

2020 Annual Report



**Our Promise of
Coverage & Safety**



Chesapeake
Employers Insurance™
Your workers' compensation specialist

Coverage and Safety.

Those have been the watchwords ever since the COVID-19 pandemic started. We've worn our masks and looked out for one another for more than a year. Those same words—coverage and safety—have guided Chesapeake Employers Insurance for more than 100 years, as we provide workers' compensation peace of mind to Maryland businesses and their employees.

Today, we are Maryland's leading workers' comp insurance company—helping approximately 21,000 businesses keep their employees safe and their workers' comp rates affordable. And many of our eligible policyholders that promote workplace safety have been rewarded with a corporate dividend. The pandemic will end, but coverage and safety will always be our promise.



OUR BALANCE SHEET

Balance Sheet Statutory - Basis

	Years Ended December 31	
	2020	2019
Admitted Assets		
Bonds	\$ 1,899,026,243	\$ 1,883,129,441
Preferred stock.....	11,464,662	5,596,056
Common stock	230,052,265	173,268,565
Real estate, occupied by Chesapeake Employers ..	7,757,458	7,994,579
Cash, cash equivalents and short-term investments	97,434,222	69,642,216
Other invested assets	81,736,250	57,629,740
Receivable for securities.....	14,100,711	18,088,557
Securities lending reinvested collateral assets.....	—	69,896,407
Total cash and invested assets	2,341,571,811	2,285,245,561
Accrued interest on investments	12,521,424	13,709,432
Premiums receivable	58,781,580	64,004,322
Receivables under reinsurance contracts	692,790	692,790
Other assets.....	15,066,078	14,369,534
Total admitted assets	\$ 2,428,633,683	\$ 2,378,021,639
Liabilities and Surplus		
Liabilities:		
Reserves for losses and loss adjustment expenses	\$ 1,112,687,000	\$ 1,155,320,000
Accounts payable and accrued expenses.....	20,046,765	19,037,210
Borrowed money and accrued interest.....	140,036,169	100,230,800
Unearned premiums.....	73,087,233	87,569,136
Payable for securities lending.....	—	69,896,407
Other liabilities	49,781,382	33,918,366
Total liabilities.....	1,395,638,549	1,465,971,919
Total surplus.....	1,032,995,134	912,049,720
Total liabilities and surplus	\$ 2,428,633,683	\$ 2,378,021,639



Tom Phelan
Chief Executive Officer

To our valued customers

What a year 2020 turned out to be. At the start of the year, we heard a virus might become a global pandemic. By mid-March it had occurred. As of this writing, the world is still dealing with COVID-19 and its impact on our daily lives, our Maryland community, and our economy.

Chesapeake Bay’s iconic Thomas Point Shoal Lighthouse has weathered storms for more than a century while providing navigation for many. Similarly, Chesapeake Employers has stood for more than a century. We have withstood many economic challenges over the years, including the latest health crisis, yet we continue to be a source of safety and security for our stakeholders. Hence the title: “Our Promise of Coverage and Safety.”

In 2020, we proudly remained Maryland’s largest workers’ compensation insurer and maintained our A- (Excellent) financial strength rating from AM Best. I am thrilled to report we were upgraded from A- to A (Excellent) in early 2021. The year 2020 marked our 106th year in business. With approximately 21,000 policyholders, we are proud of the trust you and your agent place with us. We want to continue to be your insurance company.

In 2020, we lowered overall base rates by nearly 7%, marking our 5th consecutive year of base rate reductions. Again for 2020, our board of directors approved a dividend to our policyholders of \$10 million. Our onetime brand tagline of “safety saves” is so true. Safety saves injuries, it saves lives, and it allows for employees to return home safely. Finally, it saves you, our policyholder, in premium costs and increases your productivity by keeping your workers safely on the job. In total, over the past three years, Chesapeake Employers has issued \$30 million in corporate dividends. Thank you so much for protecting your workforce. We are proud to be part of this with you and are proud of our dividend program to our customers.

In 2020, our total surplus grew 13.3% to achieve the historic surplus milestone of \$1 billion. A strong surplus helps protect against

stock market volatility, aggressive competition, catastrophic claims, and other unforeseen events, such as the pandemic.

I’m very proud of our employees over the past year. When Governor Hogan declared a State of Emergency, our employees quickly pivoted to telework without missing a beat. We effectively turned our headquarters into some 300+ individual “branch offices” around the state—all ready and willing to serve our customers remotely using the latest video chat technologies and online trainings. Our executive team at Chesapeake wants to recognize those essential employees who continued to report to our Towson office every day to keep our most critical insurance operations up and running. This includes everything from issuing policies and processing medical invoices to mailing out the much-needed benefit checks to injured workers.

