

# 2021 Annual Report



Rewarding  
A **SAFE** &  
WORKING  
MARYLAND

  
**Chesapeake**  
Employers Insurance<sup>TM</sup>  
Your workers' compensation specialist



In 2021, Chesapeake Employers' Insurance Company was pleased to reward more than 18,000 policyholders with a corporate wide dividend of \$10 million. Over the past 4 years, Chesapeake Employers' continued financial strength together with our customers' focus on workplace safety has allowed us to pay \$40 million in corporate dividends to our qualifying policyholders.

By paying dividends and rewarding hardworking Marylanders, we help our policyholders build safe and successful businesses.



# OUR BALANCE SHEET

## Balance Sheet Statutory - Basis

	Years Ended December 31	
	2021	2020
<b>Admitted Assets</b>		
Bonds .....	\$ 2,007,579,520	\$ 1,899,026,243
Preferred stock.....	7,754,464	11,464,662
Common stock.....	204,742,403	230,052,265
Real estate, occupied by Chesapeake Employers .....	7,520,336	7,757,458
Cash, cash equivalents and short-term investments ...	85,766,981	97,434,222
Other invested assets.....	107,245,467	81,736,250
Receivable for securities.....	9,091,094	14,100,711
Total cash and invested assets.....	2,429,700,265	2,341,571,811
Accrued interest on investments.....	12,013,812	12,521,424
Premiums receivable.....	54,308,368	58,781,580
Receivables under reinsurance contracts .....	674,438	692,790
Other assets.....	15,634,817	15,066,078
Total admitted assets.....	<u>\$ 2,512,331,700</u>	<u>\$ 2,428,633,683</u>
<b>Liabilities and Surplus</b>		
Liabilities:		
Reserves for losses and loss adjustment expenses	\$ 1,092,116,000	\$ 1,112,687,000
Accounts payable and accrued expenses .....	16,805,010	20,046,765
Borrowed money and accrued interest .....	140,034,218	140,036,169
Unearned premiums .....	74,244,383	73,087,233
Other liabilities .....	51,600,045	49,781,382
Total liabilities.....	<u>1,374,799,656</u>	<u>1,395,638,549</u>
Total surplus.....	1,137,532,044	1,032,995,134
Total liabilities and surplus .....	<u>\$ 2,512,331,700</u>	<u>\$ 2,428,633,683</u>



**Tom Phelan**  
Chief Executive Officer

## To our valued customers

I am pleased to report that we had a very good year in 2021. The year marked our 107th year in business as we continued our mission to provide dependable workers compensation coverage to Maryland businesses, help ensure safe workplaces, and take care of people if an injury occurs.

We ended the year with a very healthy balance sheet of \$2.5 billion in assets and a surplus of more than \$1.1 billion. I am proud to announce the global credit rating company AM Best upgraded our financial strength rating to A (Excellent). This is an outstanding accomplishment and one that recognizes our financial strength, our long-term business strategy, and our Enterprise Risk Management (ERM) plan.

It has been a tough couple of years for Maryland's small employers – they've had to wear many hats, work long hours, stay open through a pandemic, endure supply shortages, shipping delays and cost increases; and often run their businesses with a lack of staffing. But Chesapeake Employers has tried to soften some of these hardships for our customers with some good news.

In 2021, we lowered our base rates by 5%, marking our 6th consecutive year of base rate reductions. This means our policyholders have more money to invest in their companies and this helps to contribute to a more stable economy for Maryland.

In 2021, we were pleased to reward more than 18,000 policyholders with a corporate dividend of \$10 million. In total, over the past 4 years, we have paid \$40 million in corporate dividends to our qualifying policyholders. And for 2022, we are delighted to announce an increase in our corporate dividend payments to \$15 million. With our customers' focus on workplace safety, together with our financial strength, we continue rewarding safe employers.

