

## MEMORANDUM

**DATE:** September 14, 2016

**TO:** Appointed Agents/Group Association Partners

**FROM:** Michelle Graham, vice president of policyholder services  
Bruce Hoffman, vice president of underwriting services

**SUBJECT:** October 2016 dividend distribution

Today, SAIF Corporation's Board of Directors declared two policyholder dividends: a primary dividend of \$120 million, and a safety performance dividend of \$20 million.

The primary dividend will be paid to all eligible policyholders in the same manner as other dividends paid by SAIF in recent years: based on the standard premium for their policy.

The safety performance dividend is designed to reward policyholders for maintaining and improving safety. It will be paid to eligible policyholders whose loss ratio (paid losses to standard premium) is less than 80 percent (valued six months after policy expiration), and it will be paid on a graduated scale based on the policyholders' actual loss ratio, with the greatest amount paid to those with the lowest loss ratios. (See the charts below for more information.)

SAIF is able to pay dividends because of solid investment returns and continued success in managing workplace safety and controlling losses. More than 46,000 policyholders will receive the primary dividend. About 95 percent of SAIF's customers will receive all or a portion of the safety performance dividend.

### Dividend allocation schedule

A dividend will be calculated for each eligible policy in accordance with the following schedule. The dividend percentage will be applied to the total standard premium for policy expiration dates from January 1, 2015, 12:02 a.m. through January 1, 2016, 12:01 a.m.

### Primary dividend calculation

Standard premium range	Dividend percentage
\$0 - \$3,500.00	26.04%
\$3,500.01 - \$18,000.00	24.62%
\$18,000.01 - \$100,000.00	22.95%
Over \$100,000.00	21.99%

**Safety performance dividend calculation**

<b>Loss ratio band</b>	<b>Dividend as a percent of standard premium*</b>
0% to 10%	4.8% to 5.7%
10% to 20%	4.2% to 4.9%
20% to 30%	3.6% to 4.2%
30% to 40%	3.0% to 3.5%
40% to 50%	2.4% to 2.8%
50% to 60%	1.8% to 2.1%
60% to 70%	1.2% to 1.4%
70% to 80%	0.6% to 0.7%
≥ 80%	0%

\* The percentage of standard premium varies with premium size, as it has in previous years.

**Distribution dates and documents**

**September 26:** Dividend information will be available to agents and associations through Business Online.

**October 10:** Dividend information will be available to employers through Business Online. Final dividend offsets will be viewable on the **Dividend** application. The **Policy Dividend** screen states the amount of the dividend, if any, that will be applied to the account balance and the amount of the net check.

**October 17 to 21:** Dividend checks are expected to be mailed to policyholders during the week of October 17 to 21.

Each policyholder eligible for a dividend will receive a letter signed by President and CEO Kerry Barnett and a check, if one is generated. There are six possible scenarios for this communication, listed in the table below.

	<b>No balance owed on account</b>	<b>Balance owed less than dividends amount</b>	<b>Balance owed exceeds dividends amount</b>
<b>Primary dividend and safety performance dividend</b>	Letter with check for full amount of both dividends	Letter with check for both dividends, reduced by the amount of premium owed	Letter only—no check enclosed
<b>Primary dividend only</b>	Letter with check for full amount of primary dividend	Letter with check for primary dividend, reduced by the amount of premium owed	Letter only—no check enclosed

Customers not eligible for dividends (Assigned Risk Plan participants and customers in default) will not receive notice of the dividend declaration.

**Dividend information and reports available on Business Online**

The dividend information system will be available to you on September 26 through Business Online. On October 10, the dividend information system will become available to policyholders through Business Online.

You can also produce a policyholder dividend history showing dividends paid by SAIF since 2007 to a policyholder in a single page display. When providing this display, remember that Oregon law prohibits insurers from promising policyholders dividend payments for unexpired policy periods. You may not imply that past payment of dividends is an indicator of future dividend payments.

Oregon law also prohibits insurance carriers from creating net premium displays for customers. This means that you may not show policyholders how much premium they paid SAIF, and then subtract the dividends paid to show a “net premium” paid to SAIF.

To access the dividend history, simply go to **Dividends** on Business Online, select **Policy Dividend**, retrieve a policy, and then click the **Print History** icon. The report will display immediately and will be available to print.

(If a dividend was capped, an “\*” will appear next to the dividend amount and the dividend-capped language will appear at the bottom of the page. See question 11 in the attached Q & A).

The **Search** function provides easy access to lists of your customers and their dividends. Your list can be viewed online, printed, or downloaded to Excel. If you are not already registered for Business Online, you can do so by going to [saif.com/agent](http://saif.com/agent). Please contact Marilyn Cyphers at 971.242.5721 for assistance.

The **Policy Dividend** screen shows how each policy’s dividend was calculated and any adjustments to the check amount because of a balance owed to SAIF. It is possible for check amounts to be adjusted until the day the dividend checks are printed.

Please read the attached “October 2016 dividend questions and answers” carefully regarding the use of online dividend information and communication with potential dividend recipients. A more limited list of questions and answers will be posted for policyholders on **saif.com**.

