

**FILED**

**JUN 28 2023**

**Department of Insurance  
State of Idaho**

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE  
STATE OF IDAHO**

In the Matter of:

WORKERS COMPENSATION EXCHANGE,  
  
Certificate of Authority No. 565

Docket No. 18-4300-23

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2021**

The Idaho Department of Insurance (“Department”), in accordance with Idaho Code § 41-219(1), has examined the affairs, transactions, accounts, records, and assets of the Workers Compensation Exchange (“WC Exchange”), for the period of January 1, 2017 through December 31, 2021. The Department’s verified Report of Examination (“Report”), reflecting the examiner’s findings, was then filed with the Department per Idaho Code § 41-227(4).

Having reviewed the Report and record, the Department’s Director (“Director”) enters this order adopting the Report as filed. A copy of the Report is attached to this Order as Exhibit “A”.

**FINDINGS OF FACT**

1. WC Exchange is an Idaho-domiciled reciprocal insurer licensed to provide workers’ compensation insurance to its subscribers in Idaho under Certificate of Authority No. 565.
2. On or about May 4, 2023, the Department completed an examination of WC Exchange per Idaho Code § 41-219(1). The Department's examination disclosed no adverse findings or material

changes that impacted WC Exchange's reported financial statements.

3. Per Idaho Code § 41-227(4), the Department transmitted a copy of the Report to WC Exchange on May 4, 2023.

4. Under Idaho Code § 41-227(4), WC Exchange had four weeks from receipt of the Report to make written recommendations for corrections or changes to the Report. No waiver, written recommendations for corrections or changes to the Report were received from WC Exchange within the four week time period.

### **CONCLUSIONS OF LAW**

5. Idaho Code § 41-227(5)(a) requires the Director to fully consider and review the Report, together with any written submissions or rebuttals and any relevant portions of the examiner's work papers and enter an order adopting the Report as filed or with modifications or corrections, rejecting the Report and reopening the examination, or calling for an investigatory hearing.

6. Having fully considered the Report and record, the Director concludes that, regarding the matters examined, the Report is appropriate and should be adopted and incorporated into this Order as if set forth in full.

### **ORDER**

NOW, THEREFORE, IT IS ORDERED that the Report is adopted as filed and incorporated herein as if set forth in full.

IT IS FURTHER ORDERED, per Idaho Code §§ 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, per Idaho Code § 41-227(6)(a), that within 30 days of the service date of this Order adopting the Report, WC Exchange must file with the Department's chief examiner,

affidavits executed by each of its trustees, stating under oath that they have received a copy of the adopted Report and related orders.

DATED AND EFFECTIVE this 28<sup>th</sup> day of June, 2023.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE



DEAN L. CAMERON  
Director

### **NOTIFICATION OF RIGHTS**

This is a final order of the agency. Any party may file a motion for reconsideration of this final order within 14 days of the service date of this order. The agency will dispose of the motion for reconsideration within 21 days of its receipt, or the motion will be considered denied by operation of law. *See* Idaho Code § 67-5246(4).

Any such motion for reconsideration shall be served on the Director of the Idaho Department of Insurance, addressed as follows:

Dean L. Cameron, Director  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
P.O. Box 83720  
Boise, ID 83720-0043

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order or orders previously issued in this case may file a petition for judicial review in the district court of the county in which:

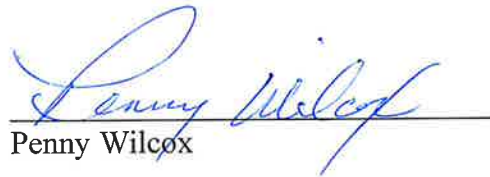
- i. A hearing was held;
- ii. The final agency action was taken;
- iii. The party seeking review of the order resides, or operates its principal place of business in Idaho; or
- iv. The real property or personal property that was the subject of the agency action is located.

A petition for judicial review must be filed within 28 days of: (a) the service date of this final order, (b) the service of an order denying motion for reconsideration, or (c) the failure within 21 days to grant or deny a motion for reconsideration, whichever is later. *See* Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal. Idaho Code § 67-5274.

### CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 29th day of June, 2023, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2021, to be served upon the following by the designated means:

Workers Compensation Exchange Attn: Todd Blake 1901 Idaho Street Lewiston, ID 83501	<input type="checkbox"/> First Class Mail <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Hand Delivery <input type="checkbox"/> Facsimile <input checked="" type="checkbox"/> Email: <a href="mailto:todd@wcompex.com">todd@wcompex.com</a>
John C. Keenan Deputy Attorney General Idaho Department of Insurance 700 W. State St., 3 <sup>rd</sup> Floor PO Box 83720 Boise, ID 83720-0043	<input type="checkbox"/> First Class Mail <input type="checkbox"/> Certified Mail <input type="checkbox"/> Hand Delivery <input type="checkbox"/> Facsimile <input checked="" type="checkbox"/> Email: <a href="mailto:john.keenan@doi.idaho.gov">john.keenan@doi.idaho.gov</a>

  
Penny Wilcox

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

WORKERS COMPENSATION EXCHANGE  
(reciprocal insurer)  
(NAIC Company Code: 34576)

As of  
December 31, 2021

**EXHIBIT**

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exhibitmaker.com

## Table of Contents

SALUTATIONS .....	3
SCOPE OF EXAMINATION.....	4
<i>Period Covered</i> .....	4
<i>Examination Procedures Employed</i> .....	4
<i>Status of Prior Examination Findings</i> .....	5
SUMMARY OF SIGNIFICANT FINDINGS .....	5
SUBSEQUENT EVENTS .....	5
EXCHANGE HISTORY .....	5
<i>General</i> .....	5
<i>Dividends and Capital Contributions</i> .....	6
<i>Mergers and Acquisitions</i> .....	6
<i>Surplus Debentures</i> .....	6
CORPORATE RECORDS .....	6
MANAGEMENT AND CORPORATE GOVERNANCE.....	6
FIDELITY BONDS AND OTHER INSURANCE .....	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....	8
TERRITORY AND PLAN OF OPERATION .....	8
GROWTH OF THE EXCHANGE .....	8
LOSS EXPERIENCE .....	9
REINSURANCE.....	9
<i>Assumed</i> .....	9
<i>Ceded</i> .....	9
ACCOUNTS AND RECORDS .....	9
STATUTORY DEPOSITS .....	10
FINANCIAL STATEMENTS .....	11
SUMMARY OF RECOMMENDATIONS .....	17
ACKNOWLEDGEMENT .....	18
AFFIDAVIT OF EXAMINER .....	19
AFFIDAVIT OF EXAMINER .....	20

Lewiston, Idaho  
May 4, 2023

The Honorable Dean Cameron  
Director of Insurance  
State of Idaho  
700 West State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2021, of the financial condition and corporate affairs of:

Workers Compensation Exchange  
1901 Idaho Street  
Lewiston, ID 83501

Hereinafter referred to as (the "Exchange"), at its offices in Lewiston, Idaho. The following report of examination is respectfully submitted.



## SCOPE OF EXAMINATION

### *Period Covered*

We have performed our single-state examination of Workers Compensation Exchange. The last examination was completed as of December 31, 2016. This examination covers the period of January 1, 2017, through December 31, 2021, and subsequent.

### *Examination Procedures Employed*

Our examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws and insurance rules promulgated by the Idaho Department of Insurance (the "Department"). The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Exchange, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Exchange were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment was identified, the impact of such an adjustment will be documented separately following the Exchange's financial statements.

This examination report includes findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the report of examination but separately communicated to the Exchange.

The examination determined the risks associated with identified key functional areas of the Exchange's operation and considered mitigating factors. Interviews were held with the senior management of the Exchange to gain an understanding of the entity's operating profile and control environment.

The Exchange retained the services of a certified public accounting firm, Eide Bailly LLP, to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

The examination relied on the findings of the actuarial firm contracted by the Department to verify reserves.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

#### *Status of Prior Examination Findings*

There were no exceptions commented on in our preceding Report of Examination, dated August 20, 2019, which covered the period from January 1, 2012, to December 31, 2016.

### **SUMMARY OF SIGNIFICANT FINDINGS**

Our examination did not disclose any material adverse findings or any adjustments that impacted the Exchange's reported capital and surplus.

### **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the spreading Novel Coronavirus Disease, COVID-19, a pandemic. On March 13, 2020, the United States declared the COVID-19 pandemic as a national emergency. COVID-19 has created economic disruptions on a global scale which has led to uncertainty about the overall economic impact to financial markets. At this time, the full effect of COVID-19 on the Exchange is unknown. In a coordinated effort, the Exchange and the Department will continue to monitor the effects of the pandemic on the Exchange.

Beginning on July 1, 2022, the Exchange voted to increase the subscriber retention from \$200,000 to \$250,000. See the *Reinsurance* section for additional information about subscriber retention during the examination period.