Our role as the largest writer of workers' compensation insurance in Maryland would not be possible without the support and trust of our independent insurance agents. As Maryland's workers' compensation specialist, we want to be the first choice for our agents when recommending a workers' compensation carrier. As you will see in these pages, two of our agent partners share with us their reasons for championing Chesapeake Employers and how our annual corporate dividend is making a difference for their clients.

The membership of our Board continues to evolve with an historic first. In 2021, Theodore (Tedd) Martin Alexander III became the first policyholder to be elected to the Board by our policyholders. In addition to being a policyholder, Tedd is a Vice President of T. Rowe Price Group, Inc. and he brings over 30 years of investment experience to our company. Policyholders also elected Spencer P. Cavalier, CFA, to our Board. Spencer is the Managing Director and Principal at Matrix Capital Markets Group, Inc. Spencer was first appointed to Chesapeake Employers' board in 2020 by Governor Larry Hogan. The Board and I welcome Tedd and Spencer and we look forward to their guidance. The Board and I also want to thank outgoing board member Wayne Gioioso, Sr., for his years of service and leadership.

As this message is being written, the organization is in the final stages of working toward becoming a full affiliate of NCCI, which will take effect on January 1, 2023. This has been the culmination of nearly seven years of planning, testing, and, soon, full implementation. This enormous undertaking requires a transition to the NCCI rating structure and standard operating procedures. Effective April 1, 2021, we have largely adopted NCCI's loss costs and loss cost multiplier methodology, schedule rating plan, and experience rating plan.



**Chesapeake**  
Employers Insurance  
**\$10 MILLION**  
in CORPORATE  
DIVIDENDS  
to Qualifying Policyholders

In 2021 PAID

**\$10 MILLION**  
in CORPORATE  
DIVIDENDS

to Qualifying Policyholders



We continue to strive to ensure minimal disruption to our policyholders during this transition while continuing to adequately price the risk. Please reach out to your insurance agent if you have questions about your Chesapeake Employers' policy and the NCCI conversion.

We extended our brand name with the University of Maryland, Baltimore County (UMBC) on a 15-year relationship that includes naming rights to the UMBC Events Center, which was renamed Chesapeake Employers Insurance Arena. This partnership establishes a platform for UMBC and Chesapeake Employers to engage in opportunities for student internships, recruitment, and applied research projects. We are honored to partner with UMBC, a premier educational institution.

In 2021, we launched a new, comprehensive online library of workplace safety resources offered through Zywave, a third-party partner. Our new "Safety Center" features a Learning Management System for assigning and tracking employee training, and an OSHA Recordkeeping Tool. This online safety resource is a value-added benefit provided to all our policyholders.

Our work in the community continued to have a focus on helping kids. In 2021, our primary corporate charity we support, the Kids' Chance of Maryland, Inc. scholarship fund, celebrated its 25th anniversary. Chesapeake Employers is proud to be one of the founding sponsors and financial donors to Kids' Chance of Maryland and its mission of providing educational scholarships to children of catastrophically or fatally injured workers. Since the creation of Kids' Chance of Maryland in 1996, more than 120 students have received scholarship assistance.

In 2021, the results of our customer satisfaction survey showed high marks for many of our service departments. Our Policyholder Net Promoter Score (NPS) increased by 11 points to a high of 53. An NPS score of 50 is considered excellent. We are not resting on that mark as we want our customers to know we value them and will continue to provide the first-class customer experience they deserve.

As 2022 unfolds, our focus will be our commitment to outstanding customer service. This will coincide with a reinvigoration of the pride our employees feel at being an integral part of a great company with an important purpose.

Thank you for continuing to place your business and trust with us.

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

**2021 Board Members**  
L-R,

Suzanne Carter  
Thompson,  
Board Chair;

John J. Scott, Jr.,  
Vice Chair;

Tedd Alexander,  
Member;

Spencer P. Cavalier,  
Member;

Franklin J. Hajek, CPA,  
Member;

Keturah Harley,  
Member;

Martin G. Madden,  
Member;

Jason M. Schupp,  
Member;

Maria Tildon,  
Member.