## **October 2016 dividend questions and answers**

### **1. Which policyholders are eligible for a dividend?**

Policyholders are eligible for a dividend if they were insured with SAIF with policy expiration date(s) from January 1, 2015, 12:02 a.m. through January 1, 2016, 12:01 a.m., with the exception of those noted in question 2.

### **2. Which policyholders are not eligible for the dividend?**

Policyholders are not eligible for a dividend if they:

- Are in default status for nonpayment of premium at 12:01 a.m. on declaration day (see ORS 656.560 and 656.526(3)); or
- Do not have a policy end date within the eligibility period (see answer to question 1 above).

SAIF customers who are in the Assigned Risk Plan are not insured by SAIF but by the Oregon Workers' Compensation Plan authorized by the Department of Consumer and Business Services (DCBS) and administered by the National Council on Compensation Insurance (NCCI). SAIF provides coverage and claims handling services for assigned risk customers according to the terms of a contract with NCCI. However, because assigned risk customers are not insured by SAIF, and are specifically issued a policy that excludes a dividend participation provision, they are not eligible for a dividend(s).

Premiums paid for other states coverage (OSC) are not eligible for a dividend.

Finally, under the terms of the declaration issued by the Board of Directors, SAIF Corporation is not eligible for a dividend.

### **3. Which policyholders are not eligible for the safety performance dividend?**

Those customers with a loss ratio greater than 80 percent. These policyholders range from a low of \$36 in annual premium to a high of \$363,000.

As with the primary dividend, SAIF customers in the Assigned Risk Plan are not eligible for the safety performance dividend. Likewise, premiums paid for other states coverage and SAIF Corporation are not eligible for a safety performance dividend.

### **4. What was the time period used by SAIF to determine dividend eligibility and why?**

SAIF calculated dividends on full and partial policy periods with expiration dates specified in question 1. If an employer had more than one eligible policy period with the same policy number, both are dividend eligible. Premium from both periods is accumulated and one dividend is calculated.

Under Oregon law, dividends can only be declared on policy periods that have expired (OAR 836-080-0120(2)).

### **5. How are dividends calculated?**

Dividends are calculated as a percentage of Oregon standard premium recorded for eligible policy periods on the valuation date of September 14, 2016, for the primary dividend. The safety performance dividend is calculated based on the loss ratio

(paid losses to standard premium) valued six months after the policy expiration. The dividend percentage is applied using the tables contained in the dividend declaration.

**Please note:** The minimum dividend is \$5; no dividend will be awarded under this amount.

**6. Why do dividend percentages differ for policyholders of different premium size?**

Dividends are calculated as a percentage of standard premium. However, a customer's actual paid premium is subject to a discount based on premium size. The dividend percentages for different premium bands have the effect of backing out the premium discount and putting all policyholders on essentially the same footing.

**7. Why did SAIF select \$140 million as the total dividend amount?**

The Board of Directors, after consulting with SAIF's management and actuarial staff, determined that a dividend of \$140 million can reasonably be paid while still maintaining a surplus that protects the solvency of the Industrial Accident Fund.

**8. Why did SAIF select \$20 million as the safety performance dividend amount?**

SAIF has not paid a loss-sensitive dividend for many years. We wanted to introduce it as an incentive to reward customers for their efforts to improve safety and health. We expect that the safety performance dividend will become a more significant portion of any dividends declared in future years.

**9. How and when will dividends be distributed?**

Policyholders eligible for a dividend will receive a check in the mail. Checks are expected to be mailed during the week of October 17 to 21, 2016. In some rare instances, the entire dividend or a portion thereof may be applied to a premium balance. Call the SAIF collection section at 800.285.8525 if you have any questions about a dividend that was withheld in part or in its entirety as a result of a balance.

**10. Which policies will have their dividend applied to their account?**

Cancelled policies with a balance that is not in default as of 12:01 a.m. September 14 will have the dividend applied to the account balance on October 18. Some policies may have the full amount offset due to the size of the balance; others will have just a portion of the dividend applied and the difference refunded. Letters will be sent to all policyholders along with their checks. If any portion of the dividend was applied, that, too, will be explained in the letter.

Policies with a stay of collection due to a disputed premium audit balance will be mailed their dividend check. The stay of collection prohibits SAIF from attempting to collect the disputed balance, which includes applying the dividend. Policyholders will be contacted by the collection staff to explain that application of the dividend will reduce or eliminate the accrual of interest pending the final order. We will apply the dividend with the policyholder's permission, or on an approved exception basis.

Active policies may also have their dividend credited to the account by policyholder request.

**11. Can employers be told the specific amount of their individual dividend prior to when the checks are mailed?**

Yes. Agents, groups, and SAIF employees will have access to this information on September 26. Dividend information will be available to policyholders beginning October 10 in **Search Dividend** and **Policy Dividend** in Business Online. These screens will identify accounts that are eligible for a dividend and the amount of the dividend award. They also will show accounts that are not eligible for a dividend and explain why.