### **EXCHANGE HISTORY**

#### *General*

The Exchange was organized as a reciprocal insurer under Title 41, Chapter 29, Idaho Code and commenced operations on August 1, 1918. The purpose of the Exchange is to provide workers compensation insurance to employees of the forest products industry in Idaho. The businesses for which coverage is provided are known as "Subscribers". The Subscribers formed the Exchange, and it is operated as a not-for-profit insurance exchange. Membership is limited to fewer than seven subscribers.

The following businesses were Subscribers to the Exchange as of December 31, 2021:

PotlatchDeltic Corporation  
Bennett Lumber Products, Inc.  
J.I. Morgan, Inc.  
Idaho Forest Group, LLC  
Clearwater Paper Corporation

The Exchanged is managed by the Attorney-in-Fact with authority granted under powers of attorney executed by each Subscriber.

Each Subscriber is independent of the other and is responsible for its own losses up to \$200,000 for an injury to any one employee. All the Subscribers, as a group, share losses between \$200,000 and \$1,250,000 for injury to any one employee. The Subscribers are subject to additional assessments if needed to meet the obligations of the Exchange. Each Subscriber agrees to indemnify each of the others for all losses incurred.

*Dividends and Capital Contributions*

There were no dividends or capital distributions.

*Mergers and Acquisitions*

There were no mergers or acquisitions.

*Surplus Debentures*

There were no surplus debentures.

## **CORPORATE RECORDS**

The meetings of the Board of Trustees (the "Board") were conducted on an annual basis for all the years under examination. Meetings were held in June of each year and a quorum was present. The meeting minutes, including the accompanying Board packets, contained detailed information regarding the financial condition, corporate governance, and operational affairs of the Exchange.

The Prior Examination Report as of December 31, 2016, was distributed to the Board on August 20, 2019, and reviewed at the Board of Directors meeting on June 30, 2020, in accordance with Idaho Code § 41-227(6)(a).

## **MANAGEMENT AND CORPORATE GOVERNANCE**

The Exchange is governed by the Board of Trustees. The Subscriber Agreement of the Exchange indicates the number of Trustees may be six. Each Subscriber is entitled to one vote for a Trustee for each \$100,000 of annual payroll based upon the calendar year preceding the year in which the

vote is taken. Any Subscriber may cast all of its votes for one or more Trustees and vacancies in the office of Trustee shall be filled by a vote of the Subscribers.

In accordance with Idaho Code § 41-2920, duties of the Trustees set forth in the Subscriber Agreement are as follows: supervise the finances and investments of the Exchange; supervise the operations of the Exchange to the extent necessary to assure conformity with the Amended Subscriber Agreement and Power of Attorney between each Subscriber and the Attorney-in-Fact; provide an office and personnel with any other assistance needed by the Attorney-in-Fact to carry out the duties and operations of the Exchange; secure the audit of the accounts and records of the Exchange and of the Attorney-in-Fact; and determine the compensation to be paid to the Attorney-in-Fact and the other employees of the Exchange.

The following persons served as Trustees of the Exchange as of December 31, 2021:

Name	Occupation
Sean Hoagland	Director of Benefits and Compensation, PotlatchDeltic Corporation
Teresa Quimby	Safety and Human Resource Manager, Bennett Lumber Products, Inc.
Michael Murphy	Senior Vice President and Chief Financial Officer, Clearwater Paper Corporation
Becky Barckley	Vice President Corporate Controller, Clearwater Paper Corporation
Pat Stapleton	Risk Management and Treasury Manager, Idaho Forest Group, LLC
Julie Shiflett	Chief Financial Officer, Idaho Forest Group, LLC

The officers of the Exchange consist of President and a Secretary which are elected by the Trustees at their annual meeting. As of December 31, 2021, the following persons served as officers of the Exchange:

Name/Position	Occupation
Sean Hoagland - President	Director of Benefits and Compensation, PotlatchDeltic Corporation
Todd Blake - Secretary	Attorney-in-Fact, Workers Compensation Exchange

## **FIDELITY BONDS AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the NAIC for an insurer of the Exchange's size is not less than \$100,000. As of December 31, 2021, the Exchange had sufficient fidelity bond coverage subject to a loss limit of \$1,000,000.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Exchange offers its employees who work at least thirty hours per week basic life insurance, medical, dental, and disability coverage. In addition, the Exchange provides 401(k) matching up to five percent.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2021, the Exchange was licensed in the State of Idaho as a domestic reciprocal insurer to write workers compensation insurance.

