

**REPORT ON EXAMINATION**  
**OF**  
**EMPLOYERS ASSURANCE COMPANY**  
**MAITLAND, FLORIDA**  
**AS OF**  
**DECEMBER 31, 2010**

**BY THE**  
**FLORIDA OFFICE OF INSURANCE REGULATION**

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December 5, 2011

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Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

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Department of Business Regulation  
Insurance Division  
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Commissioners:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative 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, 2010, of the financial condition and corporate affairs of:

**EMPLOYERS ASSURANCE COMPANY  
851 TRAFALGAR COURT, SUITE 400E  
MAITLAND, FLORIDA, 32751**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (the "Office") as of December 31, 2005. This examination commenced with planning at the Office on May 2, 2011, to May 5, 2011. The fieldwork commenced on May 9, 2011, and concluded as of December 5, 2011.

This examination coincided with the association examination of certain affiliated insurance companies which are members of an intercompany reinsurance pool described under the caption "Retention and Reinsurance: Intercompany Pooling Agreement". In order to ascertain the financial condition of any company in the Group, it was necessary to examine the combined insurance operations of the Group. The States of Nevada and California conducted concurrent examinations on Employers Insurance Company of Nevada and Employers Compensation Insurance Company, respectively, and coordinated their examinations with Florida. The participating states were responsible for certain portions of the examination, which were leveraged by the other respective states.

The examination was an association statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process including, but not limited to: a review of corporate minutes and records, verification and valuation of assets, determination of liabilities and the resulting unassigned (surplus) funds, a review of income and disbursement items, and review other records to the extent deemed necessary.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description. Events subsequent to the December 31, 2010 examination date are included where relevant and appropriate.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2010.

### **Prior Exam Findings**

There were no findings, exceptions or corrective actions to be taken by the Company for the examination as of December 31, 2005.

## **SUBSEQUENT EVENTS**

### **Turnover in Key Management**

On January 19, 2011, Employers Holdings, Inc. announced that the Company and Martin J. Welch mutually agreed to the separation of his employment as the Chief Operating Officer and President of the Company and its affiliates, effective February 1, 2011. Upon his departure, there were no plans to fill Welch's position. The business operations reporting to Mr. Welch will report to Douglas D. Dirks, President and CEO. Additionally, Mr. Welch has resigned as a member of the Company's Board of Directors (Board) and the Board of Directors of all the Company's affiliates on which he serves, in each case effective February 1, 2011. As a result, the Board took the following actions to replace him:

- Effective February 1, 2011, the Board appointed Mr. Dirks, the Company's Chief Executive Officer, to become the Company's President until the Company's senior management is reorganized. It was noted that the Company's bylaws require the Board to appoint a President;

- Effective February 1, 2011, the Board appointed Mr. Stephen Festa, the Company's Chief Claims Officer, to replace Mr. Welch as a member of the Company's Board.

On May 13, 2011, the Company announced that Cynthia Morrison tendered her resignation as Chief Accountant and Corporate Controller, effective May 13, 2011. She will remain with the Company as Senior Vice President to complete several significant finance-related initiatives. Ms. Morrison has been replaced by Gretchen Hofeling, who will serve as Vice President, Corporate Controller.

## **HISTORY**

### **General**

AmCOMP Assurance Corporation was purchased by AmCOMP Preferred Insurance Company, which is now named Employers Preferred Insurance Company (EPIC), from a subsidiary of American General Insurance on October 31, 1997. Prior to its purchase, the Company was known as Thomas Jefferson Insurance Company and had been in run-off since 1993. In anticipation of the Company's sale, the Company entered into an assumption reinsurance agreement with its previous parent company, Independent Fire Insurance Company, whereby all of its policy liabilities were assumed by Independent Fire Insurance Company. The Company began writing direct premiums again during 1998. AmCOMP Preferred Insurance Company owned 100% of the outstanding stock of AmCOMP Assurance Corporation.

