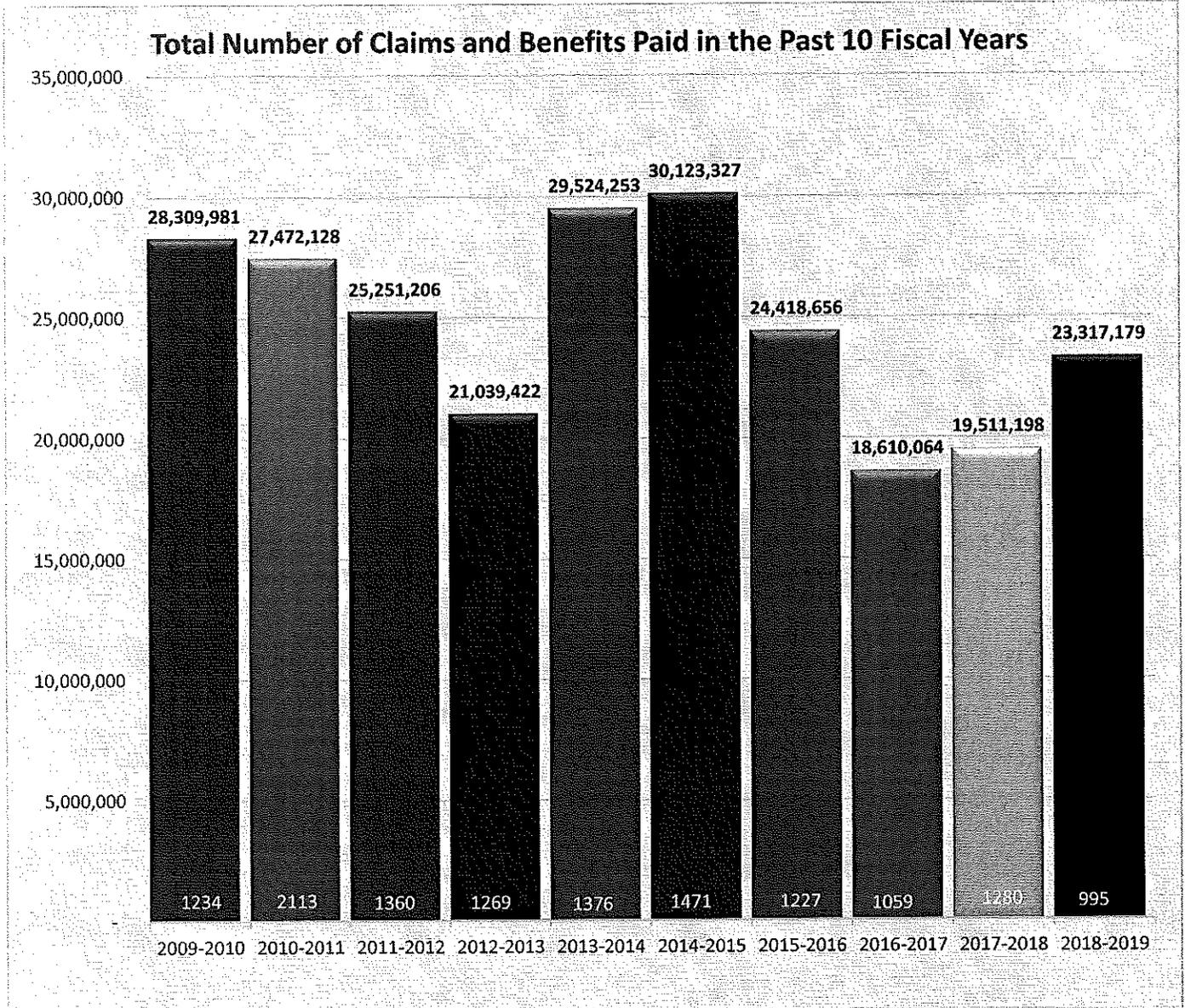
Administratively, the paperless workflow process continues to be an efficient user tool. The Security Fund staff, as well as the majority of the state Liquidators, has secured viewing access directly through the internet. Viewer access provides instant access to claim payments, claim reserves, claim activity and file documents. During fiscal year 2018-2019, very little paper flowed between the Security Fund and the TPA, which

continued to eliminate time consuming tasks such as paper filing and onsite paper file audits for the Security Fund, Liquidators and Reinsurers.

