EXAMINATION REPORT

OF

EMPLOYERS PREFERRED INSURANCE COMPANY

NAIC Company Code: 10346

Maitland, Florida
as of
December 31, 2018

BY THE

FLORIDA

OFFICE OF INSURANCE REGULATION

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January 24, 2020
David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-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, 2018, of the financial condition and corporate affairs of

Employers Preferred Insurance Company
851 Trafalgar Court, Suite 155W
Maitland, Florida 32751

hereinafter referred to as the “Company” or “EPIC.” Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2015, through December 31, 2018, and commenced with planning at the Florida Office of Insurance Regulation (“Office”) on July 15, 2019, to July 19, 2019. The fieldwork commenced on July 15, 2019, and concluded as of January 24, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2011, through December 31, 2014.

The examination was a coordinated multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively. The lead state for this exam was California. Representatives of the Office and Nevada Division of Insurance also participated in this exam.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management’s compliance with Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2018.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company resulting from the examination as of December 31, 2014.

COMPANY HISTORY

General

The Company was incorporated in Florida on January 1, 1982, and commenced business in Florida as a self-insurers fund, operating under the name of Florida Air Conditioning Contractors Association Self-Insurers Fund, on January 1, 1982. On April 7, 1995 the Company incorporated and changed its name to Pinnacle Assurance Corporation, an Assessable Mutual. On August 21, 1995, the Company entered into a Plan of Conversation and Recapitalization wherein it converted from an assessable mutual to a stock property and casualty insurance company, wholly-owned by Florida Administrators, Inc., which later became AmCOMP, Inc. On January 26, 1996, the Company changed its name to Pinnacle Assurance Corporation.

On October 31, 1997, the Company acquired Thomas Jefferson Insurance Company, a property and casualty insurance company, which was domiciled in Florida and licensed in 21 states. Following the acquisition, Thomas Jefferson Insurance Company's name was changed to AmCOMP Assurance Corporation. The Company owned 100 percent of the outstanding stock of AmCOMP Assurance Corporation. On January 21, 1998, the Company changed its name to AmCOMP Preferred Insurance Company.

On October 31, 2008, Employers Holdings, Inc. ("EHI") acquired 100 percent of the outstanding common stock of AmCOMP, Inc. and all its subsidiaries, including the Company and its subsidiary, AmCOMP Assurance Corporation, when EHI's subsidiary Employers Group, Inc. merged with AmCOMP, Inc. The acquisition was funded by EHI using cash, 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 subsidiary from AmCOMP Preferred Insurance Company and AmCOMP Assurance Corporation to Employers Preferred Insurance Company and Employers Assurance Company ("EAC"), respectively.

Dividends

The Company declared and paid dividends to its stockholder in 2016 in the amount of $174,900,000. See the Acquisitions, Mergers, Disposals, Dissolutions section of this report for a further explanation of this dividend.

Capital Stock and Capital Contributions

As of December 31, 2018, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	$2,500,000
Par value per share	$100.00

The Company is a member of the Federal Home Loan Bank of San Francisco ("FHLB"). On March 9, 2018, the Company entered into a standby Letter of Credit Reimbursement Agreement with the FHLB in the amount of $50,000,000. The Letter of Credit Reimbursement Agreement may only be used to satisfy, in whole or in part, insurance deposit requirements with the state of California. The Letter of Credit Reimbursement Agreement was fully secured with eligible collateral at all times during the period covered by this examination and was verified by the California Department of Insurance and the Company's financial auditors (i.e., Certified Public Accountants or CPAs). Issued Letters of Credit, whether drawn upon or not, count against the total FHLB members' borrowing capacity. As of the period under examination, the State of California had not drawn upon these funds.

Surplus Notes

On April 30, 2004, the Company issued a $10 million surplus note to Dekania CDO II, Ltd. in return for $10 million in cash. The note matures in 2034 and is callable by the Company. The terms of this note provide for quarterly interest payments at a rate of 425 basis points in excess of the 90-day London Interbank Offered Rate (LIBOR). Both the payment of interest and repayment of the principal is subject to the prior approval of the Office and may be paid only out of the surplus of the Company. **Subsequent Event:** With the approval of the Office, the surplus note, including the final interest payment, was repaid on May 14, 2019.