On October 31, 2008, Employers Holdings, Inc. acquired 100% of the outstanding common stock of AmCOMP, Inc. and its subsidiaries. This acquisition was funded using cash on hand, extraordinary dividends from the operating companies, and a short-term credit facility. On

December 16, 2008, the Office approved the name change of the Company and its parent from AmCOMP Assurance Company and AmCOMP Preferred Insurance Company to Employers Assurance Company and Employers Preferred Insurance Company, respectively.

The Company, along with EPIC and AmCOMP, Inc., were collectively defendants in an action commenced in Florida by the Insurance Commissioner of Pennsylvania (Plaintiff) acting in the capacity as liquidator of Reliance Insurance Company. The Plaintiff in this action alleged that preferential payments were made by Reliance Insurance Company under the formerly existing reinsurance agreement with the Company and its parent, Employers Preferred Insurance Company. The Plaintiff sought damages in the amount of approximately \$2.3 million.

Based upon the advice of counsel, the Company asserted a variety of factual and legal defenses in its written response to the lawsuit. However, as a result of settlement discussions and negotiations between the Company and the plaintiff liquidator, it was agreed that the lawsuit would amicably be settled and resolved. Under the terms of the settlement, the Company paid to the plaintiff liquidator the sum of \$0.9 million without admitting any liability, and without admitting that the payments made by Reliance to the Company were, in fact, preferential.

Also, as part of the settlement, the plaintiff liquidator agreed to accept the Company's previously filed proof of claim in the Reliance liquidation proceeding as a valid Class E claim in the amount of \$8.4 million as "general creditor" claim. The plaintiff liquidator made no representation regarding the amount of this claim which may ultimately be received by the Company in payment of this Class E claim. Additionally, as part of the settlement, the parties released and discharged each other from any and all additional claims and causes of action. Further, as a

result of the settlement, the plaintiff liquidator has dismissed the Florida lawsuit against the Company and EPIC with prejudice.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact workers' compensation insurance coverage in Florida as of December 31, 2010.

The Articles of Incorporation and Bylaws were not amended during the period covered by this examination.

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2010 and 2009 in the amounts of \$38,230 and \$9,500,000, respectively.

### **Capital Stock and Capital Contributions**

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	1,800,000
Total common capital stock	\$1,800,000
Par value per share	\$1.00

**Subsequent Event:** On January 12, 2011, the Office approved Restated and Amended Articles of Incorporation for the Company. The Amended Articles of Incorporation are effective retroactively to December 30, 2010 and increase the number of authorized shares to 10 million. As a result, the Company's parent, EPIC, purchased additional 700,000 authorized shares. Year to date, the Company's shares issued and outstanding are 2.5 million and capital stock is valued at \$2.5 million.

## **Surplus Debentures**

On December 31, 2000, the Company issued a \$5.0 million subordinated surplus note to AmCOMP, Inc, now Employers Group, Inc. (EGI), in return for \$5.0 million in cash. The terms of the note provide for quarterly interest payments beginning March 31, 2001, and repayment of the principal on March 31, 2006. Interest is at the annual rate of 10 percent. On May 14, 2008, the Company extended the maturity on the agreement through March 31, 2011, and changed the interest rate from fixed to variable. The new variable rate is set at 400 basis points in excess of the three month London Interbank Offered Rate, effective retroactively to the maturity date of the original note, March 31, 2006. Both the payment of the interest and repayment of the principal were subject to the prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2010, totals \$4.2 million, of which \$0.3 million was paid in 2010 and \$0.2 million was paid in 2009. Unpaid and unapproved interest as of December 31, 2010, was \$0.1 million.

**Subsequent Event:** This surplus note was paid in full on March 31, 2011.

On December 4, 2003, the Company issued a \$6.5 million subordinated surplus note to AmCOMP, Inc., now EGI, in return for \$6.5 million in cash. The terms of the note provided for quarterly interest payments beginning March 31, 2004, and repayment of the principal on December 31, 2008. Interest was at a rate of 450 basis points in excess of the 90-day London Interbank Offered Rate. Both the payment of interest and repayment of the principal were subject to the prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2009, totals \$2.7 million, of which \$0.2 million was paid in 2009. This surplus note was repaid in full on February 23, 2009.