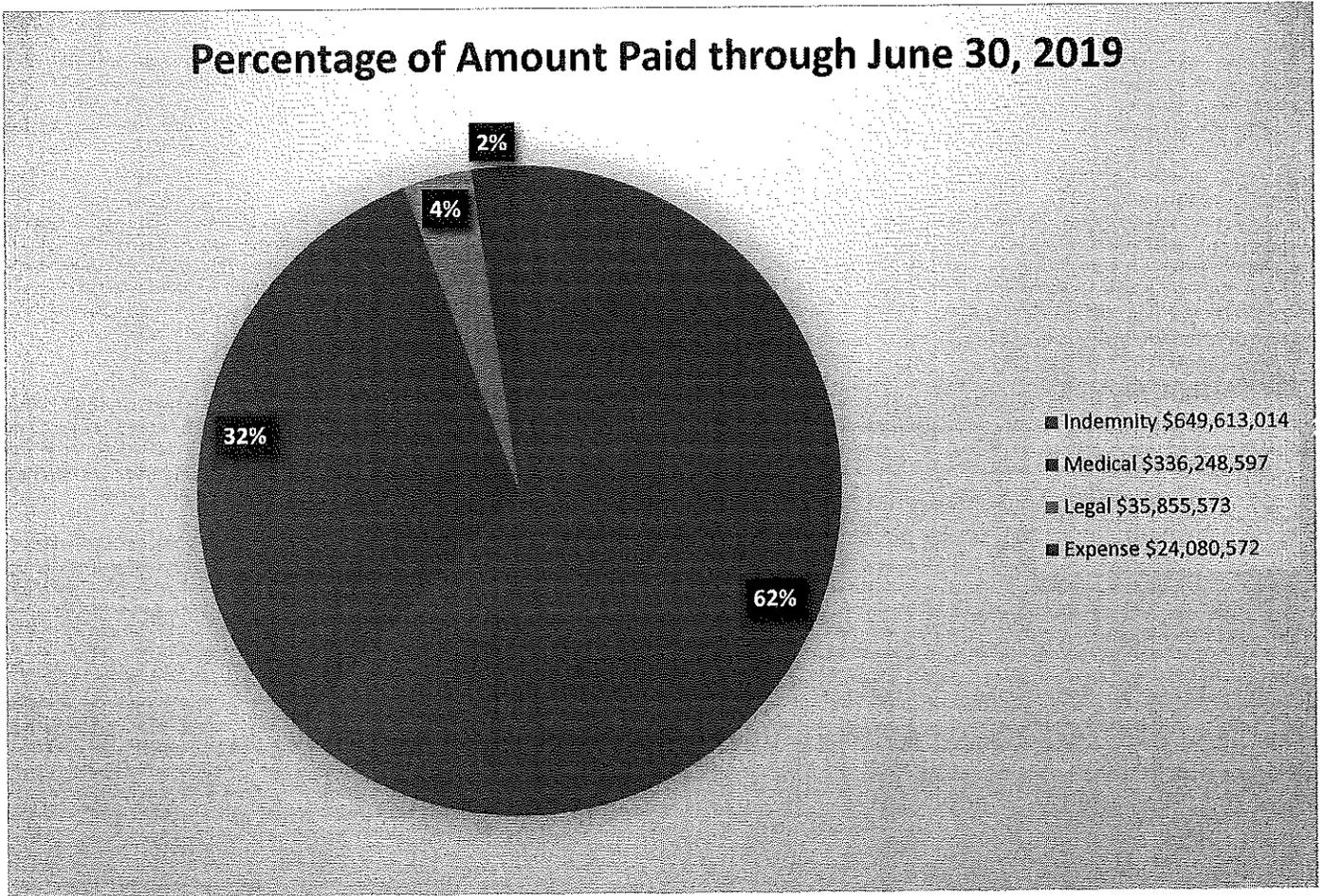
The Security Fund Web Page is located on the Insurance Department's website <http://www.insurance.pa.gov>. This web page provides valuable information to consumers who have inquiries regarding the Security Fund's background, contact information and answers to frequently asked questions.