On May 26, 2004, the Company issued a $12 million surplus note to ICONS, Inc., in return for $12 million in cash. The note matures in 2034 and is callable by the Company. The terms of the note provide for quarterly interest payments at a rate of 425 basis points in excess of LIBOR. On May 23, 2017, the Company's outstanding $12 million surplus note issued as ICONS, Inc., was purchased by the Company's ultimate parent company, EHI, for $9.9 million. **Subsequent Event:** With the approval of the Office, the surplus note, including the final interest payment, was repaid on May 23, 2018.

On September 14, 2004, the Company issued a $10 million surplus note to Alesco Preferred Funding V, LTD., in return for $10 million in cash. The note matures in 2034 and is callable by the Company. The terms of the note provide for quarterly interest payments at a rate of 405 basis points in excess of LIBOR. **Subsequent Event:** With the approval of the Office, the surplus note, including the final interest payment was repaid on June 14, 2019.

Acquisitions, Mergers, Disposals, Dissolutions

On May 22, 2018, EHI, created Cerity Group, Inc. ("CGI" a wholly-owned subsidiary of EHI) and Cerity Services, Inc. ("CSI" a wholly-owned subsidiary of CGI), both Nevada corporations

Effective December 31, 2016, the Company completed the de-stacking of Employers Assurance Company ("EAC"), its wholly-owned insurance subsidiary, through an extraordinary dividend of EAC from the Company to EGI. The dividend was equal to EAC's statutory equity value at December 31, 2016 of $179.8 million. As a result, EGI became the immediate parent of EAC.

MANAGEMENT AND CONTROL

Corporate Governance

Directors serving as of December 31, 2018, are shown below:

Directors

Name	City, State	Principal Occupation, Company Name
Michael D. Rumbolz[1]	Las Vegas, Nevada	President and Chief Executive Officer, Everi Holdings, Inc.
Douglas D. Dirks	Las Vegas, Nevada	President and Chief Executive Officer, Employers Holdings, Inc.
Michael S. Paquette	Reno, Nevada	Executive Vice President, Chief Financial Officer, and Treasurer, Employers Holdings, Inc.
Stephen V. Festa	Reno, Nevada	Executive Vice President, Chief Operating Officer, Employers Holdings, Inc.
Lenard T. Ormsby [2]	Reno, Nevada	Executive Vice President, Chief Legal Officer, General Counsel and Secretary, Employers Holdings, Inc.

(1) Chairman

(2) Lenard Thomas Ormsby resigned effective January 1, 2019, and was replaced by Lori Ann Brown.

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Douglas D. Dirks	Reno, Nevada	Chief Executive Officer
Michael S. Paquette	Reno, Nevada	Treasurer
Stephen V. Festa	Reno, Nevada	President & Chief Operating Officer
Lenard T. Ormsby [(1)]	Reno, Nevada	Assistant Secretary
Lori Ann Brown	Reno, Nevada	Senior Vice President, Deputy General Counsel & Secretary
George (Chip) Carbonar	Reno, Nevada	Vice President & Corporate Controller
Lawrence S. Rogers	Reno, Nevada	Senior Vice President & Chief Underwriting Officer
Barry J. Vogt	Reno, Nevada	Senior Vice President & Chief Claims Officer

[(1)] Lenard Thomas Ormsby resigned effective January 1, 2019, and was replaced by Lori Ann Brown.

The Company's Board appointed several internal committees. The following were the principal committees and their members as of December 31, 2018. The chair for these committees is shown at the top of each list.

Audit Committee

Name	City, State	Title, Company Name
Michael J. McSally	Portsmouth, New Hampshire	Retired
Michael J. McColgan	Newton Square, Pennsylvania	Retired
James R. Kroner	Las Vegas, Nevada	Retired

Finance Committee

Name	City, State	Title, Company Name
James R. Kroner	Las Vegas, Nevada	Retired
Richard W. Blakey	Reno, Nevada	Retired
Douglas D. Dirks	Reno, Nevada	President & Chief Executive Officer, Employers Holdings, Inc.
Jeanne L. Mockard	Valparaiso, Indiana	Principal, JLM Capital and Consulting