On June 30, 2004, the Company issued an \$8.0 million subordinated surplus note, in return for \$8.0 million in cash to its parent AmComp Preferred Insurance Company, now EPIC. The note matures in 30 years and is callable by the Company after five years. The terms of the note provide for quarterly interest payments beginning on September 30, 2004. Interest is at a rate of 425 basis points in excess of the 90-day London Interbank Offered Rate. Both the payment of interest and repayment of the principal are subject to the prior approval of the Office, and may be paid only out of the Company' surplus. Approved interest paid through December 31, 2010, totals \$3.7 million, of which \$0.5 million was paid in 2010 and \$0.4 million was paid in 2009. Unpaid and unapproved interest as of December 31, 2010, was \$0.1 million.

On September 24, 2004, the Company issued a \$4.0 million subordinated surplus note, in return for \$4 million in cash, to its parent AmComp Preferred Insurance Company, now Employers Preferred Insurance Company. The note matures in 30 years. The terms of the note provide for quarterly interest payments beginning on December 30, 2004. Interest is at a rate of 405 basis points in excess of the 90-day London Interbank Offered Rate. Both the payment of interest and repayment of the principal are subject to the prior approval of the Office, and may be paid only out of the Company' surplus. Approved interest paid through December 31, 2010, totals \$1.7 million, of which \$0.2 million was paid in 2010 and \$0.2 million was paid in 2009. Unpaid and unapproved interest as of December 31, 2010, was \$0.1 million.

At December 31, 2010, the Company's outstanding surplus notes amounted to \$17,000,000.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the shareholder, Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

## Directors

### Name and Location

### Principal Occupation

Robert J. Kolesar  
Las Vegas, Nevada

Chairman of the Board, Partner and Owner of  
Kolesar & Leatham Chtd.

Douglas D. Dirks  
Reno, Nevada

Director, Chief Executive Officer of  
Employers Holdings, Inc.

William E. "Ric" Yocke  
Reno, Nevada

Director, Treasurer, Executive Vice President  
and Chief Financial Officer of  
Employers Holdings, Inc.

Lenard T. Ormsby  
Reno, Nevada

Director, Assistant Secretary and  
Chief Legal Officer of  
Employers Holdings, Inc.

Martin J. Welch\*  
Reno, Nevada

Director, President and  
Chief Operating Officer of  
Employers Holdings, Inc.

\* Resigned on February 1, 2011 and was replaced by Douglas D. Dirks as President effective February 1, 2011. The Board also appointed Stephen V. Festa to the Board of Directors effective February 1, 2011.

The Board of Directors in accordance with the Company's Bylaws appointed the following senior officers:

## Senior Officers

### Name

### Title

Douglas D. Dirks

Chief Executive Officer

Martin J. Welch\*

President & Chief Operating Officer

William E. "Ric" Yocke

Treasurer

Donald C. Smith\*\*

General Counsel and Secretary

\*Resigned on February 1, 2011 and was replaced by Douglas D. Dirks as President effective February 1, 2011.

\*\*Resigned on February 28, 2011 and was replaced by Lori A. Brown as Secretary effective February 28, 2011.

The Board of Directors of Employers Holdings, Inc., the Company's ultimate parent, appointed several internal committees to act on behalf of the Company. The Company also maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2010:

<b><u>Governance Committee</u></b>	<b><u>Compensation Committee</u></b>	<b><u>Audit Committee</u></b>	<b><u>Finance Committee</u></b>
Rose E. McKinney-James*	Michael D. Rumbolz*	Ronald F. Mosher*	Katherine W. Ong*
Robert J. Kolesar	Katherine W. Ong	Michael D. Rumbolz	Douglas D. Dirks
Richard W. Blakey	John P. Sande III	John P. Sande III	Rose E. McKinney-James
			Richard W. Blakey
			Valerie R. Glenn

