



THE STATE BAR OF CALIFORNIA

FINANCE

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MEMORANDUM

DATE: February 23, 2009
TO: Board of Governors
FROM: Peggy Van Horn, Chief Financial Officer
SUBJECT: Status of Claims Activities – Client Security Fund
Through the Year Ended December 31, 2008

Attached for your review are a series of reports for the claims activities within the Client Security Fund for the year ended December 31, 2008. These reports include:

- Claims Activity for the year ended December 31, 2008
- Claims Aging Report
- Cumulative Claims Aging Report
- 24 Month Rolling Average of Claims Paid
- Analysis of New Claims Paid, Rejected or Withdrawn

For the year ended 2008, 825 new claims in the amount of \$11.29 million were filed, compared to 1,013 claims in the amount of \$12.9 million were filed in 2007. Based on the current claims payout ratio of 41%, the estimated outstanding claims liability is approximately \$4.8 million. Total cash and investments available to address this liability at the end of December 2008 are \$10.6 million, compared to \$9.5 million in 2007.

THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
STATUS ON CLAIMS ACTIVITIES

December 31, 2008

YEAR TO DATE ACTIVITIES

| | \$1 - 2500 | | \$2,501 - 5,000 | | \$5,001 - 10,000 | | \$10,001 - 25,000 | | \$25,001 - 49,999 | | \$50,000 | | TOTAL | |
|--|---------------|-----------------------|--------------------|-----------------------|---------------------|-----------------------|----------------------|---------------------|----------------------|---------------------|----------|-----------------------|---------|-----------------------|
| | # | Amount | # | Amount | # | Amount | # | Amount | # | Amount | # | Amount | # | Amount |
| Prior Years' Claims | 218 | 331,974.21 | 153 | 622,818.16 | 126 | 1,022,061.02 | 113 | 1,997,769.08 | 56 | 1,849,017.63 | 121 | 6,095,000.00 | 787 | 11,918,640.10 |
| New Claims '08 | 214 | \$329,860.21 | 209 | \$841,590.98 | 134 | \$1,029,997.36 | 103 | \$1,701,106.25 | 62 | \$2,237,529.15 | 103 | \$5,150,000.00 | 825 | 11,290,083.95 |
| Claims Paid '08 | (142) | (\$194,679.90) | (128) | (\$440,300.26) | (77) | (\$485,969.82) | (55) | (\$682,349.24) | (20) | (\$467,677.21) | (57) | (\$2,367,295.14) | (479) | (4,638,271.57) |
| Rejected Claims '08 | (10) | (32,718.62) | (14) | (125,694.88) | (6) | (\$155,896.12) | (9) | (365,141.54) | (8) | (489,722.10) | (10) | (1,027,704.86) | (57) | (2,196,878.12) |
| Withdrawn Claims '08 | (120) | <u>(\$183,777.57)</u> | (84) | <u>(\$359,330.51)</u> | (62) | <u>(\$490,072.11)</u> | (34) | <u>(590,948.63)</u> | (27) | <u>(927,904.14)</u> | (39) | <u>(1,950,000.00)</u> | (366) | <u>(4,502,032.96)</u> |
| Claims Outstanding | 160 | <u>250,658.33</u> | 136 | <u>539,083.49</u> | 115 | <u>920,120.33</u> | 118 | <u>2,060,435.92</u> | 63 | <u>2,201,243.33</u> | 118 | <u>5,900,000.00</u> | 710 | <u>11,871,541.40</u> |
| New claims % to total | 25.94% | 2.92% | 25.33% | 7.45% | 16.24% | 9.12% | 12.48% | 15.07% | 7.52% | 19.82% | 12.48% | 45.62% | 100.00% | 100.00% |
| Claims paid % to total | 29.65% | 4.20% | 26.72% | 9.49% | 16.08% | 10.48% | 11.48% | 14.71% | 4.18% | 10.08% | 11.90% | 51.04% | 100.00% | 100.00% |
| Claims rejected or withdrawn % to total | 30.73% | 3.23% | 23.17% | 7.24% | 16.08% | 9.64% | 10.17% | 14.27% | 8.27% | 21.16% | 11.58% | 44.45% | 100.00% | 100.00% |
| Claims outstanding % to total | 22.54% | 2.11% | 19.15% | 4.54% | 16.20% | 7.75% | 16.62% | 17.36% | 8.87% | 18.54% | 16.62% | 49.70% | 100.00% | 100.00% |