## Gary Berger, President and CEO, HMS Insurance Associates, Inc., Hunt Valley, MD


“The Chesapeake Employers Corporate Dividend plan is a differentiator in the marketplace. It is showing prospects and clients that Chesapeake Employers is a well-managed and fiscally responsible insurance carrier that has built a solid surplus over the years.

Tom Phelan and the Chesapeake board of directors have made the business decision to reward clients that have positive loss experience and a true safety culture with a portion of that surplus. They are in the unique position to have the ability to reward their policyholders and not be focused on rewarding shareholders. In simple terms, Chesapeake Employers is telling our clients that a dividend is an opportunity for them to share in the financial success of their carrier.

I have never had a client who didn't appreciate receiving money back from an insurance company. It also helps to reduce their overall insurance costs and justify the investment they make in risk control and safety management. We emphasize the quality insurance programs, rate structures and services Chesapeake Employers provides, and the Corporate Dividend is another way for our clients to manage their workers' compensation costs.

Some of the dividends have been significant. We have had clients tell us that the money would go directly to adding new safety equipment or safety incentives for their employees. Keeping their employees safe and controlling their insurance expenses are important factors in the success of any business.

Not all insurance agents/agencies or insurance carriers are equal. Expertise, quality service, advocacy, market presence, loyalty and relationships matter. Obviously, these all need to be provided at cost effective terms, but no business insurance decision should be made on price alone.”

A professional portrait of Gary Berger, a middle-aged man with grey hair, wearing a blue plaid suit jacket, a white shirt, and a blue and white striped tie. He is smiling slightly and looking towards the camera. The background is a blurred office setting.

“We emphasize the quality insurance programs, rate structures and services Chesapeake Employers provides, and the Corporate Dividend is another way for our clients to manage their worker's compensation costs.”

“HMS has developed into one of the largest full-service independent insurance agencies in the United States, providing comprehensive insurance products and services to individuals and businesses throughout the Mid-Atlantic region. At present, HMS has 135 customer focused individuals servicing our client base and writes \$375,000,000 in annual premium. HMS has also been recognized, for the fifth consecutive year, as one of the Top 100 agencies in the country as ranked by Business Insurance magazine.” [www.hmsia.com](http://www.hmsia.com)

# Coverage & Safety Services Highlights

Our Safety Services professionals remained agile and focused throughout the year as they serviced policyholders through both virtual outreach, e-mail and in-person policyholder consultations.

In 2021, we launched a new, comprehensive online library of workplace safety resources offered through Zywave, a third-party partner. This safety resource micro-site called “**Safety Center**” is a value-added benefit for our policyholders. The Safety Center provides policyholders a Learning Management System for assigning and tracking employee training, and an OSHA Recordkeeping Tool where policyholders and risk managers can enter injury details to create trending reports and create their requisite OSHA 300 logs. Visit our website to learn how you can sign-up through eServices to access this valuable resource.



- Using the new Safety Center information resource we began sending monthly targeted safety topic emails to policyholders.
- Some 1,275 virtual and in-person consultation visits were conducted.
- Some 641 safety plan recommendations were issued.

**1,275**  
policyholders  
received a virtual  
or in-person safety  
consultation in 2021

## Corporate Dividends Paid

In 2021, Chesapeake Employers continued its 4th consecutive year of rewarding our qualified policyholders by returning approximately \$10 million dollars to them through our corporate dividend program. This dividend distribution is a direct result of our financial strength and our policyholders’ focused efforts to make workplace safety a priority. Returning these corporate dividend dollars was another small way we helped Maryland businesses financially as the economy started to improve in 2021.

Approximately  
**94%**  
of our policyholders  
reported no workplace  
injuries in 2021.

**18,217**  
policyholders  
received a corporate  
dividend in 2021

We insure  
**21,061**  
policyholders

With approximately  
**181,000**  
covered workers

**12,296**  
policyholders reduced their premium  
by qualifying for their own beneficial  
experience modifier or merit rating  
plan in 2021.