We responded to the unprecedented needs of our policyholders to help them stay in business during the COVID crisis. We instituted premium billing and payment deferrals, halted cancellations for non-payment of policies, and incorporated a rate relief program for policyholders with paid furloughed employees.

Throughout the year, as workers reported possible claims due to COVID-19, we worked with the employee and employer to help support those impacted by the virus. We worked to promptly pay those benefits.

One of our primary goals is to provide excellent service to injured workers and their families. Several years ago, we hired a number of medical professionals to provide knowledge and guidance in the caregiving process. These medical professionals are a resource for the injured worker and caregivers to have at their disposal. This year, we enhanced our resource platform by adding another innovative tool for severely injured workers.

To assist the severely injured, we created “Work Comp Connect.” This is an online service offering recovery resources and information for injured workers and their

WC Connect
Supporting Injured Workers & Their Families



families. We were inspired to create this support network through which injured workers and their loved ones can connect with others who have experienced similar trauma. Who better to assist a family and the injured worker with his or her recovery than someone who has lived through a similar journey?

In the community, we donated \$100,000 to local Baltimore area public schools in response to the pandemic and its serious economic impacts on families. Additionally, we increased the dollar amount at which we match our employees' monetary contributions to qualified charities for COVID-related donations. This past year, it has been more important than ever to share and help others.

The makeup of our Board itself changed for the first time in our 106-year history with the policyholder election of two members in 2020. The gradual change from Governor-appointed members to policyholder appointed members stems from legislation passed in 2015. Suzanne Carter Thompson was named Board Chairperson and John J. Scott, Jr. joined as a Board Member. Governor Hogan also appointed Jason M. Schupp and Spencer P. Cavalier to the board. The board and I welcome John, Jason, and Spencer and look forward to their guidance as new board members. I sincerely want to thank two outgoing board members, V. Rocky Gonzalez and Lewis Powell, whose long-time service and leadership were invaluable to our Board and our company. The board and I also want to honor the contributions and the memory of long-time board member Leonard "Bud" Schuler, who passed away in 2020.

We launched a new information technology system in early 2020 to replace our 30-year-old legacy system. This monumental undertaking was critical to our core operations as it serves as the foundation for our quoting, policy, billing, administration, and reporting processes. It also supports our transition for full affiliation to the National Council on Compensation Insurance (NCCI) with

opportunities to expand business options in the future. We continue to refine and improve the many services available to agents via this new system.

We introduced Express Pay, a new, secure payment service for our policyholders who prefer to pay their premiums online without an eService's account. For our agents, we rolled out a new "Extra, Extra" commission program, in addition to our existing incentive commission plans.

Looking forward to 2021 and beyond, we continue working toward becoming a full affiliate of NCCI, which we must achieve by Jan. 1, 2023. This is another monumental undertaking which requires a transition to the NCCI rating structure and standard operating procedures. We are striving to ensure minimal disruption to our policyholders during the rating structure transition while continuing to adequately price the risk, and we have been working diligently toward this for the past several years.

We continue focusing on our cornerstone strategies of technology enhancement, process improvements, and employee development as we focus to enhance the customer experience for all our stakeholders. We are committed to offering a first-class customer experience, and we continually remind our employees to treat others as they themselves would like to be treated.

As we continue our transformation toward becoming a better company and providing a greater value proposition, we hope that you will continue to partner with us on this exciting journey.

Thank you for your business and your trust.

Sincerely,

Thomas J. Phelan, CPA
Chief Executive Officer
Chesapeake Employers' Insurance Company

2020 Board Members

- L-R,
- Suzanne Carter Thompson, Chair;
- Wayne Gioioso, Sr., Vice Chair;
- Spencer P. Cavalier Member;
- Franklin J. Hajek, CPA, Member;
- Keturah Harley, Member;
- Martin G. Madden, Member;
- Jason M. Schupp Member;
- John J. Scott, Jr., Member;
- Maria Tildon, Member.



In Memoriam
Leonard Schuler, Jr.,
Board Member



We insure
21,275
policyholders

With approximately
168,834
covered workers

12,458
policyholders reduced
their premium by
qualifying for their own
beneficial experience
modifier or loss-free
credit in 2020.

Coverage and Claims Services during this Unprecedented Year

Throughout 2020 our claims professionals and medical services team continued to provide prompt services for injured workers and cost-effective claims and medical treatment reviews. When we receive a report of an injury and find it to be compensable, it's never just a claim number to us. It's a person first—often a fellow Marylander in need of timely and compassionate medical care and benefits.