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
CLAIMS AGING REPORT**

As of December 31, 2008

(By Year)

| Year Claim Filed | Gross Claims Prior Year | | Current Year | | Claims Paid | | Claims Rejected or Withdrawn | | Total Claims Processed | | Claims Outstanding | |
|------------------------|----------------------------|-----------------------------|-------------------|-----------------------------|---------------------|------------------------------|------------------------------------|------------------------------|------------------------------|-------------------------------|-----------------------|-----------------------------|
| | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT |
| 2000 | 3 | 10,150.00 | | | 0 | 15,750.00 | (3) | (25,900.00) | (3) | (10,150.00) | 0 | 0.00 |
| 2001 | 8 | 18,002.00 | | | 0 | 0.00 | (8) | (18,002.00) | (8) | (18,002.00) | 0 | 0.00 |
| 2002 | 13 | 172,789.74 | | | (1) | (2,666.66) | (11) | (120,123.08) | (12) | (122,789.74) | 1 | 50,000.00 |
| 2003 | 20 | 302,079.67 | | | (3) | (9,100.00) | (14) | (235,079.67) | (17) | (244,179.67) | 3 | 57,900.00 |
| 2004 | 17 | 466,060.61 | | | (4) | (12,004.17) | (5) | (112,886.44) | (9) | (124,890.61) | 8 | 341,170.00 |
| 2005 | 62 | 1,085,315.68 | | | (12) | (125,279.21) | (21) | (442,313.35) | (33) | (567,592.56) | 29 | 517,723.12 |
| 2006 | 154 | 2,095,826.55 | | | (37) | (272,123.04) | (50) | (780,628.72) | (87) | (1,052,751.76) | 67 | 1,043,074.79 |
| 2007 | 510 | 7,768,415.85 | | | (211) | (2,514,459.98) | (118) | (2,229,568.93) | (329) | (4,744,028.91) | 181 | 3,024,386.94 |
| 2008 | | | 825 | 11,290,083.95 | (211) | (1,718,388.51) | (193) | (2,734,408.89) | (404) | (4,452,797.40) | 421 | 6,837,286.55 |
| TOTAL | <u>787</u> | <u>11,918,640.10</u> | <u>825</u> | <u>11,290,083.95</u> | <u>(479)</u> | <u>(4,638,271.57)</u> | <u>(423)</u> | <u>(6,698,911.08)</u> | <u>(902)</u> | <u>(11,337,182.65)</u> | <u>710</u> | <u>11,871,541.40</u> |
| Average | | \$15,144 | | \$13,685 | | \$9,683 | | \$15,837 | | \$12,569 | | \$16,720 |

Estimated Claim Payout Ratio: **40.68%**
Estimated Claim Liability: **\$4,829,343**

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
CUMULATIVE CLAIMS AGING REPORT**

As of **December 31, 2008**

(Cumulative)