Compensation Committee

Name	City, State	Title, Company Name
Richard W. Blakey	Reno, Nevada	Retired
Valerie R. Glenn	Reno, Nevada	Retired
Jeanne L. Mockard	Valparaiso, Indiana	Principal, JLM Capital and Consulting

Board Governance and Nominating Committee

Name	City, State	Title, Company Name
Valerie R. Glenn	Reno, Nevada	Retired
Prasanna G. Dhore	Atlanta, Georgia	SVP & Chief Data & Analytics Officer, Equifax, Inc.
Barbara A. Higgins	Chicago, Illinois	Chief Customer Officer, Duke Energy Corporation

Executive Committee

Name	City, State	Title, Company Name
Michael D. Rumbolz	Las Vegas, Nevada	President & Chairman, Everi Holdings, Inc.
Richard W. Blakey	Reno, Nevada	Retired
Prasanna G. Dhore	Atlanta, Georgia	SVP & Chief Data & Analytics Officer, Equifax, Inc.
Douglas D. Dirks	Reno, Nevada	President & Chief Executive Officer, Employers Holdings, Inc.
Valerie R. Glenn	Reno, Nevada	Retired
James R. Kroner	Las Vegas, Nevada	Retired
Michael J. McSally	Portsmouth, New Hampshire	Retired

Risk Committee

Name	City, State	Title, Company Name
Prasanna G. Dhore	Atlanta, Georgia	SVP & Chief Data and Analytics Officer, Equifax, Inc.
Douglas D. Dirks	Reno, Nevada	President & Chief Executive Officer, Employers Holdings, Inc.
Barbara A. Higgins	Chicago, Illinois	Chief Customer Officer, Duke Energy Corporation
Michael J. McColgan	Newton Square, Pennsylvania	Retired
Michael D. Rumbolz	Las Vegas, Nevada	President & Chairman, Everi Holdings, Inc.

Holding Company System

Control of the Company was maintained by its parent, EGI, who owned 100 percent of the stock issued by the Company, who, in turn, was 100 percent owned by EHI. EHI is the ultimate controlling person of this holding company system.

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

Administrative Services Agreement

The Company and its affiliates were party to an Amended and Restated Administrative Services Agreement ("ARSA") during the examination period. Effective January 1, 2016, the ARSA was amended to modernize its language, identify and update those who were participating in it, and to expand the services provided under it. This updated ARSA provided for the Company and its affiliates to perform certain services for each other as determined to be reasonably necessary for the conduct of their operations. This updated ARSA identified these services to include accounting, tax and auditing, functional support services, claims, investment, and underwriting. It further noted that charges for such services shall be modified and adjusted where necessary or appropriate to reflect fairly and equitably the actual costs incurred by a company on behalf of another company. Financial statements showing the balances associated with the ARSA were prepared quarterly, and settlement of the balances owed was made within 30 days. This process was both reviewed and verified by the examination.

General Agency and Underwriting Manager Agreement

On October 14, 2014, EIG Services, Inc., ("EIG Services"), an administrative services company, entered into a General Agency and Underwriting Manager Agreement ("GAUMA") with the Company and its insurer affiliates. Under the GAUMA, EIG Services is the appointed general agent and underwriting manager for each of the insurance companies. EIG Services further agreed to solicit, underwrite, complete applications, quote premiums, bind, issue, and deliver insurance policies. Each insurance company is required to reimburse EIG Services for actual direct costs within 30 days after the end of each quarter. The GAUMA went into effect on October 14, 2014.

Network Carrier Agreement (EAC – EPIC)

Effective January 1, 2015, the Company entered into a Network Carrier Agreement ("NCA-EAC") with EAC for business underwritten in the state of Texas. The NCA-EAC gives EAC access to EPIC's Texas workers' compensation health care network. The NCA-EAC allows EPIC to provide the EAC services that include contracting with providers, credentialing, quality improvement programs, case management, out-of-network referrals, and compliance reporting. Reimbursements under the NCA-EAC are based on actual costs. The Office issued a no-objection letter to the NCA on December 23, 2014. According to the Company, actual NCA expenses are paid with those related to the ARSA. The examination reviewed the settlement of the balances related to the ARSA, and no exceptions were noted.

