



## 2019 Annual Report





**F**ounded in 1914, the original Maryland State Accident Fund began its mission of insuring Maryland businesses and taking care of injured workers. Having been in business since the early 1900's, our company has endured as our country has dealt with many issues: From world wars to the great depression; from significant illnesses, dust storms and development of the west to interstate construction, development of mega shopping centers and fast food restaurants; from landing on the moon to 9/11.

Today, 106 years after our founding, our world, and our fellow Marylanders are once again dealing with a significant issue – the COVID-19 outbreak. This illness has affected all aspects of our lives. Thus far in 2020, businesses like yours – and ours – have experienced nothing short of a paradigm shift in the way we operate, in the way our employees interact with our customers, and in the way we are all now trying to safely plan for the future in the face of so many unknowns.

Many businesses have had to close due to mandated orders and others have had to reduce staff.

Chesapeake Employers recognized the financial hardship this placed on many of you. We worked with a number of you who had payroll decreases and requested premium adjustments. We also deferred billings and premium payments from March 24th through June 1, 2020. These were just a few small ways we were able to help your business in these difficult times.

We want to thank our generous co-workers who donated thousands of dollars to local food banks and community organizations, those who delivered meals, and those caring and crafty employees who have sewn thousands of face masks for our neighbors and medical workers.

This has been a moment in our lives we will long remember.

**When the Maryland community comes together,  
it can overcome all challenges, safe & sound.**

# OUR BALANCE SHEET

## Balance Sheet Statutory - Basis

	Years Ended December 31	
	2019	2018
<b>Admitted Assets</b>		
Bonds .....	\$ 1,883,129,441	\$ 1,827,083,668
Preferred stock.....	5,596,056	10,227,588
Common stock .....	173,268,565	190,926,180
Real estate, occupied by Chesapeake Employers ..	7,994,579	8,231,700
Cash, cash equivalents and short-term investments	69,642,216	49,597,913
Other invested assets .....	57,629,740	43,757,673
Receivable for securities .....	18,088,557	1,367,949
Securities lending reinvested collateral assets.....	69,896,407	40,300,684
Total cash and invested assets .....	2,285,245,561	2,171,493,355
Accrued interest on investments .....	13,709,432	14,114,806
Premiums receivable .....	64,004,322	71,461,482
Receivables under reinsurance contracts .....	692,790	692,790
Other assets.....	14,369,534	13,915,305
Total admitted assets .....	\$ 2,378,021,639	\$ 2,271,677,738
<b>Liabilities and Surplus</b>		
Liabilities:		
Reserves for losses and loss adjustment expenses	\$ 1,155,320,000	\$ 1,215,320,000
Accounts payable and accrued expenses.....	19,037,210	18,612,524
Borrowed money and accrued interest .....	100,230,800	100,327,656
Unearned premiums.....	87,569,136	92,392,130
Payable for securities lending.....	69,896,407	40,300,684
Other liabilities .....	33,918,366	41,304,620
Total liabilities.....	1,465,971,919	1,508,257,614
Total surplus.....	912,049,720	763,420,124
Total liabilities and surplus .....	\$ 2,378,021,639	\$ 2,271,677,738



**Tom Phelan**  
Chief Executive Officer

## To our valued customers

2019 was our 105th year of providing workers' compensation insurance services to Maryland employers. It was a year of success for our company and, in turn, for the customers we serve. This year marks my 12th year as President and CEO of this great company. I am grateful to work with an amazing group of professionals. We have two overarching goals: Help employers prevent workplace injuries, and to be there in the event an employee is injured.

Before I recognize accomplishments from 2019, as this report is being written, the world is dealing with the largest pandemic to affect our generation in the past 100 years. COVID-19 has us looking to medical experts for guidance while we focus on health and safety for our families and our customers.

We extend a heartfelt "thank you" to all the medical professionals and others working on the front lines every day. You are truly heroes. It is our most sincere hope that all of us be "Safe & Sound" during these times, and thus it is an appropriate theme for our Annual Report.

### **Sound Purpose for Why We Are Here – Our *Raison d'être* (why we exist):**

What do we, as a company, bring to the table? If we did not exist, what would cause our customers to miss us? One simple answer: We continue to be the guarantor for the promise of work comp insurance coverage in Maryland. As such, we are vital to the State's economy. We help make sure workers' compensation insurance is available. However, this simple answer does not tell the whole story: We strive to be the carrier that you want to insure with. We sell a product, workers' compensation insurance, and a promise to be there if you need us. We deliver on the promise by being a strong financial company, providing a first-class customer experience, and through state-of-the-art technology that benefits you and your employees. We have focused on providing accessible and competitively priced coverage for our policyholders. We have built a culture as a great employer and place to work. In short, we are continually working to reinvent ourselves and to make ourselves the best company we can be for our stakeholders.