\*Chairman

### **Affiliated Companies**

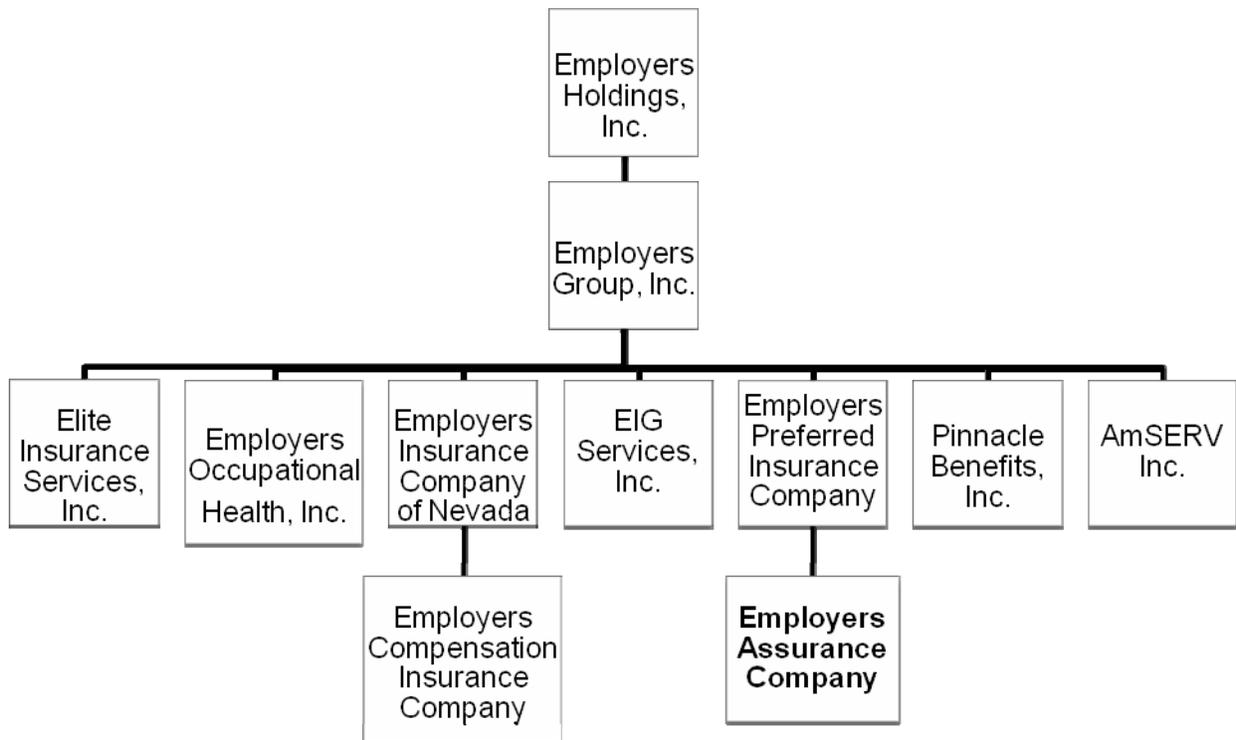
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 1, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. All intercompany management and service agreements, including amendments, appear to have been appropriately disclosed.

As mentioned previously, the Company is part of a holding Company system with the ultimate controlling entity being Employers Holdings, Inc., a publicly traded company. The Company

itself is wholly owned by EPIC, which in turn is wholly owned by EGI. An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below.

**EMPLOYERS ASSURANCE COMPANY  
Organizational Chart**

**DECEMBER 31, 2010**



**The following agreements were in effect between the Company and its affiliates:**

**Tax Allocation Agreement**

The Company has a Tax Sharing Agreement with its parent and the other affiliates to file a consolidated federal income tax return. Under the agreement, the consolidated federal tax liability was allocated to consolidating companies based on separate return calculations with credit given for any net operating losses or other items utilized in the consolidated tax return. Pursuant to this agreement, the Company had the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany tax balances were settled on a quarterly basis.