Only firms engaged in the forest product industry in Idaho are eligible for admission to the Exchange as Subscribers. According to the Subscriber Agreement, new Subscribers are admitted only with a unanimous vote of existing Subscribers.

The Exchange maintains its home office in Lewiston, Idaho.

## **GROWTH OF THE EXCHANGE**

As a reciprocal insurer, net income is equal to zero. The following represents the Exchange's gross written premium activity and its relationship to surplus over the period of the examination:

	2017	2018	2019	2020	2021
Direct Premiums	\$ 3,043,449	\$ 2,074,884	\$ 2,818,167	\$ 2,304,046	\$ 3,160,424
Written Surplus	\$ 481,092	\$ 406,207	\$ 550,750	\$ 679,265	\$ 762,333
Direct Premiums Written to Surplus Ratio	633%	511%	512%	339%	415%

According to Idaho Code § 41-313A, in lieu of a minimum surplus requirement the Exchange has a surety bond of \$1,750,000 in accordance with Idaho Code § 72-301(b).

## LOSS EXPERIENCE

The following represents the Exchange's loss experience and its relationship to premiums earned over the period of the examination:

	2017	2018	2019	2020	2021
Premiums Earned	\$ 2,821,250	\$ 1,931,252	\$ 2,612,464	\$ 2,094,463	\$ 2,930,701
Losses Incurred	\$ 2,247,461	\$ 1,573,786	\$ 1,993,189	\$ 1,677,653	\$ 1,982,810
Loss Adjustment Expenses (LAE) Incurred	\$ 422,341	\$ 128,829	\$ 446,520	\$ 254,118	\$ 799,770
Total Losses & LAE Incurred	\$ 2,669,802	\$ 1,702,615	\$ 2,439,709	\$ 1,931,771	\$ 2,782,580
Total Losses & LAE Incurred to Premiums Earned	95%	88%	93%	92%	95%

## REINSURANCE

### *Assumed*

The Exchange did not assume any reinsurance business during the examination period.

### *Ceded*

Pursuant to the Subscriber Agreement, each Subscriber is responsible for the first \$200,000 of a loss for an injury to one person. The Subscribers are responsible for losses between \$200,000 and \$1,250,000 for injury to any one person, with each Subscriber's responsibility based on its pro rata share of the payroll of all Subscribers as of the calendar year prior to the year of the loss. Subsequent to the examination period, subscriber retention was increased to the first \$250,000.

Losses beyond \$1,250,000 are covered by reinsurance up to \$1,000,000 per occurrence. The Exchange obtained specific excess loss worker's compensation employer's liability coverage from Safety National Casualty Corporation for all years under examination.

## ACCOUNTS AND RECORDS

The general ledger is maintained by the Attorney-in-Fact. The Exchange submitted annual statements for all years under examination in compliance with Idaho Code § 41-335(1). The Exchange obtained an audit of its financial statements from Eide Bailly, LLP each year. For each year under examination the Exchange applied for and was granted by the Department, an

exemption from filing the Actuarial Opinion and Actuarial Opinion Summary pursuant to IDAPA 18.07.09.021.01. The Attorney-in-Fact prepared the loss reserves each year, which were reviewed by a credentialed actuary.

## **STATUTORY DEPOSITS**

As of December 31, 2021, the Exchange had made provision for a deposit to be held in trust for the protection of all its policyholders, subscribers and/or creditors through the office of the Director of Insurance, State of Idaho, in compliance with Idaho Code §§ 41-316A, 41-803, and 41-804. The examination confirmed that the special deposit with the State of Idaho was in compliance with Idaho Code.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Exchange with the Department and present the financial condition of the Exchange for the period ending December 31, 2021. The accompanying comments on the financial statements reflect any material examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.



Statement of Assets

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$3,100,204		\$ 3,100,204
Stocks:			
Common stocks	809,937		809,937
Real estate:			
Properties occupied by the company	18,710		18,710
Cash	3,359,713		3,359,713
Receivable for securities	606		606
Investment income due and accrued	11,122		11,122
Premiums and considerations:			
Uncollected premiums and agent's balances in the course of collection	896,697		896,697
Reinsurance:			
Amounts recoverable from reinsurers	58,178		58,178
Net deferred tax asset	454,861	454,861	0
Furniture and equipment	1,583		1,583
Aggregate write-ins for other than invested assets	77,832		77,832
	<u>\$8,789,443</u>	<u>\$ 454,861</u>	<u>\$ 8,334,582</u>