## FINANCIAL HIGHLIGHTS 2018-2019

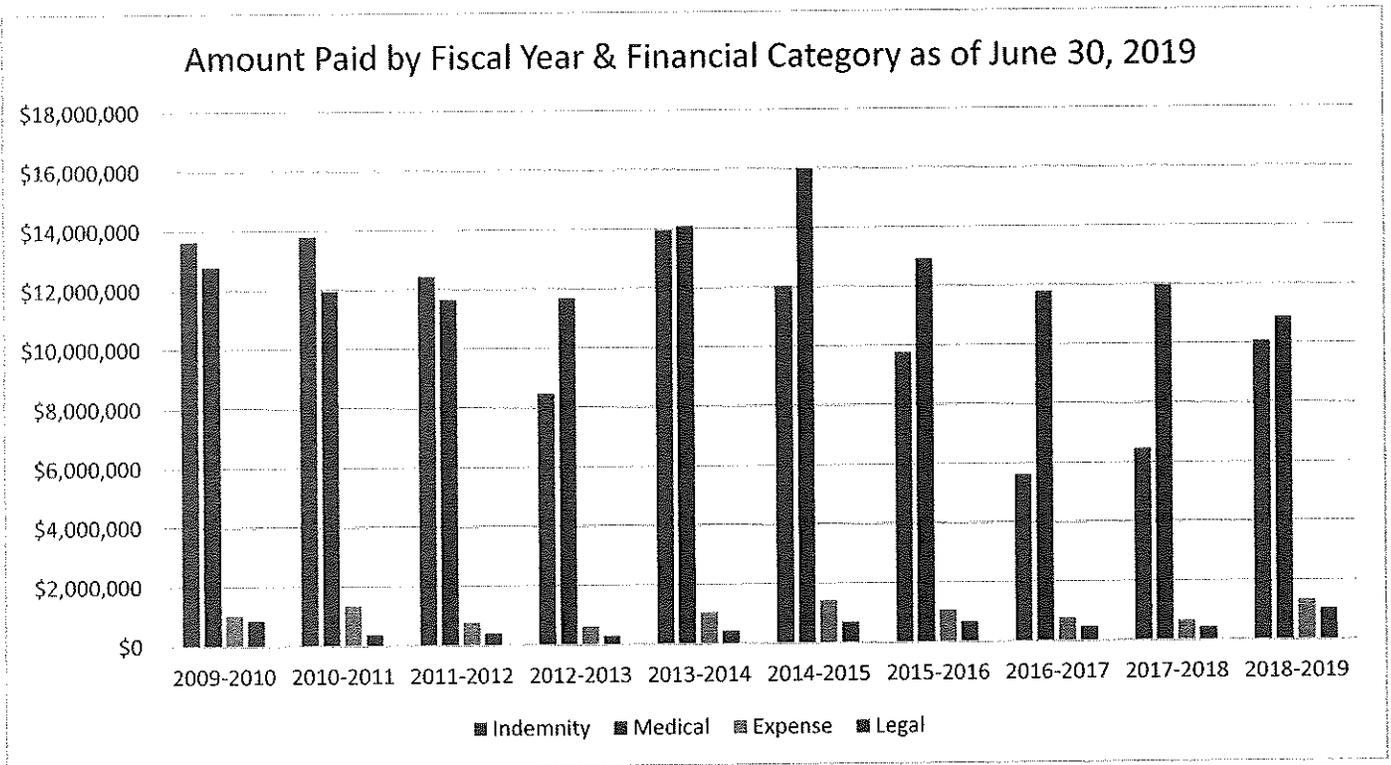
During fiscal year 2018-2019, the Security Fund paid \$23,317,179 in benefits. Due to several liquidations in 2012-13 and 2014-15, this resulted in increased benefit payments for these fiscal years. Payment types are broken down into the following categories: indemnity, medical, expense and legal. Monies paid out by the Security Fund under these categories are illustrated on the following charts.