**Cost Allocation Agreement**

The Company, along with its affiliates, entered into an Administrative Services Agreement as the companies desired to achieve certain operating economies and improved service levels to the mutual benefit of all the companies. The Agreement also identified services that each company may provide to each other including accounting, tax and auditing, functional support, claims, investment, and underwriting services and assured that all charges were reasonable. Statements were prepared quarterly and settlements were made within 30 days. Total pooled administrative fee expense was \$2.7 million and \$4.1 million for the years ended December 31, 2010 and 2009, respectively.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2010, the Company was afforded coverage by a fidelity bond issued in the name of Employers Holdings, Inc. and all of its subsidiaries. The policy covers several risks including dishonesty, forgery and information systems. Per occurrence loss coverage is \$5,000,000 per risk, and aggregate coverage for a one-year period is \$10,000,000. This coverage was more than sufficient to meet minimum computed coverage amounts suggested by the NAIC.

The Company was sufficiently insured for other property and liability hazards that may occur from daily business operations. Insured risks noted included Director and Officers Liability and Errors and Omissions Coverage.

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

There were no pension, stock ownership or insurance plans in place at the Company during the period of this examination.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company and its affiliates provide workers' compensation insurance and are licensed to do business in 37 states and the District of Columbia. A significant portion of the pooled business of the Company and its affiliates was concentrated in California, with approximately 52% of 2010 direct earned premiums of the pooled group being from this state. Any economic change or change in the insurance laws in any of these states could have a significant impact on the Company's future financial position and results of operations.

The only product marketed by the Company and its affiliates was workers' compensation insurance. The Company and affiliates specifically target small sized companies engaged in low to medium hazard industries. Information reflected in the 10K report of Employers Holdings, Inc. indicated that in 2010 about 89.9% of premium income was generated from employers with operating risks classified in the four lowest defined workers' compensation industry hazard groups.

The Company and its affiliates market their insurance product to targeted prospective employers through traditional means, strategic partnerships and through other available advertising media. Traditional marketing channels used were independent agents and brokers. The Company and its affiliates market and sell its insurance products through approximately 2,610 independent insurance agencies as of December 31, 2010.

The Company and its affiliates have developed strategic relationships with companies that have established sales forces and common markets to expand their reach to alternative distribution channels. The Company and its affiliates jointly marketed workers' compensation insurance products with ADP's payroll services and with Anthem's group health insurance plans. In 2010, the Company and its affiliates expanded their relationship with ADP to offer its products in 30 states and expanded its relationship with Anthem beyond California into Colorado. Additionally, the Company and its affiliates have entered into other strategic partnerships and alliances with payroll service providers and insurance brokerages, including the launch of a new program in conjunction with Hiscox USA to deliver workers' compensation insurance direct to small businesses online in 17 states. These relationships have allowed the Company and its affiliates to access new customers and they are actively pursuing additional strategic partnership and alliance opportunities.

Other more direct advertising media channels utilized were the internet, television and radio, newspapers, direct mail, event presentations, sponsorships, and through public relation means such as press releases and special events.

The Company was authorized to transact insurance in the following states:

Alabama	Arizona	Arkansas
Colorado	District of Columbia	Florida
Georgia	Illinois	Indiana
Kansas	Kentucky	Louisiana
Maryland	Mississippi	Missouri
Nevada	New Mexico	North Carolina
Ohio	Oklahoma	South Carolina
Tennessee	Texas	Virginia
West Virginia	Wisconsin	

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

### **COMPANY GROWTH**

The significant fluctuation in the Company's earned premiums was due to the Company being acquired by Employers Holding, Inc. and the respective intercompany reinsurance pooling arrangement that went into effect on October 1, 2008.

The Company and its affiliates experienced a decline in premiums and net underwriting (loss) due to the general economic downtown and hard market conditions. However, the Company maintained a strong balance sheet with positive contributions to surplus as of the valuation date.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Premiums Earned	\$ 32,178,550	\$ 40,424,743	\$ 67,146,315	\$ 84,858,977	\$ 98,588,828
Net Underwriting Gain/(Loss)	(2,205,205)	967,496	4,664,959	12,119,382	8,147,507
Net Income	4,764,740	6,491,530	(509,655)	8,094,706	5,316,881
Total Assets	419,117,584	430,003,462	453,694,821	264,687,583	248,049,992
Total Liabilities	326,946,491	350,367,139	358,312,516	162,619,508	163,233,247
Surplus As Regards Policyholders	92,171,093	79,636,323	95,382,306	102,068,075	84,816,745

### **LOSS EXPERIENCE**

The Company did not experience significant changes to its loss development. The Company's estimates for unpaid losses and loss adjustment expenses at December 31, 2010, were estimated by the Company's consulting actuaries based on accepted actuarial practices. The estimates were determined to be adequate based on an analysis performed and the resulting report generated by RSM McGladrey, LLC's independent consulting actuaries utilized during this examination.