Statement of Liabilities

Losses	\$ 5,966,950
Loss adjustment expenses	1,476,371
Other expenses	6,856
Taxes, licenses and fees	44,240
	<u>\$ 7,494,417</u>

Statement of Income

Premiums earned	\$ 2,930,701
Losses incurred	1,982,810
Loss adjustment expenses incurred	799,770
Other underwriting expenses	306,531
Net underwriting gain or (loss)	\$ (158,410)
Net investment income	67,842
Net realized capital gains or (losses)	90,568
Net investment gain (loss)	\$ 158,410
Net income (loss)	\$ -

Capital and Surplus

Surplus as regards policyholders, December 31 prior year	\$ 679,265
Change in net unrealized capital gains or (losses)	94,081
Change in net deferred income tax	4,894
Change in nonadmitted assets	(15,907)
Change in surplus as regards policyholders for the year	<u>83,068</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 762,333</u></u>

Reconciliation of Capital and Surplus

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus, December 31 prior year	\$ 519,871	\$ 481,092	\$ 406,207	\$ 550,750	\$ 679,265
Change in net unrealized capital gains or (losses)	(52,505)	(25,376)	156,686	133,683	94,081
Change in net deferred income tax	(37,783)	(45,557)	(27,731)	(7,110)	4,894
Change in nonadmitted assets	51,509	(3,952)	15,588	1,942	(15,907)
Change in surplus	\$ (38,779)	\$ (74,885)	\$ 144,543	\$ 128,515	\$ 83,068
Surplus, December 31 current year	\$ 481,092	\$ 406,207	\$ 550,750	\$ 679,265	\$ 762,333

Analysis of Change in Financial Statements Resulting from Examination

There were no material adjustments to surplus resulting from the examination.

Comments on Financial Statement Items

There were no adverse findings or material changes to the financial statements resulting from the examination.

**SUMMARY OF RECOMMENDATIONS**

There were no material findings or recommendations rising to the level deemed necessary for inclusion into this report of examination.

## ACKNOWLEDGEMENT

Glenn A. Tobleman, FCAS, FSA, MAAA Executive Vice President & Consulting Actuary of Lewis & Ellis, Inc. performed the actuarial phases of the examination. He joins the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Exchange.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Heidi S".

Heidi Carey, CPA  
Insurance Financial Examiner  
Idaho Department of Insurance


A handwritten signature in cursive script, appearing to read "Jessie Adamson".

Jessie L. Adamson, CFE, CISA  
Deputy Chief Examiner  
Idaho Department of Insurance

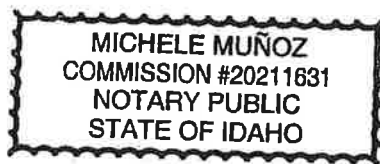
## AFFIDAVIT OF EXAMINER

Idaho  
Ada

Heidi Carey, being duly sworn, deposes and says that they are a duly appointed Examiner for the Department of Insurance of the State of Idaho, that they have made an examination of the affairs and financial condition of Workers Compensation Exchange for the period January 1, 2017 through December 31, 2021, that the information contained in the report consisting of the foregoing pages is true and correct to the best of their knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

  
Heidi Carey, CPA  
Insurance Financial Examiner  
Idaho Department of Insurance

Subscribe and sworn to before me the 4<sup>th</sup> day of May, 2023, at Boise (City),  
ID (State).



  
Notary Public

My Commission Expires: 03-30-2027



## AFFIDAVIT OF EXAMINER

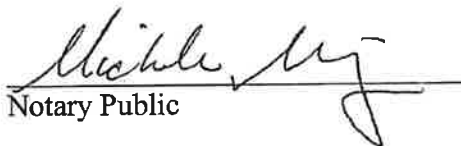
Idaho  
Ada

Jessie L. Adamson, being duly sworn, deposes and says that they are a duly appointed Examiner for the Department of Insurance of the State of Idaho, that they have made an examination of the affairs and financial condition of Workers Compensation Exchange for the period January 1, 2017 through December 31, 2021, that the information contained in the report consisting of the foregoing pages is true and correct to the best of their knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.



Jessie L. Adamson, CFE, CISA  
Deputy Chief Examiner  
Idaho Department of Insurance

Subscribe and sworn to before me the 4<sup>th</sup> day of May, 2023, at Boise (City),  
ID (State).

  
Notary Public

My Commission Expires: 03-30-2027