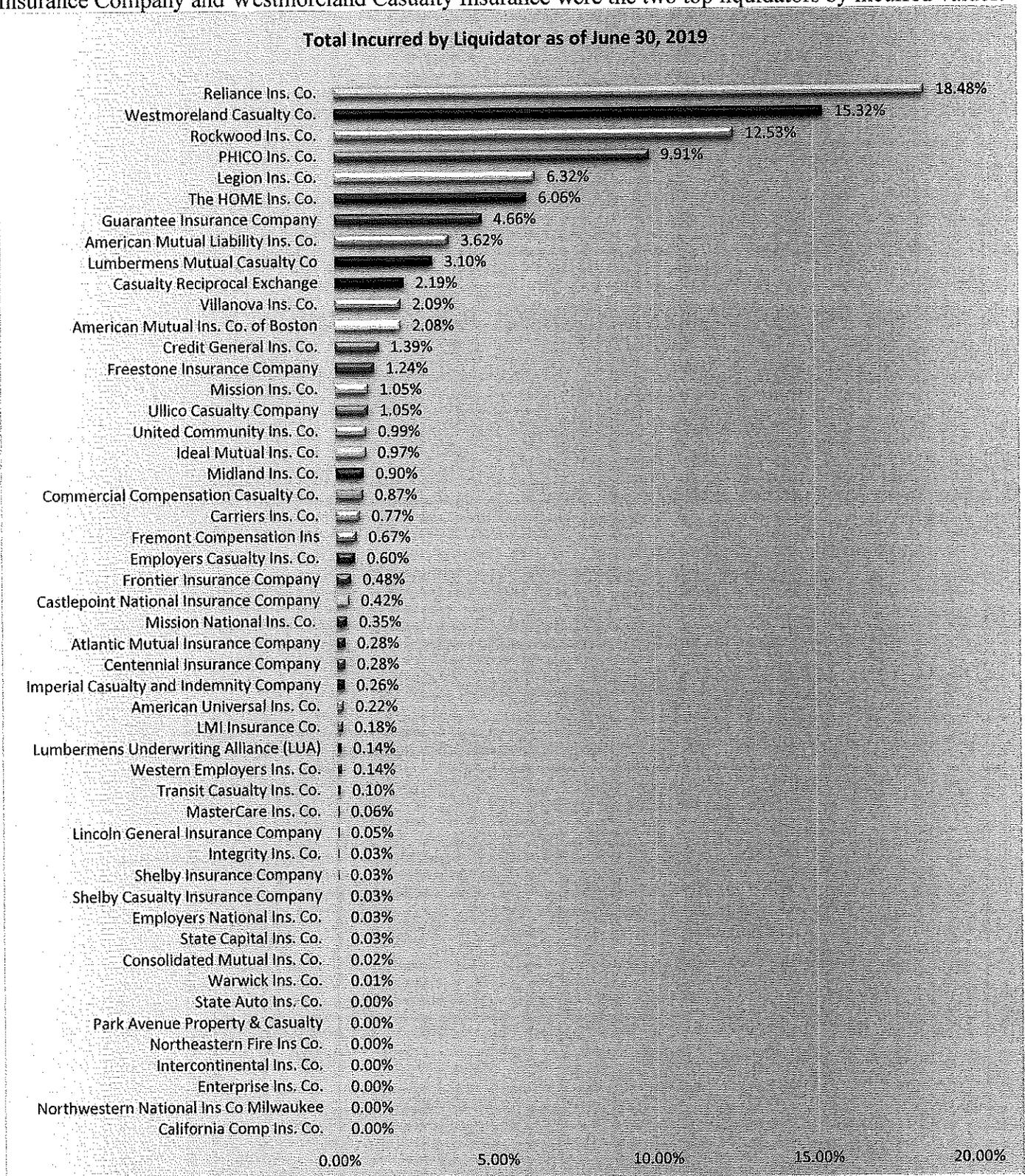
The vast majority of payments over the past ten years have been indemnity payments, which include Compromise and Release settlement payments. A total of \$649,613,014 has been paid in indemnity benefits, which represents 62% of the total payouts over the life of the Security Fund. Medical payments totaling \$336,248,597 represent 32% of the total Security Fund payments. Expense payments total \$24,080,572 representing only 2% of the total payments with the remaining 4% in payments totaling \$35,855,573 for legal expenses.