Until October 10, the dividend shown on the **Policy Dividend** screen is subject to adjustment for any balance on a cancelled policy that has not been defaulted, or by policyholder request. Policyholders should be told that “We anticipate the amount of your dividend check to be (give amount).”

**12. What if a policyholder asks for the dividend percentage?**

The dividend allocation schedule with dividend percentages by premium range can be disclosed to the policyholder. The eligible premium, policy period(s) included in the dividend, and the calculation will be visible online at **Policy Dividend**.

**13. Is there a limit to the amount of dividend a customer can receive for a particular policy year?**

Yes. The dividend cannot exceed 95 percent of the premium as of the dividend declaration date. For retrospectively rated policies, the dividend cannot exceed 95 percent of the estimated retrospective premium for that policy year.

**14. Will wrap-up subcontractors and leasing clients receive a dividend?**

No. Wrap-up subcontractors and leasing clients will not receive dividends. In both of these cases, premiums were paid to SAIF by the wrap-up owner/contractor and the leasing company as the policyholder; therefore, they will receive the dividend check. Note, however, that a wrap-up subcontractor may have a stand-alone policy with SAIF outside the wrap-up project that is dividend eligible.

**15. Will subaccount policies receive a dividend?**

No. All subaccount policies are the same legal entity. SAIF sets up subaccount policies to accommodate a policyholder request to keep separate payroll and premium by location. In this case, one dividend check will be issued to the principal policy based on the cumulative standard premium of all combined policies.

**16. Why did SAIF pay a dividend instead of lowering rates?**

Rates must be sufficient to pay the expected losses and expenses for the prospective period during which the rates are in effect. In order to lower prices, SAIF must be able to reasonably predict the sustainability of either lower expected losses or expenses, or sustained increases to surplus through investment earnings. SAIF’s actuaries at this time cannot make such a prediction; therefore, an unexpected and/or temporary increase to surplus may, at the discretion of SAIF’s Board of Directors, be distributed through dividends to policyholders.

If SAIF were to apply \$140 million from surplus to future pricing, two other issues would arise. First, it is unclear whether DCBS would approve pricing that, in some cases, would result in premiums that are less than the expected cost of claims.

Second, our customers have told us that they value stable, long-term pricing. A large price reduction could raise expectations of a permanent reduction in pricing. With so many factors influencing the size of SAIF's surplus, it would not be prudent to deliver a price reduction with no guarantee that it could be sustained.

**17. Will a policyholder get a dividend even if it has switched to another carrier or was insured by SAIF for only a portion of the year?**

Yes. If an employer meets the dividend eligibility criteria, it will receive a dividend even if it is no longer a SAIF policyholder.

**18. What happens if an employer paid an amount immediately before the dividend is applied to the account?**

The employer will receive an invoice showing a credit, which may be used to pay future premiums or other charges. If the employer requests a refund, SAIF will issue payment.

**19. What happens if a policyholder decides not to pay the current bill on time because they intend to use their dividend check to pay their bill?**

Interest will accrue on any overdue amounts as specified in ORS 656.560, which provides that interest at the rate of one percent per month, or fraction thereof, shall be added to the amount due, commencing with the first day of the month following the date when payment became due.

Employer payroll reports are due on or before the 15th day of the month following the reporting period. Payments that are required with the reports are also due on the 15th day of the month. Interest shall be assessed if the payment is not received prior to the first of the month following the stated due date.

Therefore, any premium payment or payroll report with a premium payment due in September 2016 will be charged one percent interest if the payment is not received before October 1, 2016. Policyholders may contact their billing representative with any questions or concerns regarding their billing, or request to have their dividend be applied to their premium payment.

The collection staff will contact policyholders who are due to cancel for nonpayment a few days prior to the check print date requesting their permission to apply the dividend to their account balance. With their permission, the dividend will be applied to their policy. This proactive step prevents policies from being cancelled.

Payments and payroll reports may be filed online (through Business Online) at [\*\*saif.com\*\*](http://saif.com).

**20. What happens to the dividend if a policyholder is in bankruptcy?**

Please refer all calls involving policyholders in bankruptcy to Mark Hallock, credit underwriter, 503.373.8472 (ext. 8472) or Trinia Eustis, collection manager, 503.373.8786 (ext. 8786).

**21. Is the amount of the dividend considered income?**

SAIF cannot provide advice about how a policyholder should treat a dividend for tax purposes. Employers should consult their tax professional.

**22. Who is authorized to receive information regarding a policyholder's dividend?**

Dividend information may be given to anyone in the company who holds a position of authority, such as proprietor, partner, owner, or controller. The employer's insurance agent-of-record as indicated by SAIF's computer records also is authorized to receive dividend information.

**23. What is the procedure if a request to change the payee name is received before the dividend checks are printed?**

Please call the SAIF cashier's office at 503.373.8720.

**24. What is the procedure for a dividend check that has been lost or needs to be reissued?**

Requests to reissue a check under a different name will require approval by SAIF's collection section. The requestor may be required to complete an affidavit and indemnity agreement. Please call the SAIF cashier's office at 503.373.8720.

**If you have additional questions, please visit Business Online or contact Marilyn Cyphers, corporate agency program, 971.242.5721.**