



North Carolina Insurance Guaranty Association

December 12, 1995

CIRCULAR LETTER TO THE ADDRESSED MEMBER MUTUAL INSURERS

Re: Refund - Mutual Reserve Account

Pursuant to amendments to Article 48, Chapter 58, General Statutes of North Carolina, this Association, on January 1, 1993, assumed responsibility for handling workers' compensation insurance claims previously handled under the Mutual Workers' Compensation Security Fund (the Mutual Account).

Assets of the Mutual Account in the total amount of \$11,807,961.11 were transferred to the Association in 1993. At that time, contingent liabilities in the Mutual Account were calculated at \$12,292,190. Pursuant to the requirements of G.S. 58-48-120(a), the Association was obligated to maintain an amount in the Mutual Account equal to one-and-one-half times the contingent liabilities, or a total of \$18,438,285. As a result of these calculations, the Association made assessments of its mutual member insurers to fund the Mutual Account. The balance in the Mutual Account as of September 30, 1995 totaled \$18,198,387.40.

Although anticipated additional assessments of its mutual member insurers were contemplated by G.S. 58-48-120(b), no additional assessments are required at this time. Instead, claims have decreased, and there currently exists a substantial surplus in the Mutual Account based on the Association's current calculation of its appropriate reserve for contingent liabilities. The surplus arises from two factors. The first factor was a payment of \$3,500,000 received from the Liquidator of Iowa National Mutual Insurance Company based upon a proof of claim filed in that receivership proceeding. The Association did not anticipate receipt of these funds in the Mutual Account. Second, the total number of outstanding claims has been reduced due to settlements, and the cessation of payments due to the death of claimants. The contingent liabilities in the Mutual Account have been reduced to \$8,680,245.

Based upon the Association's calculation of the current contingent liabilities of the Mutual Account, the Association must maintain a balance of \$13,020,367.50 in order to meet its obligations under G.S. 58-48-120 ($\$8,680,245 \times 1.5$). This leaves a current surplus in the Mutual Account of \$5,178,019.90.

At its annual meeting on October 10, 1995, the Association's Board of Directors voted to approve a refund to the Association's current mutual member insurers from the Mutual Account in the amount of \$5,000,000, subject to the Association notifying the North Carolina Department of Insurance of the refund and subject to the Association obtaining the Department's concurrence in the Association's calculation of the Mutual Account's current contingent liabilities. The Department has advised the Association that it agrees with the Association's calculations of the contingent liabilities.

This refund is based upon the 1994 North Carolina net direct written workers' compensation insurance premiums, less dividends, for mutual insurers shown on Page 14 of the 1994 Annual Statements. The refund was developed on the basis of the following:

Refund	Premium Base	Refund Factor
\$5,000,000	\$204,105,982	.024497077

The statement attached hereto will show (1) your Company's 1994 net direct workers' compensation insurance premium writings, and (2) the amount of your Company's refund (a check for which is attached) which was calculated by applying the refund factor to the 1994 workers' compensation insurance premium writings.

Very truly yours,

John W. Watkins

Managing Secretary

JWW:lg

[Enclosure](#)

IGA-95-5