On April 23, 2015, the NCA-EAC was amended to include sections concerning EAC's ownership and control of the books and records of EAC in possession of the Company. The Office issued a no-objection letter to the Amended Network Carrier Agreement ("ANCA-EAC") on May 26, 2015.The effective date of the ANCA-EAC remained January 1, 2015.

Network Carrier Agreement (ECIC – EPIC)

Effective January 1, 2015, the Company entered into a Network Carrier Agreement ("NCA-ECIC") with California domiciled affiliate, Employers Compensation Insurance Company ("ECIC") for business underwritten in the state of Texas. The NCA-ECIC gives ECIC access to EPIC's Texas workers' compensation health care network. The NCA allows EPIC to provide ECIC services that include contracting with providers, credentialing, quality improvement programs, case management, out-of-network referrals, and compliance reporting. Reimbursements under the NCA-ECIC are based on actual costs. The Office issued a no-objection letter to the ECIC-NCA on December 23, 2014. The California Department of Insurance ("CDI") issued a similar no-objection letter on March 25, 2015. According to the Company, actual NCA expenses are paid with those related to the ARSA. The examination reviewed the settlement of the balances related to the ARSA, and no exceptions were noted.

On April 22, 2015, the NCA-ECIC was amended to include sections concerning ECIC's ownership and control of the books and records of ECIC in possession of the Company. The office issued a no-objection letter to the Amended Network Carrier Agreement ("ANCA-ECIC") on May 29, 2015, and by the CDI on May 21, 2015. The effective date of the ANCA-ECIC remained January 1, 2015.

Tax Sharing Agreement

The Company and its affiliates were party to a Tax Sharing Agreement ("TSA") with EHI, which allowed them to file a consolidated federal income tax return. The TSA was executed on February 25, 2009. Under this agreement, each company participating in the consolidation calculates its tax liability as if it were filing on its own. A consolidated return is then prepared on behalf of the entire group (with EHI being the named party on the tax return). Participating companies are then reimbursed for any losses, carryforwards, carrybacks, or other tax attributes that are used by the EHI in the consolidated return.

The TSA was amended effective January 1, 2016, to update language concerning the reimbursement to group companies for specific attributes used to reduce the consolidated tax liability and the carryforward of attributes used to reduce participating companies' separate return tax liability. Language regarding dispute resolution, notification requirements, and contract termination was also updated.

Under the terms of the TSA, separate return tax liabilities shall be paid ten days prior to the filing date and separate return tax refunds shall be paid no later than 30 days past the filing date. During the period under examination, the examination verified that all tax liabilities/refunds were settled in accordance with the agreement.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Reno, Nevada.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Wells Fargo Bank executed on February 1, 2017. The Company maintained a custodial agreement with The Bank of New York Mellon executed on June 24, 2019. The Company maintained a custodial agreement with MUFG Union Bank executed on August 30, 2016.

Claims Administration Agreement

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

Investment Management Agreement

The Company and its affiliates executed a contract with Conning, Inc. ("Conning") to manage a portion of the Company's investment portfolio and provide investment advice and any other necessary investment services. The requirements of the contract required Conning to maintain its part of the Company's portfolio according to specific written investment guidelines. Within the confines of the Company's instructions, 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 every quarter outlining the results of investment activity for the prior quarter.

The Company and its affiliates executed a contract with BlackRock Financial Management, Inc. ("BlackRock"), distinct and separate from Conning, to manage a different portion of the Company's investment portfolio and provide investment advice and any other necessary investment services. The requirements of the contract required BlackRock to follow specific written investment guidelines.

Reinsurance Intermediary Broker Agreement

The Company and its other affiliates executed a contract with Aon Benfield, Inc. ("Benfield") for procuring and servicing reinsurance contracts. Benfield is compensated by the reinsurers for placements made by Benfield on behalf of the Company and its affiliates. The contract called for Benfield to provide quarterly statements accurately detailing all material transactions, including information necessary to support all commissions, charges, and other fees. Contract compliance was verified during the examination. Benfield was a licensed reinsurance intermediary broker in the state of Florida during the period under examination

Independent Auditor Agreement

An independent CPA, Ernst & Young LLP, audited the Company's statutory basis financial statements annually for the years 2015, 2016, 2017, and 2018, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm and were reviewed as part of the examination.