- In 2020, we covered 8,496 injured workers* for their medical treatment, indemnity (lost-time) payments or both.
- We continued our mission as the “safety & security net” for injured workers with compensable injuries. In 2020, Chesapeake Employers paid \$126 million in indemnity and medical treatment costs.
- Our Catastrophic Injury Care Team provided coordinated claims services and benefits to 48 severely injured workers in 2020, up slightly from 42 in 2019. Falls from elevations, struck by objects, and injuries sustained in motor vehicle accidents were the leading causes of catastrophic injuries.
- We received 547 First Reports of Injuries (FROIs) from employees of private policyholders for possible COVID-19 infections. Most of these claims were “report-only” or involved medical treatment costs only.
- Our Subrogation Unit reviewed 1,252 claim cases for possible 3rd party involvement and recovered \$6.3 million and offset another \$2.4 million.
- We continue to pursue appropriate settlements for claims where a settlement is the sound business decision to mitigate the long-term cost of the claim.
- The Legal Department reviewed 2,127 injured worker cases and 462 of these cases were heard—many of them by video conference—at the Maryland Workers’ Compensation Commission.

8,496
injured workers* were covered for their medical treatment, indemnity (lost-time) payments or both in 2020. *Private policyholders

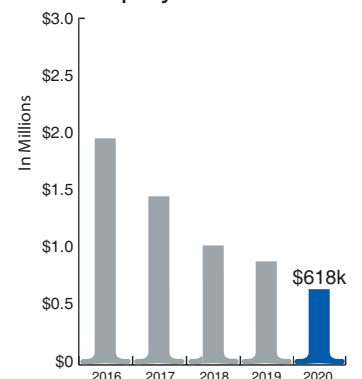
Medical and Prescription Cost Savings

Our medical services team continued their work primarily teleworking in 2020. We continued using an industry-leading multidisciplinary medical team approach to monitor medical treatment plans and prescriptions with a focus on reducing opioid dependency and addiction. This effort is led by our in-house pharmacist and physician who work with our nurses and pharmacy benefits manager to check and monitor all opioid prescriptions.

2020 Prescription Benefits Positive Trends

- Overall total prescription costs were down 13.9% from 2019 (\$4M to \$3.5M).
- Opioid prescription costs were reduced nearly 30% from 2019 (\$873k to \$618k).
- Injured workers receiving prescriptions were down 20% from 2019 (2,879 to 2,300).
- Opioid prescription count decreased 15% from 2019 (26k to 22k).
- Generic drug utilization increased to 90% in 2020.

Opioid Rx Costs Paid by Chesapeake Employers





Wear Your Face Mask.
Use su mascarilla.

Don't Gather Groups.
No se junten en grupos.

Stay 6 Feet or More Away from Other People
Mantenga una distancia de 6 pies de otras personas.

Wash your hands frequently or use hand sanitizer.
Lávese las manos con frecuencia o use loción desinfectante.

Don't share tools, phones, water bottles or food.
No comparta herramientas, teléfonos, botellas de agua o alimentos.

Ask your supervisor if you have safety concerns.
Consulte a su supervisor si tiene dudas acerca de la seguridad.

Stay home if you are not feeling well.
Quédese en su casa si no se siente bien.

SMITH CONSTRUCTION

ABC Greater Baltimore
Associated Builders and Contractors

Chesapeake Employers' Union
Your workers' voice

The year 2020 was a reminder to all of us of the importance of health and wellness, injury prevention, and safety. Safety is really an investment in your company's employees and in your company's future.

Safety Highlights 2020

Our Safety Services professionals remained agile throughout the year as they transitioned from in-person visits to telephonic and virtual outreach services. Our safety consultants also provided recommendations to improve policyholders' safety programs and practices and conducted a number of successful trainings virtually.

Extensive planning and initial pilot testing were done with the new "Safety Center" online safety information portal that is scheduled to launch in 2021. The Safety Center will give policyholders access to an online portal featuring a comprehensive library of workplace safety and training resources created by Chesapeake Employers and our third-party partner, Zywave. The Safety Center will include a Learning Management System for online training and an OSHA Recordkeeping Tool to create trending reports and OSHA 300 logs.



- More than 1,900 policyholders received outreach calls in 2020.
- Some 884 virtual and in-person visits were conducted.
- Some 991 safety plan recommendations were issued.
- First Reports of Injury (FROIs) had a substantial decline, down 30% in 2020 from 2019.
- We created approximately 125 custom "COVID-19 Safety Reminder" 8-foot-wide banners imprinted with our customers' business name for construction policyholders in our ABC Contractors Savings program.

