

# CALIFORNIA INSURANCE GUARANTEE ASSOCIATION



June 21, 2011

Dear Member Company:

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 the member companies 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. It also limits premium charges to one percent (1%) of written premiums for any category of covered claims for 2011.

In addition, California Insurance Code section 1063.73 provides for the ability of the Association to request the issuance of bonds to more expeditiously and effectively provide for the payment of covered claims that arise as a result of the insolvencies of insurance companies providing workers' compensation insurance. On August 18, 2004, the Association issued \$750 million in bonds. Furthermore, Section 1063.74 authorizes an additional special bond assessment to pay principal and interest due on those bonds issued for the Workers' Compensation Bond Fund established to provide additional funding to pay workers' compensation covered claims. The amount of the special bond assessment is not limited by statute. The Association executed a Loan Agreement in connection with the issuance of the bonds. The Association covenanted in the Loan Agreement to levy Special Bond Assessments in an amount not less than one percent of net direct written premium and in an amount not less than one hundred and ten percent (110%) of the Adjusted Annual Debt Service as defined in the Loan Agreement. One hundred and ten percent (110%) of the Adjusted Annual Debt Service, which is the minimum amount of the Special Bond Assessment for 2011 pursuant to the Loan Agreement covenant, has been calculated to be \$90,891,000.

On May 10, 2011, the Board of Governors of the Association approved a Special Bond Assessment of \$90,891,000 premium charge in the Workers' Compensation category and a one percent (1%) regular claims assessment.

These two approved premium charges aggregate to 2.285 percent (2.285%). The approved premium charge consists of the following components: a special bond assessment of 1.285% 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 premium charge of 1% levied pursuant to California Insurance Code section 1063.5 for the Workers' Compensation account.

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, 2012 through December 31, 2012. All of your California workers' compensation premium billings for policy transactions during the 2012 policy year should include a 2.285 percent (2.285%) Association surcharge. Please note that recoupment of both assessments 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

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2009. Section 1063.5 of the California Insurance Code requires the Association to make an adjusted premium calculation for the 2009 initial premium charge (billed to you on June 26, 2009 and based upon your 2008 California direct written premium as reported on your 2008 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 2008 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 2010 California direct written premium as reported on your 2010 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 pursuant to Section 1063.74 works the same way as described above for regular assessments pursuant to Section 1063.5. The approved initial premium charge in 2009 was two percent (2%) and consisted of the following components: a 1% 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 1% premium charge levied pursuant to California Insurance Code section 1063.5 for the Workers' Compensation account.

Attached is your premium charge statement with your current 2011 initial premium charge invoice and your 2009 adjusted premium charge invoice for 2011. Your 2011 initial premium charge and any 2009 adjusted premium charges are now due and payable. Payment is required within 30 days after date of the statement. Section 1063.5 of the California Insurance Code provides that if the Association does not receive payment by July 21, 2011 interest will be charged on the unpaid balance.

Please remit payment as follows:

By mail to:

The Bank of New York  
Trust Company, N.A.  
Suite 500  
700 S. Flower Street  
Los Angeles, CA 90017  
Attn: Fanny Chen  
Tel: 213.630.6407

By wire transfer to:

FED Funds Wire Instructions:  
The Bank of New York  
ABA: 021-000-018  
For credit to GLA: 211-065  
For final credit to: 759574  
Account name: CIEDB 2004 A&B Workers' Comp Bond Fund  
Attn: Fanny Chen 213.630.6407

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 either Richard Hurd or Carole Lovato at the Association.

Sincerely,



Wayne D. Wilson  
Executive Director

Attachments