YEAR TO DATE

| Year Claim Filed | Gross Claims Prior Years | | Current Year | | Claims Paid | | Claims Rejected or Withdrawn | | Total Claims Processed | | Claims Outstanding | |
|------------------------|-----------------------------|---------------|-----------------|----------------------|----------------|-----------------------|------------------------------------|-----------------------|------------------------------|------------------------|-----------------------|----------------------|
| | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT | # | AMOUNT |
| 1993-2000 | 3 | 10,150.00 | 0 | | 0 | 15,750.00 | (3) | (25,900.00) | (3) | (10,150.00) | 0 | 0.00 |
| 1993-2001 | 11 | 28,152.00 | 0 | | 0 | 15,750.00 | (11) | (43,902.00) | (11) | (28,152.00) | 0 | 0.00 |
| 1993-2002 | 24 | 200,941.74 | | | (1) | 13,083.34 | (22) | (164,025.08) | (23) | (150,941.74) | 1 | 50,000.00 |
| 1993-2003 | 44 | 503,021.41 | | | (4) | 3,983.34 | (36) | (399,104.75) | (40) | (395,121.41) | 4 | 107,900.00 |
| 1993-2004 | 61 | 969,082.02 | | | (8) | (8,020.83) | (41) | (511,991.19) | (49) | (520,012.02) | 12 | 449,070.00 |
| 1993-2005 | 123 | 2,054,397.70 | | | (20) | (133,300.04) | (62) | (954,304.54) | (82) | (1,087,604.58) | 41 | 966,793.12 |
| 1993-2006 | 277 | 4,150,224.25 | | | (57) | (405,423.08) | (112) | (1,734,933.26) | (169) | (2,140,356.34) | 108 | 2,009,867.91 |
| 1993-2007 | 787 | 11,918,640.10 | | | (268) | (2,919,883.06) | (230) | (3,964,502.19) | (498) | (6,884,385.25) | 289 | 5,034,254.85 |
| 1993-2008 | | | 825 | 11,290,083.95 | (479) | (4,638,271.57) | (423) | (6,698,911.08) | (902) | (11,337,182.65) | 710 | 11,871,541.40 |
| Claims Pending on | December 31, 2008 | | | 710 | | | | | | | | |

Net Asset in Client Security Fund :

| | | |
|-------|------------|------------------|
| As of | 12/31/2007 | 2,990,889 |
| As of | 12/31/2008 | 4,304,519 |

*The number of rejected claims only reflects those claims that were 100% rejected or withdrawn.

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND**

**24 MONTH ROLLING AVERAGE
OF CLAIMS PAID RATIO**

Period of: JAN.07 through DEC.08

PAID CLAIMS

| Month Covered | Amount | Mo. Ave. Payout Ratio | 24 Mo. Rolling Average | Cumulative Paid Total |
|---------------|-----------|-----------------------|------------------------|-----------------------|
| JAN.07 | 108,661 | 43.50% | | 108,661 |
| FEB.07 | 60,241 | 29.71% | | 168,902 |
| MAR.07 | 369,586 | 28.46% | | 538,488 |
| APR.07 | 149,671 | 24.69% | | 688,159 |
| MAY.07 | 383,458 | 47.72% | | 1,071,617 |
| JUN.07 | 179,873 | 32.78% | | 1,251,490 |
| JUL.07 | 391,620 | 38.39% | | 1,643,110 |
| AUG.07 | 305,314 | 42.65% | | 1,948,424 |
| SEP.07 | 328,431 | 75.35% | | 2,276,855 |
| OCT.07 | 137,120 | 16.34% | | 2,413,975 |
| NOV.07 | 416,361 | 40.31% | | 2,830,336 |
| DEC.07 | 1,521,774 | 50.53% | | 4,352,110 |
| JAN.08 | 101,143 | 46.12% | | 4,453,253 |
| FEB.08 | 26,499 | 30.51% | | 4,479,752 |
| MAR.08 | 198,899 | 39.60% | | 4,678,651 |
| APR.08 | 781,549 | 59.96% | | 5,460,200 |
| MAY.08 | 184,594 | 13.48% | | 5,644,794 |
| JUN.08 | 377,723 | 56.36% | | 6,022,517 |
| JUL.08 | 636,186 | 43.28% | | 6,658,703 |
| AUG.08 | 299,932 | 28.67% | | 6,958,635 |
| SEP.08 | 626,516 | 46.72% | | 7,585,151 |
| OCT.08 | 380,744 | 50.26% | | 7,965,895 |
| NOV.08 | 78,814 | 19.99% | | 8,044,709 |
| DEC.08 | 945,674 | 43.44% | | 8,990,383 |

8,990,383

40.68%

THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
ANALYSIS OF NEW CLAIMS PAID, REJECTED
OR WITHDRAWN, ESTIMATED
CLAIMS LIABILITY PER ACTIVE
ATTORNEY