## Monica Pacheco, Principal, Pacheco & Associates, Inc. Insurance & Financial Services, Gaithersburg, MD

“My clients want to know how they can save money on their workers’ comp premium. The Corporate Dividend gives me a product that makes Chesapeake Employers stand out in terms of how it can reward a business owner with premium savings for having a good safety record.

The Corporate Dividend is a great way to show appreciation for my clients. Many of my clients are Spanish-speaking small business owners. Some are surprised when I give them the good news that they are getting a dividend check. They feel special in being recognized for their business with Chesapeake Employers. But they also realize the importance of taking the right steps to help keep their employees safe and, as a result, being rewarded for having a good safety record.

I have a client whose business was growing, and he was hiring more employees and consequently his premium increased. He reluctantly understood the increase, but being told his insurance costs have increased is never well received. When I met with him and went over the Chesapeake Employers’ discounts that he may be eligible for, including the Corporate Dividend, he then understood the opportunities to reinforce safe work practices and save on his coverage costs.

I always encourage my clients to think of themselves as an entrepreneur and invest in their business not just for 2 or 3 years, but have a vision and a plan for what their business could become in 5 or 10 years. As their agent, they look to me as an advisor to make sure they have the necessary insurance coverage needed. The more information they have about how their insurance works, the better business decisions they can make.”



“The Corporate Dividend gives me a product that makes Chesapeake Employers stand out in terms of how it can reward a business owner with premium savings for having a good safety record.”

Monica founded her insurance agency in 1998. She saw the need within the growing Hispanic business community for commercial business insurance. She became an independent agent and has built a successful clientele of Hispanic business owners primarily based in the Washington, DC suburbs. Her business consists largely of word-of-mouth referrals from her existing customers who, she says, often call her for advice about a business opportunity. Her clients trust her to make sure they have the proper coverage in place.



# Claims & Medical Services Highlights

Throughout 2021 our claims professionals and medical services team continued providing 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 who deserves timely and compassionate medical care and appropriate benefits to enable them to get back to their lives and to work.

- In 2021, we covered 7,009 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 2021, Chesapeake Employers paid \$128 million in indemnity, loss adjustment expense and medical treatment costs.
- Our Catastrophic Injury Care Team provided coordinated claims services and benefits to 47 severely injured workers in 2021. Falls from elevations, and injuries sustained in motor vehicle accidents were the leading causes of catastrophic injuries.
- Our Subrogation Unit reviewed 1,351 claim cases for possible 3rd party involvement and recovered \$4.38 million and offset another \$2.78 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 1,791 injured worker cases and 520 of these cases were heard—some of them by video conference—at the Maryland Workers’ Compensation Commission.

**7,009**  
injured workers\* were covered for their medical treatment, indemnity (lost-time) payments or both in 2021. \*Private policyholders

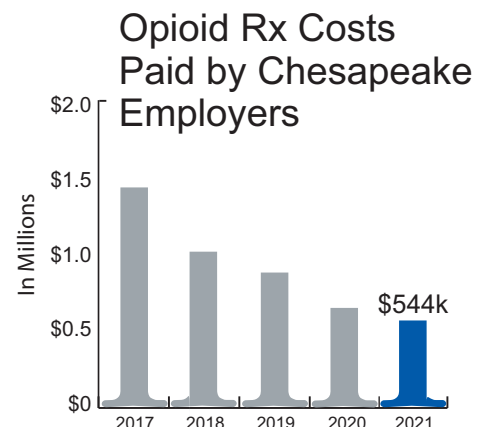
Our Subrogation Unit recovered **\$4.38** million from responsible 3rd parties.

## Medical and Prescription Cost Savings

Our medical services team continued hybrid teleworking to provide timely services to injured workers in 2021. 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. We also maintained a high percentage utilization of generic drugs when filling prescriptions, resulting in significant cost savings.