Corporate Records Review

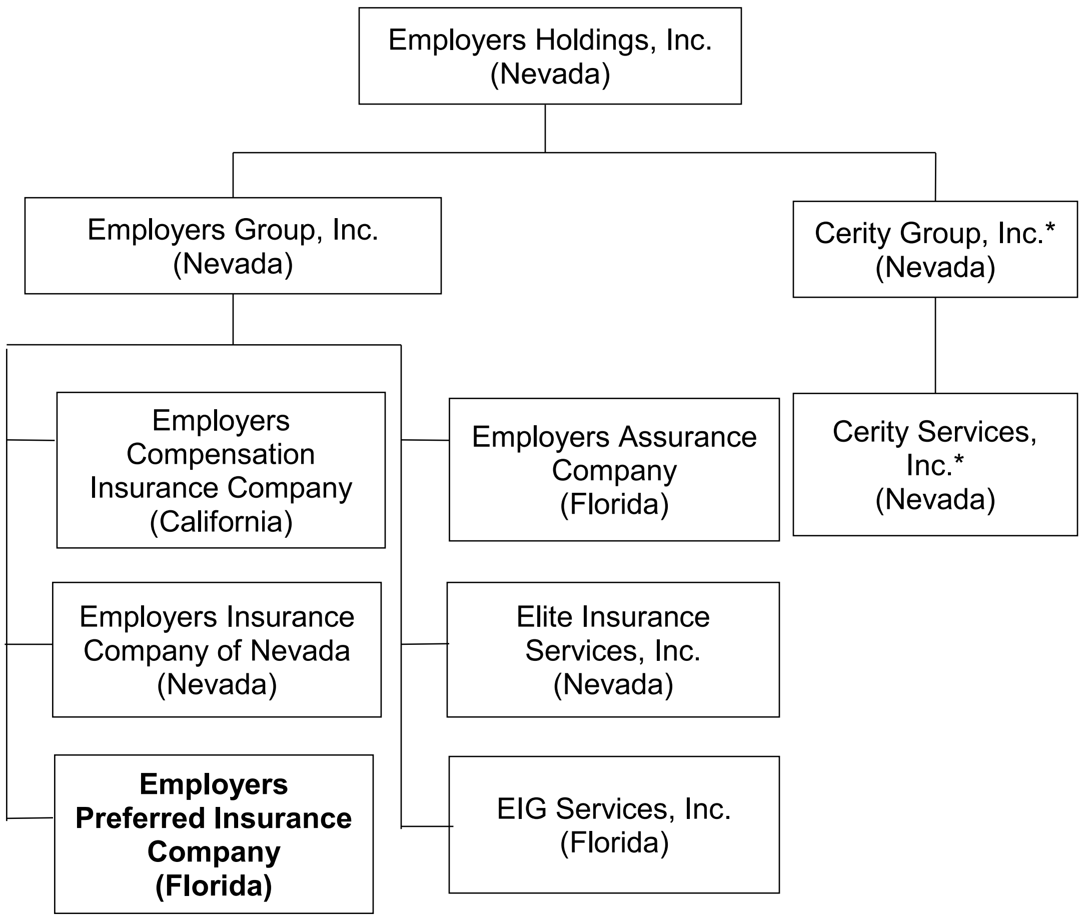
The recorded minutes of the Shareholder, Board of Directors ("Board"), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest, and the conflict of interest statements were reviewed as part of the examination. No conflicts were identified during the period under examination

A simplified organizational chart as of December 31, 2018, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2018 annual statement provided a list of all related companies of the holding company system.

Employers Preferred Insurance Company
Organizational Chart
December 31, 2018



* On May 22, 2018, EHI created Cerity Group, Inc. and Cerity Services, Inc.