## REINSURANCE

### Intercompany Reinsurance Pooling Agreement

Effective October 1, 2008, the Company entered into a reinsurance pooling agreement with its parent, EPIC, and its affiliates, Employers Insurance Company of Nevada (EICN), and Employers Compensation Insurance Company (ECIC). Under the terms of the agreement the entities pooled all business on a retrospective and prospective basis. EICN was the lead company of the pool, which resulted in the Company and its affiliates ceding all their business, net of incurred reinsurance. EICN then retroceded to the Company and its affiliates their share of the pool. The pooling percentages as of October 1, 2008, were as follows:

Company	Participation Percentage
EICN	53%
ECIC	27%
EPIC	10%
EAC	10%

The agreement requires each company to withhold funds for net losses, net expenses and net unearned premiums, as well as non-investment assets related to ceded business. At December 31, 2010, the Company held funds of \$170,413,000 under this requirement.

### Assumed

The Company has not and currently does not intend to actively assume insurance risks from outside sources.

Throughout the entire five-year period under review the Company participated in the Indiana Workers' Compensation Assigned Risk Reinsurance Pool, Mississippi Workers'

Compensation Assigned Risk Pool, and National Workers' Compensation Reinsurance Pool of New York. The largest amount of premium assumed during this period was \$4,745,000 in 2006. For 2010, the Company reported assumed premiums of \$1,675,000 from these arrangements.

## Ceded

During the current period under examination, the Company's reinsurance program consisted of a multi-layer workers compensation excess of loss coverage with various authorized and unauthorized reinsurers and a number of Lloyd's syndicates. Under the arrangement in effect at December 31, 2010, the Company protected itself from per occurrence losses of up to \$195,000,000 above an initial retention of \$5,000,000 per occurrence.

These contracts are normally written with a term of one year. Thus, with the exception of those that have been commuted, the Company had a number of excess of loss reinsurance agreements in runoff at December 31, 2010, from previous years, including a facultative excess of loss agreement.

The catastrophe contract provided coverage for the \$195,000,000 of per occurrence loss in five layers as follows:

Layer	Coverage Limits			Excess Retention of
	Per Occurrence	Terrorism	Aggregate	
1	\$ 5,000,000	\$ 5,000,000	\$ 20,000,000	\$ 5,000,000
2	10,000,000	10,000,000	20,000,000	10,000,000
3	30,000,000	30,000,000	60,000,000	20,000,000
4	50,000,000	50,000,000	100,000,000	50,000,000
5	100,000,000	100,000,000	200,000,000	100,000,000

The contracts were underwritten by various authorized and unauthorized reinsurers and a number of Lloyd's syndicates. As of December 31, 2010, the Company had reinsurance recoverables of \$3,074,000 from the unauthorized reinsurers under the current or previous excess of loss contracts.

On September 15, 2010, the Company and its parent, EPIC, commuted treaties with Continental Casualty Company for \$18.5 million for all past, present, and future obligations and liabilities related to all outstanding reinsurance agreements between the parties from 1996 to 2001.

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

## **ACCOUNTS AND RECORDS**

The Company maintained its statutory home office in Maitland, Florida; however, the main administrative office was located in Reno, Nevada. The examination field work was coordinated and performed in Reno, Nevada.

The Company's general ledger was maintained on an accrual basis. Appropriate adjustments were made to produce financial reports acceptable under statutory accounting practices.