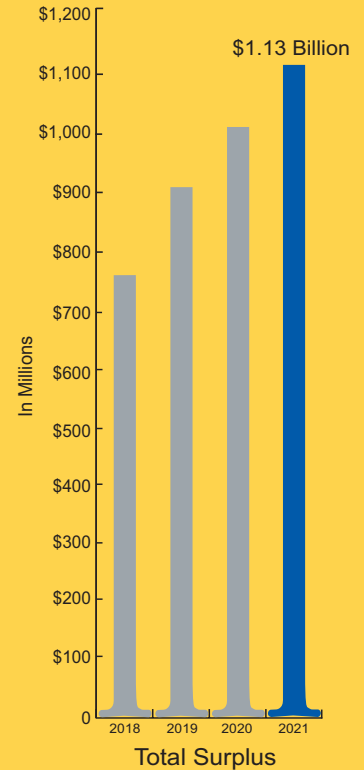
## 2021 Prescription Benefits Positive Trends

- Overall total prescription costs were down 17.6% from 2020 (\$3.5M to \$2.9M).
- Opioid prescription costs were reduced 12.8% from 2020 (\$624k to \$544k).
- Injured workers receiving prescriptions were down 9.3% from 2020 (2,326 to 2,110).
- Generic drug utilization remained above 90% in 2021.



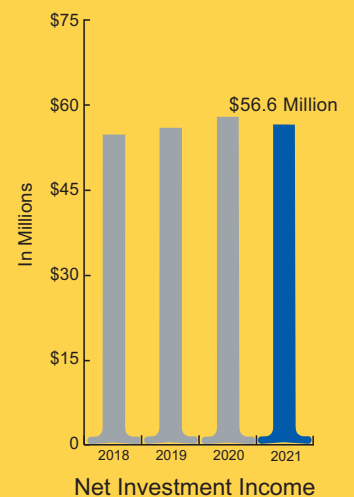
## Chesapeake Employers' Insurance Company Financial Highlights at a Glance

	Years Ended December 31	
	2021	2020
Premiums earned .....	\$ 168,935,969	\$ 187,602,726
Net investment income .....	\$ 56,617,622	\$ 57,824,756
Loss & loss adjustment expenses incurred	\$ 128,079,223	\$ 126,612,660
Underwriting (loss) gain .....	\$ (16,130,024)	\$ 1,988,554
Dividends expense .....	\$ 15,924,910	\$ 15,888,010
Total assets .....	\$ 2,512,331,700	\$ 2,428,633,683
Total surplus .....	\$ 1,137,532,044	\$ 1,032,995,134
Loss/LAE ratio .....	75.8%	67.5%
Expense ratio .....	41.7%	41.4%
Combined ratio .....	117.5%	108.8%



### Statement of Operations, Statutory - Basis

	Years Ended December 31	
	2021	2020
Underwriting income:		
Net premiums earned .....	\$ 168,935,969	\$ 187,602,726
Losses incurred .....	87,972,585	92,579,240
Loss adjustment expenses incurred .....	40,106,638	34,033,420
Commissions .....	21,986,446	20,807,500
Other underwriting expenses, net .....	33,325,049	36,120,839
Provision for bad debt .....	1,675,275	2,073,173
Underwriting (loss) gain .....	(16,130,024)	1,988,554
Net investment income .....	56,617,622	57,824,756
Net realized gain on investments .....	100,637,810	37,726,456
Net investment gain .....	157,255,432	95,551,212
Other income .....	488,670	390,980
Dividends to policyholders .....	(15,924,910)	(15,888,010)
Net income .....	\$ 125,689,168	\$ 82,042,736



AM Best affirmed the Financial Strength Rating of A (Excellent) and the Long-Term Issuer Credit Rating of "a" for the Chesapeake Employers' Insurance Company as of May 12, 2022. The outlook assigned by AM 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 2021 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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