TERRITORY AND PLAN OF OPERATIONS

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

Alabama	Arizona	Arkansas
California	Colorado	Connecticut
Delaware	District of Columbia	Florida
Georgia	Idaho	Illinois
Indiana	Iowa	Kansas
Kentucky	Louisiana	Maine
Maryland	Massachusetts	Michigan
Minnesota	Mississippi	Missouri
Montana	Nebraska	Nevada
New Hampshire	New Jersey	New Mexico
New York	North Carolina	Oklahoma
Oregon	Pennsylvania	Rhode Island
South Carolina	South Dakota	Tennessee
Texas	Utah	Vermont
Virginia	West Virginia	Wisconsin

The Company was authorized to transact insurance in Florida on January 1, 1982, and was authorized for the following coverage(s) as of December 31, 2018:

Workers' Compensation

REINSURANCE

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

Reinsurance Pooling Agreement

The Company and its affiliates (including Employers Insurance Company of Nevada ("EICN") and others from the holding company system) have entered into three different versions of a reinsurance pooling agreement over the years. In each instance, the participants ceded the gross incurred premiums, losses, and expenses, less any amount already covered by outside reinsurance treaties, to the lead insurer ("the Lead"). The Lead then retained its portion and allocated the remaining incurred premiums, losses, and expenses back to the participants. The contract versions, lead insurer, participating insurers, and percentage of participation is shown below:

Contract Version	Contract Description	Effective Date	Lead Insurer	Participating Insurers	Respective Participating Percentages
Original	Intercompany Pooling Arrangement	10/1/08	EICN	ECIC, EAC, EPIC	53%, 27%, 10%, 10%
2	Amended and Restated Reinsurance Pooling Agreement	1/1/15	EPIC	ECIC, EICN, EAC	35%, 35%, 18%, 12%
3	The New Amended and Restated Reinsurance Pooling Agreement	1/1/18	EPIC	EAC, ECIC, EICN	40%, 30%, 20%, 10%

Reinsurance Assumed

The Company participated in mandatory workers' compensation reinsurance pools and assumed a total of $4,847,000 in premium. $4,609,000 of that was from the National Workers Compensation Reinsurance Pool with the balance of $238,000 coming from a small number of state pools.

The Company continues to assume and administer losses from Arrowood Indemnity Company, which is in run-off. The Company reported $151,000 in assumed known case Losses and Loss Adjustment Expenses as of December 31, 2018.

The Company did not assume any other reinsurance other than from its affiliates as described in the Amended Pooling Agreement.

Reinsurance Ceded

The Company participates in an excess of loss reinsurance agreement with its parent and other insurer affiliates. Excess of loss reinsurance provides $190 million excess of $10 million coverage for all business classified by the Company as workers' compensation and employers' liability. The reinsurance program includes coverage for terrorism losses excluding nuclear, chemical, biological, or radiological events. The following is a summary of the Company's reinsurance agreements in-force as of December 31, 2018:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
First layer	Various domestic, foreign and alien companies led by Hannover Ruck Se and Partner Reinsurance Company of the U.S.	$10 million	$10 million excess $10 million, not to exceed $10 million per occurrence; limited to $20 million per term
Second layer	Various domestic, foreign and alien companies led by XL Reinsurance America, Inc., Hannover Ruck Se, and Market Global Reinsurance Company	$20 million	$30 million excess $20 million, not to exceed $30 million per occurrence; limited to $60 million per term
Third layer	Various domestic, foreign and alien companies led by Tokyo Millennium Re AG (Bermuda Branch) and Endurance Specialty Insurance Ltd.	$50 million	$50 million excess $50 million, not to exceed $50 million per occurrence, limited to $100 million per term
Fourth Layer	Various domestic, foreign and alien companies led by Tokio Millennium Re AG (Bermuda Branch) and BGS Services (Bermuda) Limited	$100 million	$100 million excess $100 million, not to exceed $100 million per occurrence; limited to $200 million per term

INFORMATION TECHNOLOGY REPORT

Tracy Gates, CISA, of Highland Clark, 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 and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTN, 6.0%, 02/15/26	$ 2,000,000	$ 2,015,087
FL	USTN, 1.0%, 9/30/19	1,300,000	1,429,047
TOTAL FLORIDA DEPOSITS		$ 3,300,000	$ 3,444,134
CA	BONDS	$ 273,367,000	$ 282,978,018
DE	USTN, 1.875%, 02/28/22	100,000	99,372
GA	USTN, 1.0%, 09/30/19	100,000	100,085
ID	USTN, 1.875%, 02/28/22	1,110,000	1,103,032
MA	USTN, 1.125%, 04/30/13	180,000	178,883
MT	USTN, 1.0%, 09/30/19	260,000	260,220
NE	BOND, 2.0%, 04/01/21	100,000	99,841
NV	USTN, 1.0%, 09/30/19	325,000	323,993
MN	USTN, 1.0%, 09/30/19	210,000	210,178
NC	USTN, 1.0%, 09/30/19	650,000	650,555
OR	USTN, 1.0%, 09/30/19	2,170,000	2,163,277
VA	USTN, 1.0%, 09/30/19	570,000	570,483
TOTAL OTHER DEPOSITS		$ 279,142,000	$ 288,737,937
TOTAL STATUTORY DEPOSITS		$ 282,442,000	$ 292,182,071