### **Strong Financial Company**

In 2019, we were Maryland's largest workers' compensation insurer. We ended the year with a strong financial performance and \$205 million in earned premium, representing 22,393 policyholders. We decreased overall base rates by 5%, marking our 4th consecutive year of base rate reductions. Since we became a private company in 2013, we have continually been rated A- (Excellent) for financial strength by A.M. Best. In 2019, our total surplus grew 19.5% to \$912 million. Growing our surplus provides long-term strength to protect our valued customers and injured workers. Our vision to be the best workers' compensation carrier has allowed us to reward our policyholders' commitment to workplace safety. In 2019, we made an additional payment of \$10 million to our eligible customers in the form of a corporate dividend. To date, our total dividends returned to customers through corporate dividends totals \$23.6 million. This is simply our way of saying "thank you" for insuring with us and working to help keep your employees safe. Your commitment to safety should be rewarded.

### **Sound Business Strategy**

The company is staying the course with a focus on our customers, innovation on our delivery of safety services, and providing great claims handling and skilled legal defense at the Workers' Compensation Commission. We are also bringing resources to four significant projects that will greatly affect our future business operations:

#### **1. New core operating information**

**technology system.** Chesapeake Employers prepared in 2019 to launch our new policy and billing applications to strategically prepare the company for future opportunities, including expanded customer needs, adoption of NCCI, and preparation for Other States' expansion. The new system provides a transformation platform for Chesapeake Employers and our customers.

#### **2. Preparing for NCCI conversion.**

We are on schedule for January 1, 2023 to fully adopt the National Council on Compensation Insurance's (NCCI's) rating and lost cost methodology, schedule rating plan, and





experience rating plan. We are aiming to have our testing completed a year early to review policies to minimize disruption to customers.

### 3. Preparing to pay federal taxes.

Beginning in 2022, Chesapeake Employers will begin paying federal taxes. This will be in addition to the company being subject to all Maryland state taxes and fees that apply to authorized insurers.

**4. Future Board members will be elected by policyholders.** Starting in 2020, two of our nine Board members who meet certain qualifications will be elected by our policyholders. Then two more will be elected in 2021, and three in 2022. The Governor will continue to appoint two members to our Board with those appointments in 2023.

### Sound Efforts to Control Medical Costs

Our claims and integrated health management strategy is what we believe continues to set us apart from other workers' comp insurance companies. We launched this strategy several years ago to address the quality of care the injured workers were receiving, and to address the rising cost of medical expenses for treating injured workers. In 2019, our team of three in-house doctors, 20+ nurses, a pharmacist and physical therapist continued to work side-by-side with experienced claims professionals to ensure that medical treatment for injured workers is thorough and appropriate.

### Sound Guidance and Leadership

We have nine board members with diverse business backgrounds who help lead and contribute to the mission and success of the company. We congratulate Suzanne Carter Thompson who was selected Chair of the Board in 2019. We welcomed Keturah Harley and Martin Madden as new Board members and we extend our gratitude to outgoing Board member Paul Gill, Sr. for his contributions.

Another important leadership change that the Board approved in late 2019 is the separation of the Chief Executive Officer role from the role of the President. With this separation of duties, I will continue as CEO and will guide the strategic direction of the company. The role of the President will be to lead the major operations areas of the organization. I am pleased to announce that the Board named Paige Beck as President of the company.

Ms. Beck has been instrumental in helping to lead this company by serving in various leadership positions in her nearly 30 years with the company, including as Chief Financial Officer, Chief Administrative Officer, and, most recently, as Chief Innovation Officer. I could not think of a more committed professional with a proven passion for our mission to handle the day-to-day responsibilities of the company.

### Safe & Sound – Helping Our Maryland Community

Chesapeake Employers strives to positively impact the lives of Marylanders in need by supporting charitable organizations that are based in Maryland or have a local chapter here. Each year we volunteer our time, donate money, and provide resources in a variety of ways. We want to help our communities be safer places to live and work. In 2019, we sponsored "Active Shooter Preparedness Seminars" around the state that were free-of-charge and open to the public.

As we venture into our 106th year, Chesapeake Employers continues to be the first choice for workers' compensation insurance, thanks to you, our valued policyholders and agents. I thank you for continuing to place to your business and trust with us.

