



CALIFORNIA INSURANCE GUARANTEE ASSOCIATION

May 13, 2016

Dear Member Insurer:

In accordance with section 1063.5 of the California Insurance Code, the California Insurance Guarantee Association (the "Association") is required to collect initial premium charges from each member insurer for the insolvency insurance provided by the Association in the amount necessary to pay covered claims and expenses of insolvent member insurers. The statute authorizes separate premium charges for each of the three categories of covered claims (automobile and homeowners claims, workers compensation claims and all other claims) the Association pays.

For about the past decade, the Association was allowed to charge not only a "regular" premium charge capped at one percent (1%) of written premiums for the accounts noted but also a "special bond assessment" premium charge that was not limited in amount. The special bond assessment was utilized to pay principal and interest on \$750 million in bonds issued by the Association in August of 2004. Those bonds were paid in full during calendar year 2014 and no outstanding bond debt remains. Recognizing this development, the California legislature passed legislation in 2014 that took effect on January 1, 2015 that provided that "regular" premium assessments will be limited to two percent (2%) of written premiums if there are no bonds outstanding. Accordingly, the premium charges for 2016 for workers compensation are subject to a two percent (2%) limitation as there are no bonds outstanding.

On May 11, 2016 the Board of Governors of the Association (the "Board") approved a two percent (2%) regular initial premium charge for the workers' compensation category levied pursuant to California Insurance Code section 1063.5. The Board determined such premium charge was necessary to cover the Association's obligations in the workers compensation account. The initial premium charge is applied to the 2015 net direct written premium. The initial premium charge will also be adjusted as provided in Section 1063.5.

It is important to note that in accordance with section 1063.14 of the California Insurance Code the recoupment period for these premium charges will be from January 1, 2017 through December 31, 2017. All of your California workers' compensation premium billings for policy transactions during the 2017 calendar year should include a two percent (2.0%) Association surcharge. Please note that recoupment of the assessment is called for in the Insurance Code.

Both Section 1063.5 with regard to regular claims assessments and Section 1063.74 with regard to Special Bond Assessments require adjusted premium calculations based on initial payments made for 2014. Section 1063.5 of the California Insurance Code requires the Association to make an adjusted premium calculation for the 2014 initial premium charges (billed to you on May 28, 2014 and based upon your 2013 California direct written premium as reported on your 2013 annual statement) in the second year following the year of the initial premium charge. The adjusted premium is calculated by applying the same rate of premium charge initially charged against each member insurer's 2013 California direct written premium to each member insurer's direct written premium for the second year following the year the initial premium charge was made (based upon your 2015 California direct written premium as reported on your 2015 annual statement.) If your adjusted premium charge is greater than your initial premium charge, you will be billed for that additional amount. If your adjusted premium charge is less than your initial premium charge, you will receive a credit against current and/or future premium charges for the difference on your premium account statement.

The adjustment of the initial premium charge for the special bond assessment works the same way as described for regular assessments. The legislative change made in 2014 recognized that adjustment of the initial special bond assessments would be necessary for at least two years after special bond assessments expired. In section 1063.74(b) of the Insurance Code the Legislature directed that premium adjustments for special bond assessments shall continue to be made and determined with any credits or charges being credited or charged to the regular assessments called for in section 1063.5. The approved initial premium charge in 2014 was one point eight three four one two eight one two percent (1.83412812%) and consisted of the following components: a zero point eight three four one two eight one two percent (0.83412812%) initial special bond assessment levied pursuant to California Insurance Code section 1063.74 for payment of principal and interest on those bonds issued for the Workers' Compensation Bond Fund; and, an initial one percent (1%) premium charge levied pursuant to California Insurance Code section 1063.5 for the Workers' Compensation account.

Section 1063.5 of the California Insurance Code states that the initial premium charges and adjusted premium charges shall be charged or credited to each member insurer by the Association as soon as practical after the filing of the annual statements of the member insurers with the commissioner. Each member is responsible for payment of the total amount due as itemized on the member insurer's statement. If the statement shows an overall credit, the member insurer will retain that credit to be applied toward future years' assessments. Attached is your premium charge statement with your current 2016 initial premium charge invoice and your 2014 adjusted premium charge invoice for 2016 reflecting the adjusted premium charges for both the regular assessment and the special bond assessment. Your 2016 initial premium charge (credit) of \$ xxx.xx and your 2016 adjusted premium charge (credit) of \$ xxx.xx are now due and payable. Payment is due by June 13, 2016. Section 1063.5 of the California Insurance Code also provides that interest at a rate equal to the current federal reserve discount rate plus two and one-half percent (2 ½%) per annum shall be added to the premium of any member insurer which fails to submit the premium requested by the Association within 30 days after the mailing request.

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Please remit payment as follows:

By mail to:

California Insurance Guarantee Association  
Los Angeles Lockbox  
P.O. Box 53627  
Los Angeles, CA 90074-3627

By wire transfer to:

California Insurance Guarantee Association  
Bank of America  
2049 Century Park East  
Los Angeles, CA 90067  
Attn: Ms. Robin White, robin.x.white@baml.com  
ABA: 0260-0959-3  
For credit to: 14173-50417

At this time the Association is not making a premium charge for the Automobile/Homeowners or All Other categories. If, however, the Board of Governors determines at a later date that an initial premium charge is needed in one or both of these categories the appropriate charges will be made by the Association.

If you have any questions, you may contact Tony Kennedy at the Association.

Sincerely,



Wayne D. Wilson  
Executive Director

Enclosures