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Operations; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Employers Preferred Insurance Company
Assets
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	$ 858,885,570		$ 858,885,570
Common stocks	1,732,200		1,732,200
Cash and Short-Term Investments	20,678,675		20,678,675
Receivable for securities	21,686		21,686
Investment income due and accrued	5,231,068		5,231,068
Agents' Balances:			
Uncollected premium	27,613,102		27,613,102
Deferred premium	136,442,570		136,442,570
Reinsurance recoverable	156,967	311,125,201	311,282,168
Net deferred tax asset	22,564,562		22,564,562
Guaranty funds receivable on deposit	110,347		110,347
Receivable from parents, subsidiaries and affiliates	312,300,034	(311,125,201)	1,174,833
Aggregate write-in for other than invested assets	2,543,916		2,543,916
Totals	$ 1,388,280,697	$ -	$1,388,280,697

Employers Preferred Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Losses	$ 568,948,159		$ 568,948,159
Loss adjustment expenses	112,454,481		112,454,481
Commissions payable, contingent commissions, and other similar charges	27,165,646		27,165,646
Other expenses	235,649		235,649
Taxes, licenses and fees	14,303,210		14,303,210
Current federal and foreign income taxes	15,276,524		15,276,524
Unearned premium	125,572,146		125,572,146
Advance premium	14,383,149		14,383,149
Dividend decalred and unpaid to policyholders	310,387		310,387
Ceded reinsurance premiums payable	20,650	294,647,288	294,667,938
Remittances and items not allocated	1,128,552		1,128,552
Provision for reinsurance	41,188		41,188
Payable to parent, subsidiaries and affiliates	306,120,896	(294,647,288)	11,473,608
Payable for securities	10,241,882		10,241,882
Aggregate write-ins for liabilities	2,025,630		2,025,630
Total Liabilities	$ 1,198,228,149	$ -	$ 1,198,228,149
Common capital stock	$ 2,500,000.0		$ 2,500,000.0
Surplus notes	20,000,000		20,000,000
Unassigned funds (surplus)	167,552,548		167,552,548
Surplus as regards policyholders	$ 190,052,548	$ -	$ 190,052,548
Total liabilities, surplus and other funds	$ 1,388,280,697	$ -	$ 1,388,280,697

Employers Preferred Insurance Company
Statement of Income
December 31, 2018

Underwriting Income

Premiums earned	$ 292,450,418

Deductions

Losses incurred	126,178,378
Loss expenses incurred	30,339,878
Other underwriting expenses incurred	90,834,390
Aggregate write-ins for underwriting deductions	-
Total underwriting deductions	247,352,646
Net underwriting gain or (loss)	45,097,772

Investment Income

Net investment income earned	20,982,482
Net realized capital gains or (losses)	(1,306,560)
Net investment gain or (loss)	19,675,922

Other Income

Net gain or (loss) from agents' or premium balances charged off	(3,189,450)
Finance and service charges not included in premiums	414,926
Aggregate write-ins for miscellaneous income	(142,152)
Total other income	(2,916,676)
Net income before dividends to policyholders and before federal & foreign income taxes	61,857,018
Dividends to policyholders	2,540,455
Net Income, after dividends to policyholders, but before federal & foreign income taxes	59,316,563
Federal & foreign income taxes	15,982,235
Net Income	$ 43,334,328