Total increases include Indemnity by \$3,611,369, Legal by \$614,513 and Expense by \$681,505. There was a decrease in Medical by \$1,100,951.

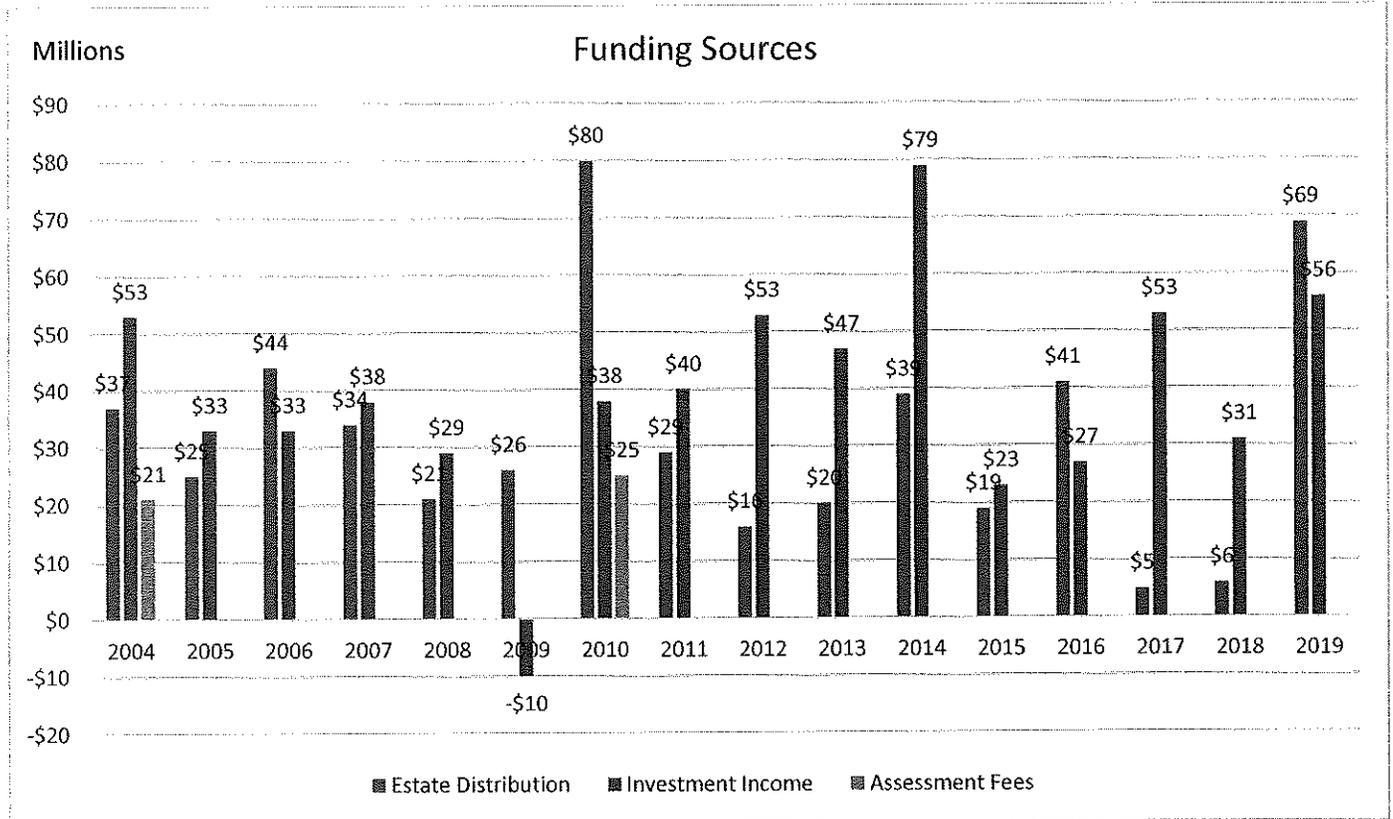


The chart below illustrates the total incurred amount from the inception of the Security Fund. The incurred is defined as the sum of the claim reserve and the amount paid by liquidations as of June 30, 2019. Reliance Insurance Company and Westmoreland Casualty Insurance were the two top liquidators by 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.



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

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