The Company maintains its own separate data processing systems to produce appropriate financial reports, to maintain accounting records, to handle policy issuance and administration, and to process claims. The Company's primary processing was performed in a distributed environment. The main data center was located in Reno, Nevada; close to, but separate from

the Company's corporate headquarters. Full replication was conducted at a secondary data center located in Henderson, Nevada.

Separate outside entities were used to handle all functional and reporting requirements pertaining to payroll, and to maintain and manage the Company's investment portfolio. Actions taken by these entities on behalf of the Company must have the Company's prior approval. The reliability of information produced by these entities was determined by the controls each of these entities had in place. Specific required written reports are produced annually by these entities to report on the operational effectiveness of controls in place. These reports were reviewed by appropriate Company personnel on a regular basis.

Overall, the Company provided information requested during the examination within a reasonable period of time in accordance with Section 624.318(2), Florida Statutes.

The Company and non-affiliates had the following agreements:

### **Investment Management Agreement**

The Company has a contract with Conning Asset Management (Conning) to manage the Company's investment portfolio and provide investment advice and any other necessary investment services. The requirements of the contract required Conning to maintain the Company's portfolio according to specific written investment guidelines. Within the confines of the Company's guidelines, Conning may execute investment transactions without prior approval of the Company's management. Conning was compensated for its services quarterly based on specific fixed annual percentages of the asset value of the Company's portfolio for the billing period. Conning must also present a report to the Company on a quarterly basis outlining the results of investment activity for the billing period.

### **Claims Administration Agreement**

The Company and its other affiliates, have a one year, automatically renewing, contract with Broadspire Services, Inc. (Broadspire) to administer Workers Compensation claims in the United States. The services being provided include claims administration, medical management services, loss adjustment and settlement and litigation assistance. Broadspire's compensation for services provided was based on 1) a service fee based on a flat fee per claimant, 2) a system data access fee based on the number of users and licenses and 3) a medical management fee based on usage.

### **Custodial Agreement**

The Company maintained a custodial agreement with the Bank of New York Mellon executed on December 8, 2008. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

## **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Michael Morrissey, CISA, IT Manager of RSM McGladrey, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

State	Description	Rate	Maturity Date	Par Value	Market Value
FL	USTN/B	5.000%	02/15/11	\$ 315,000	\$ 316,772
FL	USTN/B	5.250%	02/15/29	1,685,000	1,932,484
Total Florida Deposits				<u>\$ 2,000,000</u>	<u>\$ 2,249,256</u>
AZ	USTN/B	4.875	02/15/12	\$ 175,000	183,771
AR	USTN/B	4.875	02/15/12	100,000	105,012
AR	USTN/B	5.250	02/15/29	5,000	5,734
GA	USTN/B	5.250	02/15/12	55,000	63,078
GA	USTN/B	4.875	02/15/12	30,000	31,504
ID	USTN/B	1.250	08/31/15	270,000	262,597
NV	USTN/B	1.250	08/31/15	325,000	316,089
NM	USTN/B	5.250	02/15/29	160,000	183,526
NM	USTN/B	4.875	02/15/12	95,000	99,776
NC	USTN/B	5.250	02/15/29	130,000	149,094
NC	USTN/B	3.875	08/15/18	3,000,000	3,227,820
NC	USTN/B	3.125	05/15/19	3,000,000	3,031,650
SC	USTN/B	5.000	02/15/11	500,000	502,813
VA	USTN/B	5.000	02/15/11	505,000	507,843
Total Other Deposits				<u>\$ 8,350,000</u>	<u>\$ 8,670,307</u>
Total Special Deposits				<u>\$10,350,000</u>	<u>\$ 10,919,563</u>

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

## EMPLOYERS ASSURANCE COMPANY

### Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$249,067,522		\$249,067,522
Cash and Short-Term Investments	10,226,405		10,226,405
Investment Income due and accrued	3,008,820		3,008,820
Agents' Balances:			
Uncollected premium	907,314		907,314
Deferred premium	9,140,626		9,140,626
Accrued retrospective premium	713		713
Reinsurance recoverable	38,621		38,621
Funds held with reinsured company	139,635,805		139,635,805
Net deferred tax asset	5,195,238		5,195,238
Guaranty Funds receivable	677,106		677,106
Receivable from parents, subsidiaries and affiliates	482,160		482,160
Aggregate write-in for other than invested assets	737,254		737,254
Totals	<u>\$419,117,584</u>	<u>\$0</u>	<u>\$419,117,584</u>