Sincerely,

Thomas J. Phelan, CPA  
CEO

### 2019 Board Members L-R,

Suzanne Carter  
Thompson,  
Chair;

Wayne Gioioso, Sr.,  
Vice Chair;

V. Rocky Gonzalez,  
Member;

Franklin J. Hajek, CPA,  
Member;

Keturah Harley,  
Member;

Martin G. Madden,  
Member

Lewis C. Powell,  
Member;

Leonard Schuler, Jr.,  
Member;

Maria Tildon,  
Member.



# SAFE

**Always remember, “At the end of every workday,  
someone’s waiting for your safe return.”**



# Safety and work comp knowledge that can help prevent injuries, save lives and control claims costs is knowledge worth sharing.

Providing safety and risk management guidance continues to be a hallmark of our value-added services, which set us apart from other carriers. Chesapeake Employers has a team of Safety Consultants who meet with policyholders to help develop safety recommendations to prevent injuries and contain premium costs. Our areas of expertise not only include construction, but also manufacturing, nonprofits, local municipalities and more.



## Safety Highlights 2019

- 2,579 policyholders and State agencies received safety consultations in 2019.
- First reports of injuries continued to decline, down 3.2% in 2019.
- Trained 52 policyholders/state agencies and their 529 employees in CPR and First Aid.
- 2,400 “Safety Flicks” online safety videos watched.
- Acquired “Virtual Reality Safety Training” and took the eye-opening safety training “on the road” to share with policyholders and State agencies.
- Chesapeake Employers joined the ABC & MOSH Safety Professionals Peer Group (SPPG) to share best practices for preventing workplace injuries and by meeting MOSH’s safety standards in the construction trades.
- Six Active Shooter Preparedness Seminars were held across Maryland.

## Corporate Dividends Paid

In 2019, Chesapeake Employers celebrated its second year of rewarding eligible policyholders through the Corporate Dividend program by returning approximately \$10 million dollars to our customers. This continued dividend distribution is a direct result of policyholders’ focused efforts to make workplace safety a priority.

**2,579**  
policyholders  
and state agencies  
received safety  
consultations in 2019

First reports of  
injuries continued  
to decline; down  
**3.2%** in 2019

Approximately  
**250** people  
attended  
our free Active Shooter  
Preparedness seminars





# SOUND

In good condition; not damaged or injured...financially strong, secure, based on reason, showing good judgment, competent and reliable.





# Our focus remains on making sound insurance claims operations decisions –

while always providing a first-class customer experience for our policyholders and their injured workers. This includes providing prompt care and timely benefits that help prepare injured workers for a safe and sound return- to- work.

## Claims and Health Services Continued Focus in 2019

**Early claims intervention for potentially high-cost injuries** - For example, injuries to the back can often become costly, with prolonged treatment, medications, and lengthy recovery times. In 2019, these claims continued to receive our early case management attention.

**Pre-certification of medical and surgical procedures** - Our team reviews proposed medical treatments to confirm they are reasonable and medically necessary to ensure maximum recovery.

**Independent medical evaluations (IMEs)**  
We manage a network of physicians who have been evaluated to ensure they meet the highest standards to provide independent medical evaluations when a second opinion is needed.

**Medical bill review and prompt payment**  
Our billing specialists review medical bills for accuracy and prompt payment. They help manage costs by negotiating lower hospital fees and working with Preferred Provider Organizations (PPOs).

## Claims Services Highlights

- We are here as the “safe & sound security net” for injured workers with compensable injuries. In 2019, Chesapeake Employers paid \$118 million in indemnity (lost time) and medical costs.

- Our Catastrophic Injury Care Team provided prompt, compassionate claims services and benefits to 42 severely injured workers in 2019, down from 51 in 2018. Falls from elevation and motor vehicle accidents continue to be leading causes of catastrophic injuries.
- Our Subrogation unit reviewed 1,715 claim cases for possible 3rd party involvement and recovered \$4.7 million and offset another \$4.8 million.
- We continue to pursue appropriate settlements for claims where a settlement is the sound business decision to make to mitigate the long-term cost of the claim.

## Sound Strategy to Control Prescription Costs

We continue utilizing an industry-leading multidisciplinary pain management team approach to reduce opioid dependency and addiction. This includes having an in-house pharmacist and a physician who work with our nurses and pharmacy benefits manager to monitor all opioid prescriptions. In 2019, we saw a 21% decline in injured workers receiving opioid medications.

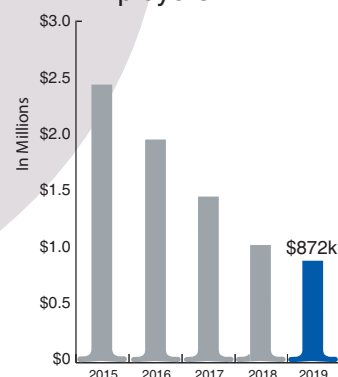
In 2019, Chesapeake Employers paid \$4.1 million for all prescriptions for injured workers under our care. This was 15.3% less than we paid for all prescriptions for injured workers in 2018. These efforts are absolutely critical to containing drug costs when you consider that, from 2018 to 2019, drug price inflation increased 6.3% for single-source brand name medications and 5.8% for multi-source brands, while generics showed -0.1% rate of inflation. Additionally, we were able to increase our overall generic medication utilization by 1.4% and decrease our utilization of single-source brands in 2019.

# 9,765

injured workers\* were covered for their medical treatment, indemnity (lost time) payments or both in 2019. \*Private policyholders



Opioid Rx Costs Paid by Chesapeake Employers



## Chesapeake Employers' Insurance Company

### Financial Highlights at a Glance

	Years Ended December 31	
	2019	2018
Premiums earned.....	\$ 205,505,614	\$ 214,444,681
Net investment income .....	\$ 67,243,067	\$ 56,498,293
Loss & loss adjustment expenses incurred	\$ 117,929,077	\$ 146,879,417
Underwriting gain.....	\$ 26,609,272	\$ 3,765,845
Dividends expense.....	\$ 785,470	\$ 21,312,792
Total assets .....	\$ 2,378,021,639	\$ 2,271,677,738
Total surplus.....	\$ 912,049,720	\$ 763,420,124
Loss/LAE ratio .....	57.4%	68.5%
Expense ratio.....	29.2%	38.9%
Combined ratio.....	86.5%	107.4%

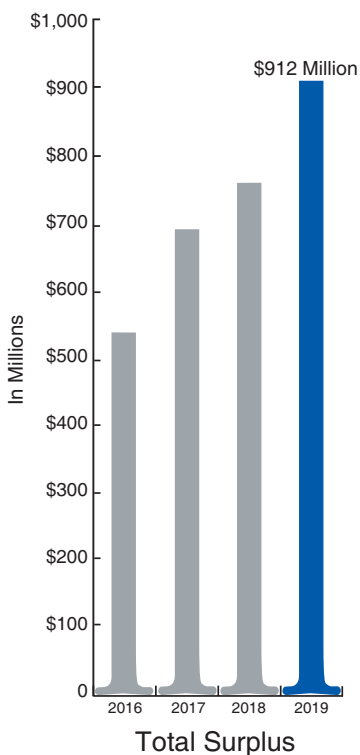
### Statement of Operations, Statutory - Basis

	Years Ended December 31	
	2019	2018
Underwriting income:		
Net premiums earned.....	\$ 205,505,614	\$ 214,444,681
Losses incurred.....	87,396,728	116,632,405
Loss adjustment expenses incurred .....	30,532,349	30,247,012
Commissions.....	23,208,988	24,421,408
Other underwriting expenses, net.....	34,776,351	35,463,613
Provision for bad debt .....	2,981,926	3,914,398
Underwriting gain (loss).....	26,609,272	3,765,845
Net investment income .....	67,243,067	56,498,293
Net realized gain on investments .....	59,340,986	45,768,218
Net investment gain .....	126,584,053	102,266,511
Other income.....	607,779	659,367
Dividends to policyholders.....	(785,470)	(21,312,792)
Net income .....	\$ 153,015,634	\$ 85,378,931

A.M. Best Co. has reaffirmed a financial strength rating of A- (Excellent) and an issuer credit rating of "a-" for Chesapeake Employers' Insurance Company as of May 1, 2020. 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 2019 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.

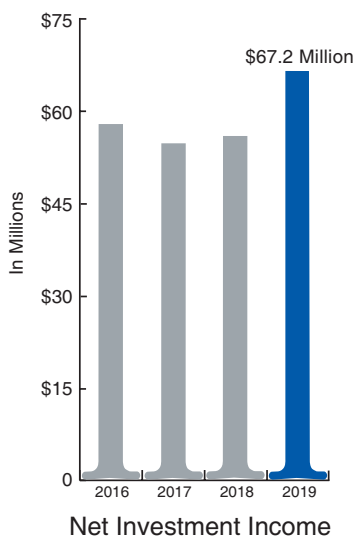
# OPERATIONS HIGHLIGHTS



We insure  
**22,393**  
policyholders

With approximately  
**178,383**  
covered workers

Approximately  
**94%**  
of our policyholders  
reported no workplace  
injuries in 2019.



**12,317**  
policyholders reduced  
their premium by  
qualifying for their own  
beneficial experience  
modifier or loss-free  
credit in 2019.



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