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$ 158,768,480
Net Income	43,334,328
Net unrealized capital gains or losses	(1,550,695)
Change in net deferred income tax	4,331,348
Change in non-admitted assets	(2,794,514)
Change in provision for reinsurance	(36,399)
Change in surplus notes	(12,000,000)
Surplus adjustments: Paid in	-
Aggregate write-ins for gains and losses in surplus	-
Examination Adjustment	-
Change in surplus as regards policyholders for the year	31,284,068
Surplus as regards policyholders, December 31 current year	$ 190,052,548

Employers Preferred Insurance Company
Reconciliation of Capital and Surplus
December 31, 2018

No adjustments were made to surplus because of this examination. Because of the examination, the following reclassifications were made that have no impact on surplus. The Company misclassified certain premiums attributed to the Amended and Restated Reinsurance Pooling Agreement as payable to parent, subsidiaries, and affiliates as follows:

Annual Statement Line Item	Balance per Annual Statement	Increase	Decrease	Adjusted Balance
Recoverable from reinsurers	$ 156,967	$ 311,125,201	$ -	$ 311,282,168
Receivables from parent, subsidiaries, and affiliates	$ 312,300,304	$ -	$ 311,125,201	$ 1,175,103
Ceded reinsurance premiums payable	$ 20,650	$ 294,647,288	$ -	$ 294,667,938
Payable to parent, subsidiaries, and affiliates	$ 306,120,896	$ -	$ 294,647,288	$ 11,473,608

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

The December 31, 2018 loss and loss adjustment expense reserves were evaluated by a Senior Casualty Actuary for the California Department of Insurance. Based on the analysis performed, the Company's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

Capital and Surplus

The amount of capital and surplus reported by the Company of $190,052,548, exceeded the minimum of $119,822,815 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

On March 1, 2019, the Company and the FHLB amended their Letter of Credit Reimbursement Agreement to increase the credit amount to $110,000,000. Issued letters of credit, whether drawn upon or not, count against the total FHLB members' borrowing capacity. As of the period under examination, the state of California had not drawn upon these funds.

On March 29, 2019, the Company filed a new Amended Reinsurance Pooling Agreement with the Office with an effective date of August 1, 2019. Under the new Amended Pool, an affiliate that became part of the Employers Holdings, Inc. Group during 2019, Cerity Insurance Company ("CIC") was added. The allocation proportions under the new Amended Pool were reapportioned to the Company, EAC, ECIC, EICN, and CIC in the proportions of 40%, 30%, 20%, 5% and 5%, respectively. The amended pooling percentages became effective October 1, 2019. The Office issued a no-objection letter to the new Amended Reinsurance Pooling Agreement on April 16, 2019.

On June 12, 2019, the Company and its affiliates executed a contract with Goldman Sachs to manage the Company's common stock equity investments and terminated a similar arrangement with Conning.

On July 22, 2019, the Company filed an Amended and Restated Administrative Services Agreement with an effective date of August 1, 2019. Under the terms of the new agreement, CGI, CSI, and PartnerRe Insurance Company of New York ("PICNY"), now known as Cerity Insurance Company, were added as parties to the agreement. The Office issued a no-objection letter on July 30, 2019.

On July 29, 2019, the Company filed an Amended and Restated Tax Allocation Agreement with an effective date of September 30, 2019. Under the terms of the new agreement, CGI, CSI, and CIC were added as parties to the agreement. The Office issued a no-objection letter to the agreement on August 14, 2019.

On July 31, 2019, CGI acquired all the outstanding shares of capital stock of PICNY, a New York corporation, through a stock purchase agreement with Partner Reinsurance Company of the U.S. The purchase price paid at closing was equal to the sum of (a) the amount of statutory capital and surplus of PICNY at closing ($47,600,000), and (b) $5,800,000.

On December 16, 2019, the Company and its affiliates executed a contract with Neuberger Berman to manage a separate and distinct portion of the Company's investment portfolio, provide investment advice, and offer any other necessary investment services. In the contract, specific written investment guidelines were provided that differed from those used in other concurrent investment management agreements.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Employers Preferred Insurance Company** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following participated in the examination: Ryne Davison, CFE, Participating Examiner, of Lewis & Ellis, Inc., and Jeff Rockwell, Examination Manager, Florida Office of Insurance Regulation.

Respectfully submitted,

David Palmer, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.

Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
Property & Casualty Financial Oversight
Florida Office of Insurance Regulation