December 31, 2008

| | <u>1st Qtr</u> | <u>2nd Qtr</u> | <u>3rd Qtr</u> | <u>4th Qtr</u> |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Beginning Balance | 787 | 929 | 904 | 870 |
| Add: Reinstated Claims | | | | |
| New Claims | 211 | 223 | 213 | 178 |
| Less: Paid / Rejected or Withdrawn | 69 | 248 | 247 | 338 |
| TOTAL | 929 | 904 | 870 | 710 |
| CLAIMS OUTSTANDING AMT. | 13,438,625 | 13,105,040 | 12,857,325 | 11,871,541 |
| # Of Active Attorneys | 159,747 | 160,406 | 161,176 | 161,729 |
| Cost Per Active Attorney | \$84 | \$82 | \$80 | \$73 |
| ESTIMATED CLAIMS LIAB. | | | | |
| Claims Payout Ratio | 43.42% | 42.86% | 42.71% | 40.68% |
| Estimated Claim Amount * | \$5,835,051 | \$5,616,820 | \$5,491,363 | \$4,829,343 |
| # of Active Attorneys | 159,747 | 160,406 | 161,176 | 161,729 |
| Cost per Active Attorney | \$37 | \$35 | \$34 | \$30 |
| CLAIM ACTIVITIES IN %: | | | | |
| NEW CLAIMS - YTD | | | | |
| 1 - 2,500 | 3.56% | 3.11% | 2.64% | 2.92% |
| 2,501 - 5,000 | 9.16% | 8.27% | 7.38% | 7.45% |
| 5,001 - 10,000 | 14.34% | 10.53% | 9.65% | 9.12% |
| 10,001 - 25,000 | 21.13% | 19.08% | 14.08% | 15.07% |
| 25,001 - 49,999 | 20.39% | 19.16% | 19.33% | 19.82% |
| 50,000 | 31.42% | 39.85% | 46.92% | 45.62% |
| CLAIMS PAID - YTD | | | | |
| 1 - 2,500 | 3.02% | 3.29% | 3.43% | 4.20% |
| 2,501 - 5,000 | 7.87% | 7.64% | 7.44% | 9.49% |
| 5,001 - 10,000 | 5.78% | 8.37% | 7.25% | 10.48% |
| 10,001 - 25,000 | 30.71% | 17.28% | 15.81% | 14.71% |
| 25,001 - 49,999 | 0.00% | 8.32% | 10.31% | 10.08% |
| 50,000 | 52.62% | 55.09% | 55.75% | 51.04% |
| REJ./WDRAWN - YTD | | | | |
| 1 - 2,500 | 3.92% | 3.37% | 3.09% | 3.23% |
| 2,501 - 5,000 | 7.48% | 6.75% | 5.99% | 7.24% |
| 5,001 - 10,000 | 12.90% | 11.54% | 8.40% | 9.64% |
| 10,001 - 25,000 | 31.47% | 17.83% | 14.16% | 14.27% |
| 25,001 - 49,999 | 7.26% | 19.02% | 19.31% | 21.16% |
| 50,000 | 36.97% | 41.50% | 49.05% | 44.45% |
| CLAIMS O/S-CUM. - YTD | | | | |
| 1 - 2,500 | 2.85% | 2.72% | 2.39% | 2.11% |
| 2,501 - 5,000 | 5.77% | 5.87% | 5.89% | 4.54% |
| 5,001 - 10,000 | 9.53% | 8.87% | 9.72% | 7.75% |
| 10,001 - 25,000 | 16.74% | 17.51% | 16.10% | 17.36% |
| 25,001 - 49,999 | 17.12% | 17.33% | 18.08% | 18.54% |
| 50,000 | 48.00% | 47.69% | 47.83% | 49.70% |
| NET ASSET, END OF PERIOD | \$7,853,062 | \$6,801,506 | \$5,084,642 | \$4,304,519 |

*Based upon 24 month rolling weighted average of claims paid ratio (See page 6)