884
policyholders
received a virtual
or in-person safety
consultation in 2020

Corporate Dividends Paid

In 2020, Chesapeake Employers continued its third consecutive year of rewarding our safest policyholders by returning approximately \$10 million dollars to them through our Corporate Dividend program. This dividend distribution is a direct result of policyholders' focused efforts to make workplace safety a priority. Returning these corporate dividend dollars was another small way we helped Maryland businesses financially through the economic downturn of 2020.

In 2020,
First Reports of
Injuries had a
substantial decline;
down
30%

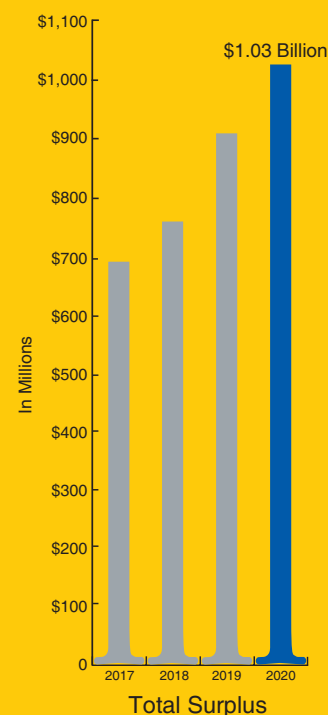
Chesapeake
Employers Insurance
\$10 MILLION
in CORPORATE
DIVIDENDS
to
Qualifying Policyholders
In 2020 PAID

21,069
policyholders
received a corporate
dividend in 2020

Approximately
94%
of our policyholders
reported no workplace
injuries in 2020.

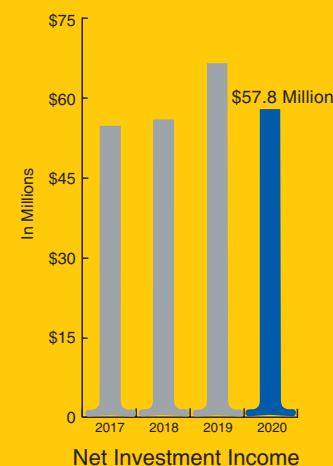
Chesapeake Employers' Insurance Company Financial Highlights at a Glance

	Years Ended December 31	
	2020	2019
Premiums earned.....	\$ 187,602,726	\$ 205,505,614
Net investment income	\$ 57,824,756	\$ 67,243,067
Loss & loss adjustment expenses incurred	\$ 126,612,660	\$ 117,929,077
Underwriting gain.....	\$ 1,988,554	\$ 26,609,272
Dividends expense.....	\$ 15,888,010	\$ 785,470
Total assets	\$ 2,428,633,683	\$ 2,378,021,639
Total surplus.....	\$ 1,032,995,134	\$ 912,049,720
Loss/LAE ratio	67.5%	57.4%
Expense ratio.....	41.4%	29.2%
Combined ratio.....	108.8%	86.5%



Statement of Operations, Statutory - Basis

	Years Ended December 31	
	2020	2019
Underwriting income:		
Net premiums earned.....	\$ 187,602,726	\$ 205,505,614
Losses incurred.....	92,579,240	87,396,728
Loss adjustment expenses incurred	34,033,420	30,532,349
Commissions.....	20,807,500	23,208,988
Other underwriting expenses, net.....	36,120,839	34,776,351
Provision for bad debt	2,073,173	2,981,926
Underwriting gain (loss).....	1,988,554	26,609,272
Net investment income	57,824,756	67,243,067
Net realized gain on investments	37,726,456	59,340,986
Net investment gain	95,551,212	126,584,053
Other income.....	390,980	607,779
Dividends to policyholders.....	(15,888,010)	(785,470)
Net income	\$ 82,042,736	\$ 153,015,634



AM Best has upgraded the Financial Strength Rating to A (Excellent) from A- (Excellent) and the Long-Term Issuer Credit Rating to "a" from "a-" of Chesapeake Employers' Insurance Company as of May 4, 2021. The outlook assigned by A.M. Best to both ratings is stable. Chesapeake Employers' reserves are opined by Deloitte Consulting, LLP and a complete Statement of Actuarial Opinion may be obtained upon request from the Chief Financial Officer of Chesapeake Employers' Insurance Company.

The 2020 condensed financial statements, including the balance sheet on page 1, have been derived from complete statutory-basis financial statements, which were audited by Johnson Lambert LLP.



**IN 2021, WE'RE PROUD TO HAVE EARNED AN
A (EXCELLENT) FINANCIAL STRENGTH RATING
FROM AM BEST.**

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