**EMPLOYERS ASSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Losses	\$109,160,200		\$109,160,200
Loss adjustment expenses	23,208,428		23,208,428
Commissions payable	1,361,329		1,361,329
Other expenses	1,251,431		1,251,431
Taxes, licenses and fees	1,577,831		1,577,831
Current federal and foreign income tax	241,200		241,200
Unearned premium	14,224,590		14,224,590
Advance premium	141,108		141,108
Dividend declared and unpaid policyholders	72,259		72,259
Ceded reinsurance premiums payable	38,477		38,477
Funds held by company under reinsurance treaties	170,412,313		170,412,313
Remittance and items not allocated	213,027		213,027
Provision for reinsurance	139,878		139,878
Payable to parent, subsidiaries, affiliates	3,415,155		3,415,155
Aggregate write-ins for liabilities	1,489,265		1,489,265
<b>Total Liabilities</b>	<b>\$326,946,491</b>	<b>\$0</b>	<b>\$326,946,491</b>
Aggregate write-in for special surplus funds	\$1,780,623		\$1,780,623
Common capital stock	1,800,000		1,800,000
Surplus notes	17,000,000		17,000,000
Gross paid in and contributed surplus	57,640,053		57,640,053
Unassigned funds (surplus)	13,950,417	\$0	13,950,417
<b>Surplus as regards policyholders</b>	<b>\$92,171,093</b>	<b>\$0</b>	<b>\$92,171,093</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$419,117,584</b>	<b>\$0</b>	<b>\$419,117,584</b>

**EMPLOYERS ASSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$32,178,550
	<b>Deductions:</b>	
Losses incurred		\$16,896,608
Loss expenses incurred		4,409,673
Other underwriting expenses incurred		13,077,473
Total underwriting deductions		\$34,383,755
Net underwriting gain or (loss)		(\$2,205,205)

**Investment Income**

Net investment income earned		\$8,752,690
Net realized capital gains or (losses)		(123,014)
Net investment gain or (loss)		\$8,629,676

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$323,968)
Aggregate write-ins for miscellaneous income		(1,274,138)
Total other income		(\$1,598,106)
Net income before dividends to policyholders and before federal & foreign income taxes		\$4,826,365
Dividends to policyholders		664,120
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$4,162,245
Federal & foreign income taxes		(602,495)
Net Income		\$4,764,740

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$79,636,324
Net Income		\$4,764,740
Change in net unrealized capital gains or losses		86,164
Change in net deferred income tax		(1,830,611)
Change in non-admitted assets		10,233,927
Change in provision for reinsurance		815,917
Aggregate write-ins for gains and losses in surplus		(1,497,138)
Dividend to stockholders		(38,230)
Change in surplus as regards policyholders for the year		\$12,534,769
Surplus as regards policyholders, December 31 current year		\$92,171,094

**EMPLOYERS ASSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2010, per Annual Statement	\$92,171,094
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustments			
LIABILITIES: No Adjustments			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$92,171,094</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$132,368,628

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The examination consulting actuary, Deborah Rosenberg, FCAS, MAAA of RSM McGladrey, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

### Capital and Surplus

The amount of Capital and Surplus reported by the Company of \$92,171,094, exceeded the minimum of \$31,881,426 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Employers Assurance Company**, as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings the Company's surplus as regards policyholders was \$92,171,094, which exceeded the minimum of \$31,881,426 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Gary Farmer, Financial Examiner/Analyst Supervisor of the Office, Joshua Johnson, CFE, Examiner-in-Charge, Mary Hartell, Participating Examiner, Deborah Rosenberg, FCAS, MAAA, consulting actuary, Michael Morrissey, CISA, IT Manager, all of RSM McGladrey, LLC participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation