Washington State Department of
Labor & Industries

State of Washington Industrial Insurance Fund Statutory Financial Information Report

For the Fiscal Years Ended June 30, 2020 and 2019

State of Washington Industrial Insurance Fund
Statutory Financial Information Report
For the Fiscal Years Ended June 30, 2020 and 2019

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Labor & Industries

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Washington State Department of
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Introductory Section

Washington State Department of
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STATE OF WASHINGTON

DEPARTMENT OF LABOR AND INDUSTRIES

P.O. Box 44000 • Olympia, Washington 98504-4000

December 14, 2020

The Honorable Jay Inslee, Governor
Honorable Members of the Legislature
Director of the Office of Financial Management
Washington State Citizens
Olympia, Washington

RE: Statutory Financial Information Report

The Revised Code of Washington 51.44.115 requires the Department of Labor and Industries (L&I) to publish a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) in conformity with statutory accounting practices and principles promulgated by the National Association of Insurance Commissioners and the practices permitted by the state of Washington within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2020.

L&I is fully responsible for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The independent certified public accounting firm, Eide Bailly, LLP, has issued an unmodified ("clean") opinion on the Regulatory Basis of Accounting utilized in the Statutory Financial Information Report for the fiscal years ended June 30, 2020 and 2019. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the Combined Statutory Financial Statements. The MD&A complements the information provided in this letter of transmittal and should be read together with it.

MAJOR INITIATIVES

L&I has implemented a number of major initiatives during the last several years that have significantly improved the way we partner with employers, employees, and providers to help keep Washington safe and working. Each of these changes has helped ensure that injured workers get quality return-to-work services and medical treatment and, therefore, stay on the job, which has reduced disability and saved millions of dollars.

L&I continues to build on the agency-wide initiatives launched in the last few years to align our people, processes, and technology, with a focus on meeting the needs of customers. Progress was made in the following areas during fiscal year 2020:

1. **Workers' Compensation Systems Modernization** - L&I is working to replace our antiquated workers' compensation computer systems with a commercial off-the-shelf (COTS) product. We also expect to select a vendor partner in 2022 to help us implement the new solution. The program team continues its foundational work and recently added a *business readiness* project team to prepare L&I employees for technology and process changes from a new COTS solution.

2. **Vocational Recovery** - L&I created a culture focused on vocational recovery of injured workers that engages all parties in preventing work disability, while improving return-to-work outcomes. L&I collaborated with business and labor representatives, and an advisory group of vocational rehabilitation firm owners and managers, to accomplish this significant shift for the State Fund. This partnership developed a worker-centric approach to vocational services – now, the first services workers receive are from vocational rehabilitation counselors (VRCs). L&I recently implemented a process change so that vocational referrals are made directly to vocational firms, and firms can distribute referrals to their most appropriate VRC staff member. L&I continues to work with its advisory group to develop elements of quality assurance plans and validation processes that will be required of all firms in order to receive State Fund referrals. The expected completion date is by the end of 2021.

3. **Provider Credentialing** - A partnership with the Health Care Authority (HCA) will replace L&I's existing medical provider credentialing system with HCA's existing ProviderOne application. L&I has sent out communications to the medical and service providers letting them know about the new system. In addition, in order to prepare for the switchover, L&I has continued to detect and correct inaccurate, incomplete, or corrupt data in certain systems. This is expected to be completed in early 2022.

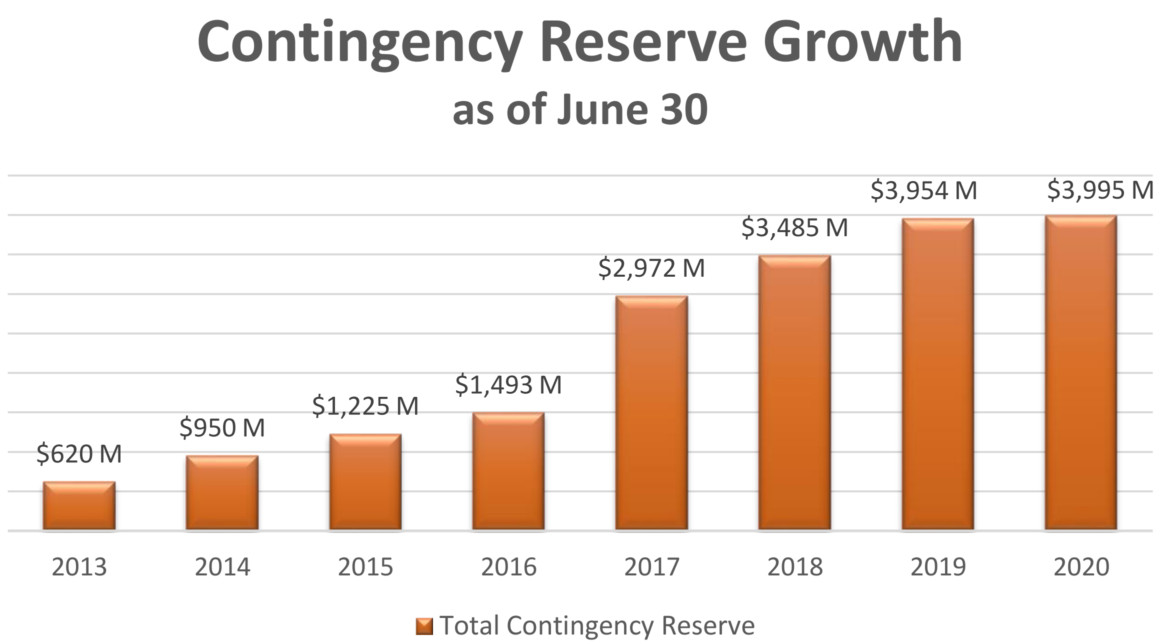
4. **Website Redesign** – L&I launched the all-new Lni.wa.gov website in November 2019. This modern website makes it easier for customers to do business with us. The project team is currently working on continuous improvement efforts, including adding look-up tools and calculators, and upgrading the content management system to improve the site's performance.

5. **Update to Overtime Rules -** L&I has updated its rules regarding Washington employees who are exempt from overtime and other protections of the State Minimum Wage Act. The new rules, which took effect July 1, 2020, simplify the job duties an employee must perform to be classified as exempt. The rules also now use a multiplier for the state minimum wage to determine the minimum salary threshold an exempt employee must earn. While the Employment Standards Program spent the first half of calendar year 2020

educating employers and workers about the upcoming changes, the final portion of the year will be spent explaining the new salary thresholds that take effect January 1, 2021.

The “contingency reserve” refers to any surplus remaining (similar to net position) on the statutory financial statements for the Industrial Insurance Fund, prepared in accordance with the National Association of Insurance Commissioners’ statutory accounting principles. The contingency reserve is viewed as the financial resources available to ensure stable premium rates and absorb fluctuations in investment values.

In order to ensure premium rate stability, the Director of Labor and Industries and the Workers’ Compensation Finance Committee are currently analyzing the appropriate contingency reserve target as a percent of total liabilities for the Workers’ Compensation Fund.



PROFILE OF THE INDUSTRIAL INSURANCE FUND

The Industrial Insurance Fund is part of the Workers’ Compensation Program and is made up of the Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts. The activities within the Industrial Insurance Fund are financed and operated in a manner similar to private business entities. Premiums collected from employers and workers and investment earnings finance the cost of providing medical coverage, time-loss payments, disability benefits, Stay at Work reimbursements, and structured settlements. L&I prepares a Statutory Financial Information Report for the Washington State Industrial Insurance Fund of the Workers’ Compensation Program annually, based on a fiscal year beginning July 1 and ending June 30.

L&I, an agency of Washington State, is responsible for managing the state’s workers’ compensation system. The Industrial Insurance Fund not only collects premiums and pays benefits to injured workers, but also funds the following: Insurance Services; Division of Occupational

Safety and Health; Safety and Health Assessment and Research for Prevention; Apprenticeship; and Employment Standards and Workplace Rights.

L&I's headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. In addition, there are 18 L&I field offices across Washington State that enable us to respond to specific needs in different localities.

The workers' compensation system has existed in Washington State for 109 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund, managed by L&I, until 1971, when the Legislature created an option for qualified employers to self-insure and expanded the scope of coverage to virtually all workers. The Self-Insurance Program allows employers with sufficient financial resources to pay the cost of claims for their injured workers from their own funds and assume significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund. There are currently 351 active employers who are self-insured, covering close to one-quarter of all workers in Washington.

The State Fund offers an optional financial incentive program, called Retrospective Rating, to help qualifying employers reduce their industrial insurance costs through safety and return-to-work efforts. Employers who join the Retrospective Rating Program receive partial refunds if their claim costs are lower than expected, but pay additional premiums if their claim costs are higher than expected.

The State Fund Workers' Compensation Program covers approximately 184,000 employers and 2.61 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2020, including both the employer and worker portions, were $2.1 billion. More than 86,000 claims were accepted in fiscal year 2020; about 83 percent of these claims were for medical treatment only and received no compensation for time off work or disability-related benefits. A monthly average of 35,683 claims were active during fiscal year 2020, and 14,268 of these claims were receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In fiscal year 2020, vocational rehabilitation retraining plans were completed by 248 injured workers who would not otherwise have been able to return to any type of work after injury.

ACKNOWLEDGEMENTS

As in the work and service we provide every day, this Statutory Financial Information Report represents our commitment to maintain excellence in financial reporting, and the financial statements are in conformance with the highest standards of financial accountability.

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of L&I, the Washington State Office of Financial Management, and the Washington State Investment Board.

Sincerely,

Joel Sacks
Director

Randi Warick
Deputy Director for
Strategy and Finance

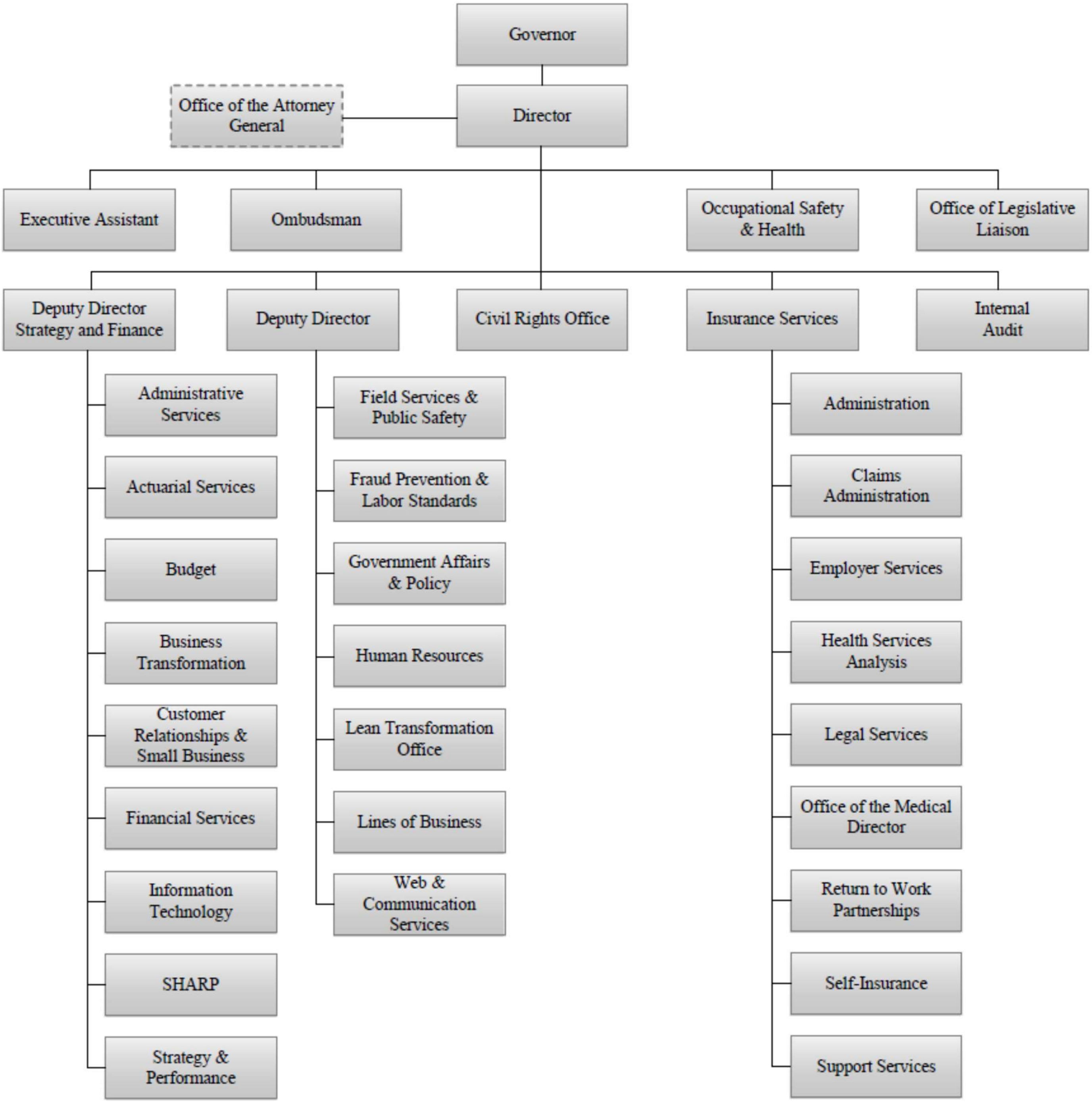
Victoria Kennedy
Assistant Director for
Insurance Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart
June 30, 2020



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Financial Section

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Mr. Joel Sacks, Director
Washington State Department of Labor and Industries
Industrial Insurance Fund
Olympia, Washington

Report on the Financial Statements
We have audited the accompanying combined statutory financial statements (financial statements) of Washington State Department of Labor and Industries Industrial Insurance Fund (the Fund), which comprise the statutory statement of admitted assets, liabilities, and contingency reserve as of June 30, 2020 and 2019, and the related statutory statements of operations and changes in contingency reserve, and statutory cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Department of the State of Washington. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note 1 to the financial statements, the financial statements are prepared using accounting practices prescribed or permitted by the Insurance Department of the State of Washington, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Fund as of June 30, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting
In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and contingency reserve of the Fund as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplementary information included in the *Supplemental Schedule of Investment Risk Interrogatories*, the *Summary Investment Schedule*, and the *Supplemental Reinsurance Interrogatories* are required to be presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the financial statements. Such information included in the schedules referred to above is the responsibility of management, is presented for purposes of additional analysis and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements. The *Introductory Section, Management's Discussion and Analysis, the Statement of Actuarial Opinion Section, and Schedule of Undiscounted Claims Development* are presented for purposes of additional analysis and are not a required part of the financial statements.

The *Schedule of Undiscounted Claims Development* is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The information contained in the *Introductory Section, Management Discussion and Analysis and the Statement of Actuarial Opinion sections* have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Fargo, North Dakota
December 14, 2020

Washington State Department of
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Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington Industrial Insurance Fund's (State Fund) Statutory Financial Information Report provides an overview of the State Fund's financial performance for the fiscal years ended June 30, 2020 and 2019. The information included here should be considered along with the transmittal letter, which can be found on pages 3-7 of this report, and the accompanying Combined Statutory Financial Statements and Notes to the Combined Statutory Financial Statements, which follow this narrative.

History and Information that Make the State of Washington's Industrial Insurance Fund Unique

Washington was one of the first states to enact workers' compensation laws. The state of Washington's Workmen's Compensation Act established the industrial insurance system in 1911, covering only extremely hazardous works. Washington's workers' compensation insurance was provided solely through the State Fund until 1971, when the system underwent a major overhaul. It was then that the Legislature expanded the scope of coverage to virtually all workers and created an option for qualified employers to self-insure, thus paying the cost of claims for their injured workers from their own funds and also assuming responsibility for their own claims administration.

Washington State, through Title 51 of the Revised Code of Washington (RCW), requires all employers, unless exempted, to secure coverage for job-related injuries and illnesses, either by paying insurance premiums to the Industrial Insurance Fund or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations. The state of Washington's Department of Labor and Industries (L&I) operates as an exclusive workers' compensation fund and is one of only four remaining states in the United States that does so.

Washington employers and workers agreed in the 1930s to base premiums on the workers' exposure to risk (hours on the job). In addition, Washington requires both the employers and workers to contribute to the cost of Medical Aid premiums.

Under statute RCW 51.16.035, L&I is required to charge the lowest possible premium rates while maintaining solvency of the system. L&I is also required to limit rate fluctuations, follow recognized insurance principles, and stimulate and encourage accident prevention.

Size and Scope of Washington's Industrial Insurance Fund

The following information provides some context on the size and scope of the Industrial Insurance Fund and how it changed between fiscal years 2019 and 2020. The Industrial Insurance Fund is the ninth largest workers' compensation program in the nation, based on 2019 net premiums written, and the largest of the exclusive state funds.

Statistics at a Glance

	Fiscal Year 2020	Fiscal Year 2019
Employers insured*	184,000	182,000
Workers covered*	2,600,000	2,630,000
Hours reported**	3,963,000,000	4,008,000,000
Premiums assessed (employers' portion)**	$ 1,669,000,000	$ 1,787,000,000
Premiums assessed (workers' portion)**	$ 386,000,000	$ 414,000,000
Benefits incurred expense*	$ 2,399,615,000	$ 1,706,436,000
Number of claims filed	99,984	111,837
Total days paid for lost work	5,505,732	5,519,390

Note: The data above is a snapshot as of September following the fiscal year-end.
* Rounded to the nearest thousand
** Rounded to the nearest million

In fiscal year 2020, there were 99,984 claims filed and 86,316 claims accepted. Among the accepted claims, 72,000 of them were medical-only claims. There were 44 fatal pensions awarded in fiscal year 2020. Total premiums assessed from both employers and workers during the current fiscal year were approximately $2,055 million. The business or industry group that filed the greatest number of claims was restaurants and taverns. The most common injuries were traumatic injuries to muscles, tendons, ligaments, joints, etc., of the back.

Overview of the Financial Statements

The accompanying Combined Statutory Financial Statements report the financial position and results of operations for four of the seven Workers' Compensation Program Accounts: the Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts. These four accounts represent the Workers' Compensation Program Basic Plan, also known as the Industrial Insurance Fund.

This discussion and analysis serves as an introduction to the Industrial Insurance Fund's financial statements, which consist of the following components:

The Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve provides information about the Industrial Insurance Fund's admitted assets and liabilities and reflects the contingency reserve as of June 30, 2020 and 2019. The Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve can be found on page 33 of this report.

The Combined Statutory Statement of Operations and Changes in Contingency Reserve shows how the Industrial Insurance Fund's contingency reserve changed during the fiscal year. It presents revenues and expenses for fiscal years 2020 and 2019. The Combined Statutory Statement of Operations and Changes in Contingency Reserve can be found on page 34 of this report.

The Combined Statutory Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash, cash equivalents and restricted cash during fiscal years 2020 and 2019. The Combined Statutory Statement of Cash Flows can be found on page 35 of this report.

The Notes to the Combined Statutory Financial Statements are an integral part of the financial statements and are essential to a full understanding of the Industrial Insurance Fund's financial position and results of operations presented in the financial statements. The Notes to the Combined Statutory Financial Statements can be found on pages 39-88 of this report.

These financial statements have been prepared in conformity with the Statutory Accounting Principles (SAP), as promulgated by the National Association of Insurance Commissioners (NAIC) and the practices prescribed or permitted by the state of Washington. The main purpose of SAP-based information is to determine solvency. *Solvency* is defined as "the availability of the Industrial Insurance Fund's admitted assets to satisfy its obligations to injured workers and beneficiaries." The Notes to the Combined Statutory Financial Statements provide additional information that is essential to a full understanding of the data provided in the Combined Statutory Financial Statements.

Elimination for Combined Financial Statements

It is important to the readers of the Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve that we include details of each account, report the true contingency reserve balance, and show compliance with the statutory Pension Reserve Account transfer requirement. Each year, the Pension Reserve Account's assets and liabilities are evaluated, and transfers are made to or from the Accident and Second Injury Accounts, as required by law. Self-insured employers also pay their portion of deficiencies or receive their portion of the excess over the required reserve. In fiscal year 2020, the receivable and the accrued liability of $20.7 million resulting from the transfer to the Accident Account from the Pension Reserve Account was eliminated in order to arrive at an accurate combined Industrial Insurance Fund balance.

Financial Position

The Industrial Insurance Fund's financial position at June 30, 2020 and 2019 was as follows:

Summary of Financial Position
As of June 30, 2020 and 2019
(dollars in thousands)

	June 30, 2020	June 30, 2019	$ Change	% Change
Admitted Assets				
Fixed income investments	$ 14,692,477	$ 14,632,619	$ 59,858	0.4%
Equities investments	3,347,867	2,809,079	538,788	19.2%
Real estate investments	11,595	-	11,595	N/A
Receivable for securities	-	1,750	(1,750)	(100.0%)
Total Investments	18,051,939	17,443,448	608,491	3.5%
Securities lending collateral	-	58,469	(58,469)	(100.0%)
Interest receivable	115,328	116,471	(1,143)	(1.0%)
Cash, cash equivalents and restricted cash	428,573	164,506	264,067	160.5%
Premiums receivable, net	497,610	548,413	(50,803)	(9.3%)
Other assets	93,304	80,588	12,716	15.8%
Total Admitted Assets	$ 19,186,754	$ 18,411,895	$ 774,859	4.2%
Liabilities and Contingency Reserve				
Benefit liabilities	$ 13,893,986	$ 13,163,053	$ 730,933	5.6%
Claims administration liabilities	860,620	803,734	56,886	7.1%
Retrospective rating adjustments	170,028	174,640	(4,612)	(2.6%)
OPEB liabilities	132,237	116,095	16,142	13.9%
Other liabilities	134,950	141,628	(6,678)	(4.7%)
Collateral from securities lending activities	-	58,469	(58,469)	(100.0%)
Total Liabilities	15,191,821	14,457,619	734,202	5.1%
Restricted Contingency Reserve	2,350,426	2,230,386	120,040	5.4%
Unrestricted Contingency Reserve	1,644,507	1,723,890	(79,383)	(4.6%)
Total Liabilities and Contingency	$ 19,186,754	$ 18,411,895	$ 774,859	4.2%

Total admitted assets of $19,187 million increased by $775 million, or 4.2 percent, as compared to the end of fiscal year 2019, primarily due to increases of $608 million in total investments and $264 million in cash, cash equivalents and restricted cash, partially offset by reductions in premiums receivable of $51 million and securities lending collateral of $58 million.

The most significant changes in the investment balances are from increases of $60 million in fixed income investments and $539 million in equities.

- Cash collected from operations and net investment income received were reinvested within the fixed income portfolio.

- Equities increased $539 million during the fiscal year mainly resulting from increases in the stock market and the rebalancing of the investment portfolio.

Cash, cash equivalents and restricted cash fluctuate based on investment activities and cash needs.

Premium receivables decreased compared to June 30, 2019, as a result of premium rate decreases. Both the Accident Account and Medical Aid Account premium rates decreased by 7.5 percent, effective January 1, 2019, and another three percent on January 1, 2020. Premium receivables estimates also decreased as a result of the COVID-19 pandemic.

Both assets and liabilities from securities lending activities decreased by $58.5 million as compared to June 30, 2019. There was no cash collateral held related to securities lending transactions for the period ending June 30, 2020. Securities lending balances fluctuate based on borrower demand. Additional information on securities lending collateral is included in Note 11 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities of this report.

Benefit liabilities increased $731 million, or 5.6 percent, to $13,894 million during fiscal year 2020, as shown by the following table:

Benefit Liabilities
(in thousands)

	Fiscal Year 2020	Fiscal Year 2019
Benefit liabilities, beginning	$ 13,163,053	$ 13,091,808
New liabilities incurred, current year	1,727,318	1,599,973
Development on prior years		
Mixed discount accretion	361,713	416,815
Other development on prior liabilities	215,719	(316,733)
Change in discount rate*	94,865	6,381
Claim payments	(1,668,682)	(1,635,191)
Change in benefit liabilities	730,933	71,245
Benefit liabilities, ending	$ 13,893,986	$ 13,163,053

* Includes the non-pension discount rate change from 1.5 percent to 1.0 percent (State Fund) and 6.0 percent to 5.9 percent (Self-Insurance Program) in fiscal year 2020

It is expected that benefit liabilities will change every year due to normal activities, such as adding the current accident year liabilities, discounting existing liabilities, and paying claims. These normal activities increased benefit liabilities by $444 million over the prior year. Unfavorable development from new information on previously estimated liabilities and decreasing the non-pension discount rate also increased benefit liabilities by $286 million. The Accident Account benefit liabilities were higher due to increasing duration, increasing compensation rates for time-loss claims, and an increase in the number of structured settlements. This was partially offset by a reduction in claim frequency for total permanent disability claims and fewer permanent partial disability awards. The Medical Aid Account's net unfavorable development mainly resulted from higher than expected number of replacement hearing aids and the number of initial or first hearing aids has been increasing throughout the fiscal year. This caused an increase to the estimated number of ultimate hearing loss claims for most accident quarters, which resulted in higher projected future payments.

The Industrial Insurance Fund discounts benefit and claims administration expense reserves to reflect the time value of money. The discount rate for non-pension (Accident and Medical Aid Accounts) liabilities is based on the twenty-year U.S Treasury yield because this benchmark is closest to the Industrial Insurance Fund's liability duration. Specifically, the non-pension discount rate is based upon a benchmark rate, the five-year average of the twenty-year U.S. Treasury yield, less a risk adjustment, and then rounded to the nearest half percent. The risk adjustment is two percentage points when the benchmark rate is over four percent and half the benchmark rate when the benchmark is under four percent. The five-year average is 2.46 percent as of June 30, 2020, so the indicated non-pension discount rate is one percent. The impact of changing the discount rate from 1.5 percent to 1.0 percent increased the Accident and Medical Aid Accounts benefit liabilities by $107.1 million and $2.0 million, respectively. The last time L&I changed the discount rate was on December 31, 2012, when it was decreased from 2.0 percent to 1.5 percent.

Additionally, as part of L&I's implementation of vocational recovery services for injured workers, there was an increased use of private vocational rehabilitation counselors (VRCs) during the first year of a claim. Using VRCs early in a claim is a strategic investment to reduce work disability, thereby improving return-to-work outcomes for injured workers and employers. The Pension Reserve Account unfavorable development occurred due to changes in pensioner demographics. Detailed changes in the benefit liabilities are explained in Note 16 - Changes in Benefit and Claims Administration Liabilities of this report.

Claims administration liabilities increased $57 million when compared to the prior year, mainly due to the increase in the benefit liability estimates. Additional claim administration resources are expected in order to process the additional benefits.

OPEB liabilities increased by $16 million, primarily due to a change in the discount rate. The discount rate went from 3.87 percent in fiscal year 2019 to 3.5 percent in fiscal year 2020. Also, part of the increase resulted from a change in the proportionate share for the Workers' Compensation Program.

Other liabilities decreased $7 million, mainly due to a decrease in payable for securities. Unsettled trade payables are amounts owed for the purchase of investment securities near the end of a reporting period which are not paid until the next quarter. The unsettled trade payable balances between periods could vary significantly depending on trading activities.

The contingency reserve increased by $41 million, mainly due to the increase in the stock market.

Results of Operations

The Industrial Insurance Fund operating results are presented in the following table:

For the Fiscal Years Ended June 30, 2020 and 2019 (dollars in thousands)	Fiscal Year 2020	Fiscal Year 2019	$ Change	% Change
Net premiums earned	$ 1,906,058	$ 1,927,083	$ (21,025)	(1.1%)
Net investment income earned	496,981	498,626	(1,645)	(0.3%)
Net investment realized gains (losses)	272,266	(23,498)	295,764	(1258.7%)
Self-insured reimbursements	106,385	100,286	6,099	6.1%
Other income	51,873	50,447	1,426	2.8%
Total Revenue Earned	2,833,563	2,552,944	280,619	11.0%
Net benefits incurred	2,399,615	1,706,436	693,179	40.6%
Claims administration expenses (CAE) incurred	253,559	315,383	(61,824)	(19.6%)
Other administration expenses incurred	222,265	212,347	9,918	4.7%
Total Administration Expenses Incurred	475,824	527,730	(51,906)	(9.8%)
Total Expenses Incurred	2,875,439	2,234,166	641,273	28.7%
Net Transfers In (Out)	(3,439)	-	(3,439)	N/A
Net Income (Loss)	(45,315)	318,778	(364,093)	(114.2%)
Other changes in contingency reserve	85,972	150,534	(64,562)	(42.9%)
Changes in contingency reserve, net	40,657	469,312	(428,655)	(91.3%)
Beginning contingency reserve, July 1	3,954,276	3,484,964	469,312	13.5%
Ending Contingency Reserve, June 30	$ 3,994,933	$ 3,954,276	$ 40,657	1.0%

Net premiums earned for the current period is the sum of net premiums collected, the changes in premiums receivable, and the retrospective rating adjustments liability between June 30, 2019, and June 30, 2020. Net premiums earned decreased $21 million, mainly due to the premium rate decreases previously discussed, partially offset by an increase in retrospective rating adjustments resulting from improved injury experience. Also reducing premiums was ceded reinsurance. The Industrial Insurance Fund purchased reinsurance for the first time in fiscal year 2019 as a risk management strategy to protect our assets in the event of a catastrophic event. Fiscal year 2020 net premiums earned has been reduced by $12 million for the purchase of ceded reinsurance (see Note 14 - Reinsurance for additional reinsurance information).

Net realized capital gains of $272 million during fiscal year 2020 were mainly due to the result of three fixed income investment sales.

- At the end of fiscal year 2019, the Accident Account owed the Pension Reserve Account $629 million. During the first quarter of fiscal year 2020, fixed income investments were sold from the Accident Account and transferred to the Pension Reserve Account.

- Early in 2020, the outbreak of COVID-19 emerged as a public health emergency that swept the world and devastated the global economy. In attempts to slow the spread of COVID-19, many measures were implemented, including quarantines, as well as travel, border, and large gathering restrictions. These measures reduced consumer activity, decreased demand for a wide range of products and services, disrupted manufacturing operations and supply chains, and caused severe market uncertainty and volatility. As a result, the value of equity investments declined significantly. In March 2020, fixed income investments were sold and equities purchased in order to rebalance the investment portfolio.

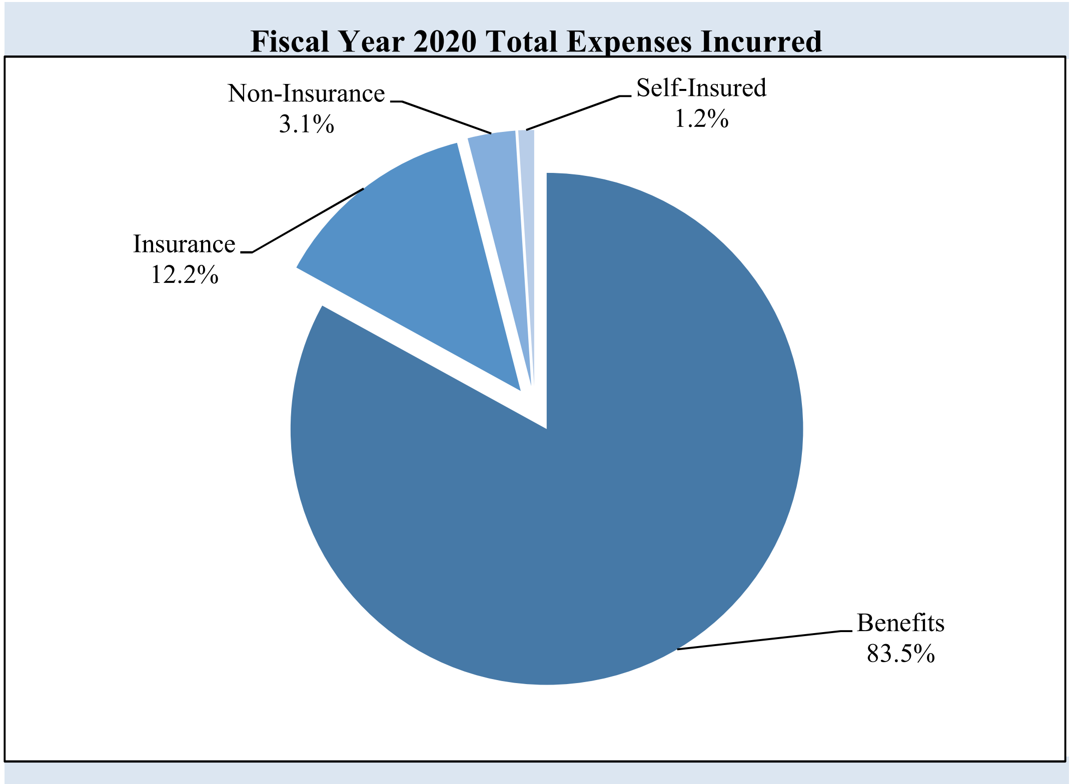
- In June 2020, shorter-term fixed income investments were sold and longer-term purchased in order to align duration with the asset allocation policy.

In fiscal year 2020, net benefits incurred increased by $693 million from the prior year to $2,340 million. Benefits incurred includes $1,669 million in benefits paid and a $671 million increase in benefit liabilities. The benefit liabilities increase is explained above, and benefits paid is explained in the cash flow section below.

Claims administration expenses incurred decreased $62 million in fiscal year 2020 to $254 million. This was mainly due to higher reserves in fiscal year 2019 for the Workers' Compensation System Modernization (WCSM) project. This project was fully funded in the July 2019 through June 2021 budget request.

Other administrative expenses increased mainly due to an overall increase in salaries of two percent on January 1, 2019, and an additional three percent on July 1, 2019. L&I added 16 new employees in fiscal year 2020, mainly for WCSM. Additionally, a transfer of $3.4 million was made in the first quarter of fiscal year 2020 from the Industrial Insurance Fund to the General Fund's Information Technology Tech Pool to fund two information technology projects in the 2019-21 biennial budget. First, the Apprenticeship Registration and Tracking System (ARTS) will provide a contemporary database, amenable to mobile devices, which will improve the ease and accuracy of the reporting and tracking functions. ARTS will make it easier for apprenticeship sponsors, employers, and participants to submit required documents, track status and data over time, and receive reminders when reporting is due. Second, the Provider Credentialing project is a collaboration between L&I and the Health Care Authority to build a single platform within ProviderOne for provider enrollment and credentialing. Any unused funds will be returned to the Industrial Insurance Fund at the end of the biennium.

The following chart provides detail on total expenses incurred in fiscal year 2020:



Other changes in contingency reserve decreased $65 million, mainly due to increases in unrealized losses, bad debt, and OPEB expenses. Unrealized losses were higher due to a decrease in the market value of lower-credit-quality bonds in the portfolio. Lower-quality bonds are carried at market value per statutory accounting procedures. Nonadmitted assets were higher, mainly due to an increase in bad debt expense resulting from the COVID-19 related recession. An increase in the OPEB liability resulted from a decrease in the discount rate. These decreases in the contingency reserve were partially offset by unrealized gains on equities resulting from the stock market recovery in the fourth quarter of the fiscal year.

The following ratios, expressed as a percentage of total net premiums earned, are recognized industry measures used to compare one insurance company to another:

Key Financial Ratios

	Fiscal Year 2020	Fiscal Year 2019
Loss ratio	125.9%	88.6%
Loss adjustment expense (LAE) ratio	13.3%	16.4%
Loss and LAE Ratio	**139.2%**	**105.0%**
Underwriting and other expense ratio	5.1%	5.3%
Combined Ratio	**144.3%**	**110.3%**
Less: Net investment income ratio	26.1%	25.9%
Operating Ratio	**118.2%**	**84.4%**

The benefit (loss) and loss adjustment expense (LAE) ratios represent the total costs for processing claims and paying benefits as a percentage of total net premiums earned. There are many factors that impact loss and LAE ratios, including legislative decisions and claim frequency, severity, and exposure. The higher loss ratio in fiscal year 2020 resulted from increases to benefit liabilities due to unfavorable development as well as the decrease in net premiums earned. The LAE ratio of 13.3 percent is lower due to the decrease in claims administration expenses previously discussed. The underwriting and other expense ratio of 5.1 percent is lower than the workers' compensation insurance industry average of 28.4 percent, mainly because the Industrial Insurance fund has no acquisition, marketing, or commission expenses.

The combined ratio expresses total insurance costs, including benefits and administration expenses incurred, as a percentage of total net premiums earned. When the total insurance costs exceed net premium revenues, the combined ratio is above 100 percent. The Industrial Insurance Fund's rates are set based on the anticipated breakeven rate. Income earned on investments supplements premium revenues to cover expenses so that the lowest possible rates can be set. As a result, it is normally expected that the Industrial Insurance Fund's combined ratio will exceed 100 percent, as it did in the last two fiscal years.

The operating ratio reflects the combined ratio less the net investment income ratio, and is another industry measure of overall financial performance. Ratios above 100 percent indicate that expenses are greater than the sum of premiums and net investment income earned. Insurance companies are motivated to make profits and, therefore, work toward an operating ratio below 100 percent. Unlike other insurance companies, the Industrial Insurance Fund is operated as a part of state government. Its goal is to break even rather than make a profit, while ensuring the financial stability of the Fund. An operating ratio less than 100 percent indicates that the Industrial Insurance Fund is building the contingency reserve. The operating ratio does not include realized or unrealized investment gains. If they were included, the operating ratio would fall to 95.4 percent, which is consistent with the $41 million increase in the contingency reserve.

Cash Flows and Liquidity

Cash Flows – In fiscal years 2020 and 2019, the primary sources of cash were from premiums collected and investment income. The primary uses of cash were for benefit payments, administration expenses, and purchases of investments.

Cash flows of the Industrial Insurance Fund are summarized as follows:

Cash Flow Summary
For the Fiscal Years Ended June 30, 2020 and 2019
(dollars in thousands)

	Fiscal Year 2020	Fiscal Year 2019	$ Change	% Change
Operations				
Net premiums collected	$ 1,898,070	$ 1,958,516	$ (60,446)	(3.1%)
Other reimbursements and income	132,599	132,865	(266)	(0.2%)
Net benefits paid	(1,668,682)	(1,635,191)	(33,491)	2.0%
Insurance administration expenses paid	(288,734)	(275,641)	(13,093)	4.8%
Self-insured administration expenses paid	(34,270)	(31,356)	(2,914)	9.3%
Non-insurance administration expenses paid	(87,384)	(74,501)	(12,883)	17.3%
Operating Cash Flow In (Out)	(48,401)	74,692	(123,093)	(164.8%)
Investment Activities				
Investment income	504,954	490,903	14,051	2.9%
Net realized gains (loss)	272,266	(23,498)	295,764	(1258.7%)
Net (purchases) sales	(726,453)	(541,402)	(185,051)	34.2%
Investment management expenses	(6,871)	(5,217)	(1,654)	31.7%
Investment Cash Flow In (Out)	43,896	(79,214)	123,110	(155.4%)
Net Increase in Cash (Decrease)	$ (4,505)	$ (4,522)	$ 17	(0.4%)

Net premiums collected decreased by $60 million. This decrease was mainly due to premium rate reductions in the Accident and Medical Aid Accounts effective in January 2019 and 2020, as well as fewer hours worked due to the impact of the COVD-19 related recession.

Net benefits paid increased $33 million when compared to the prior year, as explained below:

- The Pension Reserve Account's net benefits paid increased $12 million, mainly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

- The Medical Aid Account's $9 million increase in net benefits paid is mainly due to one additional MIPS payment run in fiscal year 2020 than we had in fiscal year 2019. Additionally, there was an increase in medical hearing loss and vocational rehabilitation payments.

- The Accident Account's $12 million increase in net benefits paid is mainly due to increasing time-loss duration and increasing compensation rates.

Insurance administration expenses paid increased $13 million, mainly due to an increase in claims administration expenses. All state employees received a two percent pay increase effective January 1, 2019, and another three percent pay increase effective July 1, 2019. Also, contributing to the increase were additional employees and expenditures for the WCSM project.

There was a $272 million net realized gain on investments in fiscal year 2020, an increase of $296 million from the previous year, as discussed in the Results of Operations section above.

Investment purchases exceeded sales by $726 million in fiscal year 2020, mainly due to reinvesting investment income.

Liquidity - The Industrial Insurance Fund's operations require sufficient liquidity to meet both short-term and long-term requirements. Resources to ensure short-term liquidity come from two basic factors:

- L&I may increase rates in order to increase its contingency reserve, resulting in positive cash flow.

- Premiums are paid to L&I every three months.

The Industrial Insurance Fund has generally met its operating requirements by maintaining appropriate levels of liquidity in its investment portfolio and through reinvesting positive cash flow. The Industrial Insurance Fund is able to match projected cash inflows from premiums and investment income from its portfolio with projected cash outflows for payment of benefits.

Future Plans

The Industrial Insurance Fund has various computer systems that are used for paying benefits and collecting premiums. Many of the systems were built over thirty years ago, and the agency has a goal to replace these systems before they turn forty years old. The legislature approved a 2019-2021 biennial budget that includes $82 million out of the total estimated cost of $309 million to replace the old computer systems that support the Industrial Insurance Fund. The seven-year project will simplify the Industrial Insurance Fund's technology architecture, replace manual and paperwork processes with electronic features, and free up staff time to focus on further improving services to injured workers and employers.

L&I has an established investment policy designed to maintain solvency of the Workers' Compensation Program's Accounts and to keep premium rates stable. The Washington State Investment Board (WSIB) manages the L&I portfolio and meets regularly to make decisions on improving investment results while striking a balance between risk and return. As part of the fiscal year 2018 asset allocation, the real estate asset class was added. L&I purchased its first real estate investments in fiscal year 2020. The L&I real estate portfolio remains in its early stages and currently consists of a European residential property.

Requests for Information

This report is designed to provide a general overview of the Industrial Insurance Fund and to illustrate its financial position and results of operations to interested parties. If you have any questions about this report or need additional financial information, please contact the Chief Accounting Officer at the Department of Labor & Industries, P.O. Box 44833, Olympia, Washington 98504-4833.

In accordance with the Revised Code of Washington (RCW) 51.44.115, L&I also publishes a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program. This report is prepared in compliance with Generally Accepted Accounting Principles (GAAP).

The Industrial Insurance Fund Statutory Financial Information Report and the Workers' Compensation Program CAFR are available at L&I's website at https://lni.wa.gov/agency/state-fund-financial-reports.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combined Statutory Financial Statements

Washington State Department of
Labor & Industries

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Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve

As of June 30, 2020 and 2019
(rounded to the nearest thousand)

	Accident Account	Medical Aid Account	Pension Reserve Account	Elimination for Combined Statements	June 30, 2020 Total	June 30, 2019 Total
Admitted Assets						
Cash and Investments						
Investments, net						
Fixed income	$ 5,181,018,000	$ 4,883,095,000	$ 4,628,364,000	$ -	$ 14,692,477,000	$ 14,632,619,000
Equities	1,205,549,000	1,487,245,000	655,073,000	-	3,347,867,000	2,809,079,000
Real estate	4,482,000	4,023,000	3,090,000	-	11,595,000	-
Receivable for securities	-	-	-	-	-	1,750,000
Total Investments	6,391,049,000	6,374,363,000	5,286,527,000	-	18,051,939,000	17,443,448,000
Securities lending reinvested collateral assets	-	-	-	-	-	58,469,000
Interest receivable	42,119,000	35,188,000	38,021,000	-	115,328,000	116,471,000
Cash, cash equivalents and restricted cash	197,328,000	160,395,000	70,850,000	-	428,573,000	164,506,000
Total Cash and Investments	6,630,496,000	6,569,946,000	5,395,398,000	-	18,595,840,000	17,782,894,000
Other Assets						
Premiums receivable, net, incl. earned but unbilled	312,210,000	185,400,000	-	-	497,610,000	548,413,000
Real estate and improvements						
(less $0 encumbrances)	15,835,000	15,834,000	-	-	31,669,000	33,043,000
Self-insurance receivables, net	4,711,000	4,609,000	9,972,000	-	19,292,000	16,414,000
Miscellaneous receivables, net	26,185,000	2,912,000	33,947,000	(20,701,000)	42,343,000	31,131,000
Total Other Assets	358,941,000	208,755,000	43,919,000	(20,701,000)	590,914,000	629,001,000
Total Admitted Assets	$ 6,989,437,000	$ 6,778,701,000	$ 5,439,317,000	$ (20,701,000)	$ 19,186,754,000	$ 18,411,895,000
Liabilities and Contingency Reserve						
Liabilities						
Benefits	$ 4,641,594,000	$ 3,853,686,000	$ 5,398,706,000	$ -	$ 13,893,986,000	$ 13,163,053,000
Other Liabilities						
Claims administration	281,461,000	579,159,000	-	-	860,620,000	803,734,000
Retrospective rating adjustments	170,028,000	-	-	-	170,028,000	174,640,000
Accrued liabilities						
OPEB claims administration	42,345,000	50,698,000	-	-	93,043,000	78,642,000
OPEB other administration	23,283,000	15,911,000	-	-	39,194,000	37,453,000
Other accrued liabilities	34,820,000	31,139,000	25,923,000	(20,701,000)	71,181,000	66,380,000
Deferred revenue	82,000	44,000	4,688,000	-	4,814,000	5,378,000
Payable for securities	14,978,000	33,977,000	10,000,000	-	58,955,000	69,870,000
Collateral from securities lending activities	-	-	-	-	-	58,469,000
Total Other Liabilities	566,997,000	710,928,000	40,611,000	(20,701,000)	1,297,835,000	1,294,566,000
Total Liabilities	5,208,591,000	4,564,614,000	5,439,317,000	(20,701,000)	15,191,821,000	14,457,619,000
Restricted Contingency Reserve	733,313,000	1,617,113,000	-	-	2,350,426,000	2,230,386,000
Unrestricted Contingency Reserve	1,047,533,000	596,974,000	-	-	1,644,507,000	1,723,890,000
Total Contingency Reserve	1,780,846,000	2,214,087,000	-	-	3,994,933,000	3,954,276,000
Total Liabilities and Contingency Reserve	$ 6,989,437,000	$ 6,778,701,000	$ 5,439,317,000	$ (20,701,000)	$ 19,186,754,000	$ 18,411,895,000

The Notes to the Statutory Financial Statements are an integral part of this statement.
The source of this financial information is the Washington State Agency Financial Reporting System (AFRS), with adjustments for statutory basis of accounting.

Combined Statutory Statement of Operations and Changes in Contingency Reserve

For the Fiscal Years Ended June 30, 2020 and 2019

(rounded to the nearest thousand)

	Accident Account	Medical Aid Account	Pension Reserve Account	June 30, 2020 Total	Fiscal Year 2019 Total
Revenues					
Net standard premiums earned	$ 1,328,685,000	$ 794,353,000	$ -	$ 2,123,038,000	$2,170,887,000
Less net retrospective rating adjustments	(204,941,000)	-	-	(204,941,000)	(238,629,000)
Less ceded reinsurance premiums	(7,585,000)	(4,454,000)	-	(12,039,000)	(5,175,000)
Net premiums earned	1,116,159,000	789,899,000	-	1,906,058,000	1,927,083,000
Net investment income earned	181,793,000	153,315,000	161,873,000	496,981,000	498,626,000
Net fixed income investment realized gains (losses)	130,282,000	71,335,000	68,069,000	269,686,000	(26,402,000)
Net equity investment realized gains	2,580,000	-	-	2,580,000	2,904,000
Self-insured administrative expense assessments	17,490,000	16,804,000	-	34,294,000	31,884,000
Self-insured second injury pension reserve assessments	-	-	46,079,000	46,079,000	46,617,000
Self-insured cash funded & bonded pension reimbursements	-	-	26,012,000	26,012,000	21,785,000
Fines, penalties, and interest	40,893,000	1,080,000	33,000	42,006,000	39,411,000
Other income	8,080,000	1,787,000	-	9,867,000	11,036,000
Total Revenues Earned	1,497,277,000	1,034,220,000	302,066,000	2,833,563,000	2,552,944,000
Expenses					
Benefits incurred	921,710,000	876,824,000	601,081,000	2,399,615,000	1,706,436,000
Administration expenses incurred					
Insurance expenses incurred:					
Claims administration expenses incurred	94,116,000	159,443,000	-	253,559,000	315,383,000
Premium administration expenses incurred	23,671,000	24,085,000	-	47,756,000	49,310,000
General insurance administration expenses incurred	16,894,000	7,881,000	-	24,775,000	28,428,000
Other agencies insurance expenses incurred	11,909,000	12,446,000	-	24,355,000	25,106,000
Total insurance expenses incurred	146,590,000	203,855,000	-	350,445,000	418,227,000
Self-insured administration expenses incurred	17,872,000	17,312,000	-	35,184,000	32,963,000
Non-insurance administration expenses incurred	60,376,000	29,819,000	-	90,195,000	76,540,000
Total Administration expenses incurred	224,838,000	250,986,000	-	475,824,000	527,730,000
Total Expenses Incurred	1,146,548,000	1,127,810,000	601,081,000	2,875,439,000	2,234,166,000
Net Income (Loss) Before Transfers	350,729,000	(93,590,000)	(299,015,000)	(41,876,000)	318,778,000
Transfers In (Out)					
Pension funding transfers	(267,176,000)	-	267,176,000	-	-
IT Pool transfers	(1,944,000)	(1,495,000)	-	(3,439,000)	-
Net Transfers In (Out)	(269,120,000)	(1,495,000)	267,176,000	(3,439,000)	-
Net Income (Loss)	81,609,000	(95,085,000)	(31,839,000)	(45,315,000)	318,778,000
Other Changes in Contingency Reserve					
Fixed income unrealized gains (losses)	(3,095,000)	(755,000)	(20,000)	(3,870,000)	34,434,000
Equities unrealized gains (losses)	63,528,000	70,252,000	32,122,000	165,902,000	117,386,000
Real Estate investments unrealized gains (losses)	(297,000)	(266,000)	(205,000)	(768,000)	-
Change in OPEB liability	(6,012,000)	(6,838,000)	-	(12,850,000)	17,943,000
Change in nonadmitted assets	(50,853,000)	(11,531,000)	(58,000)	(62,442,000)	(19,229,000)
Change in Contingency Reserve, Net	84,880,000	(44,223,000)	-	40,657,000	469,312,000
Beginning contingency reserve, July 1	1,695,966,000	2,258,310,000	-	3,954,276,000	3,484,964,000
Ending Contingency Reserve, June 30	$ 1,780,846,000	$ 2,214,087,000	$ -	$ 3,994,933,000	$ 3,954,276,000

The Notes to the Statutory Financial Statements are an integral part of this statement.
The source of this financial information is the Washington State Agency Financial Reporting System (AFRS), with adjustments for statutory basis of accounting.

Combined Statutory Statement of Cash Flows

For the Fiscal Years Ended June 30, 2020 and 2019
(rounded to the nearest thousand)

	Accident Account	Medical Aid Account	Pension Reserve Account	Total Fiscal Year 2020	Total Fiscal Year 2019
Standard premiums collected	$ 1,324,492,000	$ 795,170,000	$ -	$ 2,119,662,000	$ 2,216,344,000
Less retrospective rating adjustments	(209,553,000)	-	-	(209,553,000)	(252,653,000)
Less ceded reinsurance premiums	(7,585,000)	(4,454,000)	-	(12,039,000)	(5,175,000)
Net premiums collected	1,107,354,000	790,716,000	-	1,898,070,000	1,958,516,000
Self-insured administration expense reimbursements	16,939,000	16,275,000	-	33,214,000	30,743,000
Self-insured second injury pension reserve reimbursements	-	-	40,220,000	40,220,000	37,858,000
Self-insured cash funded and bonded pension reimbursements	-	-	24,810,000	24,810,000	19,817,000
Fines, penalties, and interest	20,554,000	898,000	-	21,452,000	29,993,000
Other income (expenses)	3,604,000	9,175,000	124,000	12,903,000	14,454,000
Fund transfers in (out)	(917,214,000)	-	917,214,000	-	-
Operating Cash Flow In	231,237,000	817,064,000	982,368,000	2,030,669,000	2,091,381,000
Benefits paid	564,856,000	597,179,000	506,647,000	1,668,682,000	1,635,191,000
Administration expenses					
Insurance expenses					
Claims administration expenses	74,107,000	118,164,000	-	192,271,000	176,245,000
Premium administration expenses	23,570,000	23,847,000	-	47,417,000	47,002,000
General insurance administration expenses	16,864,000	7,829,000	-	24,693,000	27,808,000
Other agencies insurance expenses	11,916,000	12,437,000	-	24,353,000	24,586,000
Total insurance expenses	126,457,000	162,277,000	-	288,734,000	275,641,000
Self-insured administration expenses	17,535,000	16,735,000	-	34,270,000	31,356,000
Non-insurance administration expenses	58,483,000	28,901,000	-	87,384,000	74,501,000
Total Administration Expenses Paid	202,475,000	207,913,000	-	410,388,000	381,498,000
Operating Cash Flow Out	767,331,000	805,092,000	506,647,000	2,079,070,000	2,016,689,000
Net Operating Cash Flow In (Out)	(536,094,000)	11,972,000	475,721,000	(48,401,000)	74,692,000
Investment income - fixed income	186,418,000	153,563,000	160,905,000	500,886,000	488,233,000
Investment income - equities	1,505,000	1,610,000	953,000	4,068,000	2,670,000
Net realized gains on investments	132,862,000	71,335,000	68,069,000	272,266,000	(23,498,000)
Net (purchases) sales of investments	216,295,000	(237,329,000)	(705,419,000)	(726,453,000)	(541,402,000)
Investment expenses	(2,583,000)	(2,442,000)	(1,846,000)	(6,871,000)	(5,217,000)
Total Investment Cash Flow In (Out)	534,497,000	(13,263,000)	(477,338,000)	43,896,000	(79,214,000)
Net Cash Flow In (Out)	(1,597,000)	(1,291,000)	(1,617,000)	(4,505,000)	(4,522,000)
Beginning Cash, Cash Equivalents and Restricted Cash, July 1	73,549,000	23,945,000	67,012,000	164,506,000	117,440,000
Change in Money Market Mutual Funds	125,376,000	137,741,000	5,399,000	268,516,000	51,554,000
Change in Restricted Cash	-	-	56,000	56,000	34,000
Ending Cash, Cash Equivalents and Restricted Cash	$ 197,328,000	$ 160,395,000	$ 70,850,000	$ 428,573,000	$ 164,506,000

The Notes to the Statutory Financial Statements are an integral part of this statement.
The source of this financial information is Washington State's Agency Financial Reporting System (AFRS), with adjustments for statutory basis of accounting.

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Notes to the Combined Statutory Financial Statements

For the Fiscal Years Ended June 30, 2020 and 2019

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Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Note 1 - Summary of Significant Accounting Policies

1.A. Nature of Operations

The state of Washington's Department of Labor and Industries (L&I) administers the state's Workers' Compensation Program. Through Title 51 of the Revised Code of Washington (RCW), Washington State requires all employers, unless excluded or exempt, to secure coverage for job-related injuries and illnesses, either by paying insurance premiums to the Industrial Insurance Fund or by self-insuring. L&I is the exclusive writer of workers' compensation insurance in the state of Washington for all businesses except the self-insured. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

Chapter 51.44 RCW provides six benefit accounts: the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, and Self-Insured Employer Overpayment Reimbursement Accounts, primarily to make compensation payments to injured workers or to medical providers for rehabilitation services to injured workers. A seventh account, called the Industrial Insurance Rainy Day Fund Account, was created to receive transfers of funds from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. The funds are then set aside to reduce a future rate increase or aid businesses during or recovering from economic recessions. In fiscal years 2020 and 2019, the Industrial Insurance Rainy Day Fund Account did not have any transfers, but funds were restricted. These seven accounts are known collectively as the "Workers' Compensation Program".

The Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts are referred to as the "Industrial Insurance Fund" and are the focus of this report. The Supplemental Pension, Second Injury, and Self-Insured Employer Overpayment Reimbursement Accounts are not part of the Industrial Insurance Fund and are not included in this report.

The Industrial Insurance Fund is self-sustaining through the ability to assess the appropriate rates of insurance premiums and prudent investment management. The Accident, Medical Aid, and Pension Reserve Accounts are maintained on an actuarially solvent basis, except that a cash-flow basis is used for the components of the Pension Reserve Account, in which self-insured employers guarantee related benefits with a surety bond. The accompanying combined statutory statements report on the financial position and results of operations of the Industrial Insurance Fund.

1.A.1. Description of the Industrial Insurance Fund

There are four accounts making up the Industrial Insurance Fund: the Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts.

The Accident Account was established on July 1, 1947, per RCW 51.44.010, and pays compensation directly to injured workers for lost wages for temporary disability and permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. Pursuant to RCW 51.44.070, funds from the Accident Account are to be transferred to the Pension Reserve Account for the present value of pensions awarded to survivors of fatally injured workers and to workers who have a total permanent disability.

Revenues for this account come from employer-paid premiums based on individual employers' reported payroll hours and are reported net of refunds. Employers may elect to have their premiums retrospectively rated with an annual adjustment for actual benefits incurred. The retrospective adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together and may result in either a refund of premiums paid or an assessment of additional premiums due. All retrospective premium adjustments are financed entirely through the Accident Account.

On behalf of injured workers, the Medical Aid Account, established on July 1, 1917, per RCW 51.44.020, pays for the cost of medical, vocational rehabilitation services, and Stay at Work reimbursements. Equal contributions from employers and employees fund this account. It is the employer's responsibility to collect the employee portion of the medical aid premiums and submit the employee and employer contributions to L&I quarterly.

The Pension Reserve Account, established on July 1, 1911, per RCW 51.44.030, pays benefits to the surviving spouse or dependent(s) of fatally injured workers and to all permanently and totally disabled workers. This includes benefits for pensions awarded to employees of self-insured employers.

Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and cash-funded or bonded pension payments from self-insured employers. Funding required to cover the estimated present cash value of monthly pension payments is calculated on the basis of an annuity; such annuity values are based upon L&I's experience as to rates of mortality, disability, remarriage, and interest, according to RCW 51.44.070.

The Industrial Insurance Rainy Day Fund Account was established on June 15, 2011, per RCW 51.44.023, to help keep rates stable and meet the obligations of the Workers' Compensation Program. This statute authorizes L&I to determine whether the assets of the Accident and Medical Aid Accounts combined are at least 10 percent but not more than 30 percent in excess of the funded liabilities and, if so, transfer any excess to the Industrial Insurance Rainy Day Fund Account. The funds set aside will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions.

1.B. Accounting Practices and Basis of Presentation

The Industrial Insurance Fund follows the Statutory Accounting Principles (SAP), which include the Statements of Statutory Accounting Principles (SSAP), as promulgated by the National Association of Insurance Commissioners (NAIC), as directed by RCW 51.44.115. The SAP are very conservative in nature and designed to protect injured workers by ensuring that, in the event of liquidation, sufficient amounts have been set aside to provide for outstanding claims. This accounting basis is used to present solvency and the adequacy of premium rates.

The SAP are required to be used by property and casualty insurance enterprises in the United States (U.S.) when reporting their financial position to state insurance regulators, subject to any differences prescribed or permitted by each state's law. The NAIC defines prescribed accounting practices as "those practices that are incorporated directly or by reference by state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. The NAIC Accounting Practices and Procedures Manual (AP&P) is not intended to preempt states' legislative and regulatory authority."[1] Washington's prescribed differences from the NAIC are addressed in RCW 48.13.071, which provides limits on investments. The NAIC defines permitted practices as "…practices specifically requested by an insurer that depart from NAIC Statutory Accounting Principles (SAP) and state prescribed accounting practices, …, and have received approval from the insurer's domiciliary state regulatory authority."[1] Financial reporting, operating, and other guidance that is codified in statute related to a statutory reporting entity and departs from NAIC SAP is also generally accepted as prescribed practices.

In accordance with Title 51 RCW and Title 296 of the Washington Administrative Code (WAC), the Industrial Insurance Fund is administered by L&I. Pursuant to Title 48 RCW and Title 284 WAC, L&I is not required to file annual statements with the Washington State Office of the Insurance Commissioner (OIC). The Industrial Insurance Fund is not required to report to the OIC or complete an annual statement in accordance with the NAIC annual statement filing instructions.

Title 51 RCW directs the Industrial Insurance Fund (the Fund) to establish tabular reserving methodologies for pensions, considering rates of mortality, disability, remarriage and interest. Accordingly, the Fund established a practice of discounting on a tabular basis in a manner that complies with the guidance supplied in the Title. SSAP No. 65 allows discounting fixed and reasonably determinable payments on a tabular-only basis. Non-tabular discounting is only permitted in certain instances in which states have prescribed or permitted practices to allow it, which is the case for the Fund. (See Note 1.C.3 and Note 17.B for additional information on discounting methodology and non-tabular discounting.)

SSAP No. 53 states that 10 percent of earned but unbilled (EBUB) premiums in excess of collateral specifically held and identifiable on a per policy basis shall be reported as a nonadmitted asset. Additionally, for workers' compensation contracts, which have a premium that may periodically vary based upon changes in the activities of the insured, written premiums may be recorded on an installment basis to match the billing to the policyholder. Under this type of arrangement, the premium is determined and billed according to the frequency stated in the contract, and written premiums are recorded on the basis of that frequency. L&I's quarterly billing process aligns with this guidance and, given that the receivables are not over 90 days old as of the reported date, they are 100 percent admitted. Subsequent to year-end, the majority of the balance recorded as of June 30 was received, with only immaterial differences.

In addition, the Industrial Insurance Fund recognizes a liability for the net Other Postemployment Benefit (OPEB) obligation, which includes the unfunded actuarial accrued liability amortized over nine years. The Industrial Insurance Fund participates in a multiemployer OPEB plan. SSAP No. 92 states that employers with multiemployer plans are not required to recognize the unfunded status of the OPEB plan, but are only required to recognize the required contribution to the plan for the period reported. The Fund has elected to record this liability, given the basis for conservatism within statutory accounting principles and considering that the impact of this election does not have a material impact on the financial statements taken as a whole.

[1] NAIC AP&P Manual as of March 2020, Section: Preamble Questions and Answers, Question 2

The following table reconciles the Industrial Insurance Fund's net income and contingency reserve as reported on the accompanying financial statements and what they would have been if they had been recorded under NAIC SAP requirements:

Effect of Prescribed and Permitted Practices (rounded to the nearest thousand)					
	SSAP #	**F/S Page #***	**F/S Line**	**As of and For the Fiscal Year Ended June 30, 2020**	**As of and For the Fiscal Year Ended June 30, 2019**
Net Income (Loss), WA Basis				**$ (45,315,000)**	**$ 318,778,000**
Prescribed non-tabular discounting	65	33	Benefits	494,233,000	(51,144,000)
Permitted OPEB administration liability	92	33	OPEB	3,292,000	4,768,000
Net Income, NAIC SAP Basis				**$ 452,210,000**	**$ 272,402,000**
Contingency Reserve, WA Basis				**$ 3,994,933,000**	**$ 3,954,276,000**
Prescribed non-tabular discounting	65	33	Benefits	(1,077,496,000)	(1,571,729,000)
Permitted OPEB administration liability	92	33	OPEB	132,237,000	116,095,000
Contingency Reserve, NAIC SAP Basis				**$ 3,049,674,000**	**$ 2,498,642,000**

* Financial Statements page 33: Liabilities and the Contingency Reserve are primarily impacted

The financial statement layout and terminology were selected based on the terminology and formatting customary to governmental insurance funds. The Industrial Insurance Fund refers to losses as "benefits" and loss adjustment expenses as "claims administration expenses." Any surplus remaining in the Fund is referred to as "contingency reserve."

1.B.1. Use of Estimates

The preparation of financial information in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, and contingency reserve at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to significant changes include benefit and claims administration liabilities, premium receivables, self-insurance receivables, retrospective rating adjustment liabilities, and accrued liabilities for other postemployment benefits. Actual results could differ materially from those estimates.

Management's estimates are based on its knowledge of and experience with past and current events and circumstances and its assumptions about conditions it expects will exist in the future. The most significant estimates made in these statutory financial statements are the benefit and claims administration liabilities at the date of the financial information. Factors relevant to the estimation of these liabilities include the estimation of the ultimate frequency and severity of losses, the level of inflation of future medical costs over long periods of time, the future legal environment, and the amount of future expenses required to investigate and settle claims. Management's estimates are reviewed after the fiscal year-end by a nationally recognized, qualified consulting actuarial firm. The independent actuarial firm's opinion is included at the end of this report.

1.B.2. Differences between SAP and GAAP

The SAP followed by the Industrial Insurance Fund vary in some respects from Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Some of the most significant differences between SAP and GAAP are as follows:

- Investments in bonds are reported for SAP at amortized cost or market value based on their NAIC designation; for GAAP, investments in bonds are reported at fair value.

- For SAP, all mortgage-backed and other loan-backed securities are adjusted for the effects of changes in prepayment assumptions using the retrospective method, which equates the present value of the actual and anticipated cash flows with the original cost of the investment. The current balance is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased. Under GAAP, all mortgage-backed and other loan-backed securities are reported at fair value.

- According to SSAP No. 4, SAP assets designated as *nonadmitted assets* are defined as "assets having economic value other than those which can be used to fulfill policyholder obligations and assets unavailable due to encumbrances or third party interests" and are excluded from total admitted assets. These assets consist primarily of premium receivables in collection that have been outstanding for over 90 days, office furniture, equipment, internally developed software, and prepaid expenses. Nonadmitted assets are charged against the contingency reserve, unless otherwise specifically addressed within the NAIC's AP&P Manual. Under GAAP, premium receivables are presented net of allowance for doubtful accounts; furniture, equipment, and internally developed software are presented net of accumulated depreciation; and prepaid expenses are presented at full cost.

- SAP limits the aggregate amount of admitted electronic data processing equipment and operating system software, net of accumulated depreciation, to three percent of the reporting entity's capital and surplus. Under GAAP, computer equipment and software purchases meeting the state's capitalization criteria are recorded as assets, net of accumulated depreciation, with no limitations.

- The focus of SAP accounting is solvency; therefore, it is concerned with assets that can be used immediately to cover benefit liabilities. GAAP accounting is focused on "going concern," which assumes that an entity has the ability to survive, and therefore, assets and liabilities are presented in the order of liquidity and classified as current and non-current.

- The Combined Statutory Statement of Operations and Changes in Contingency Reserve presents premiums earned and investment income as the primary revenue sources, and expenses are presented as activities. GAAP presentations separate operating income from investment income, since investment activity is not normally a primary revenue source. GAAP also presents expenses by character rather than by the purpose of the item purchased or service obtained and the net effect of revenues and expenses as a change in net position.

- Both SAP and GAAP require the statement of cash flows to be prepared using the direct method. However, the statutory statement of cash flows differs in certain aspects from the presentation required by GAAP. On the SAP Combined Statement of Cash Flows, "Cash Flows In" includes operating transfers and other income, and "Cash Flows Out" is categorized by benefits paid and administration expenses. The GAAP statement of cash flows includes a reconciliation between operating income from the statement of operations and cash flows from operating activities.

1.C. Significant Accounting Policies

1.C.1. Recognition of Premiums

Workers' compensation insurance premiums are determined by individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past loss experience. In addition to its regular premium plans, the Industrial Insurance Fund offers a Retrospective Rating Plan, under which an employer's premiums are adjusted annually for up to three years following the plan year, based on the employer's actual loss experience during those years.

Premiums are due within 30 days following each calendar quarter in which payroll hours are reported. Net premiums receivable reported in the financial statements is an actuarial estimate of the amount that will ultimately be collected for the two most recent quarters' uncollected premium balances. These actuarial estimates are based on past collection statistics, growth projection, observed development of premiums reported, statistical analysis, and other factors. All premium receivables exceeding 90 days in age are adjusted as nonadmitted assets in the current period and are not included in the net premiums receivable amount; however, collection efforts are continued until the premiums are collected or all legal means are exhausted.

In fiscal year 2019, there was a methodology change that occurred in regards to the premium receivable asset. Previously, the calculation to determine the premium receivable asset was a percentage of the ultimate premium, which was estimated around 99.7% of the recent quarter ending, and 3% of the prior quarters' ultimate premiums. The calculation now is to subtract the adjusted premiums collected by funds from the ultimate premium by fund. The change was made in an effort to use actual data in ultimate premiums, instead of estimated percentages. The department is still tracking the receivable percentages for comparison purposes.

According to SSAP No. 53, a premium deficiency reserve is recognized "…when the anticipated losses, loss adjustment expenses, … and maintenance costs exceed the recorded unearned premium reserve" and any future installment premiums on existing policies. Because the Industrial Insurance Fund has sufficient anticipated investment income and no unearned premium reserves or installment premium contracts, no premium deficiency reserve is recorded.

1.C.2. Benefit and Claims Administration Liabilities

The Industrial Insurance Fund establishes benefit and claims administration liabilities arising from its workers' compensation coverage based on estimates of the ultimate cost of benefits that have been reported but not resolved and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies, depending on the type of benefit involved. Since actual claim costs depend on complex factors, such as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the actual ultimate claim costs may differ from the estimates.

Benefit and claims administration liabilities are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future benefits is implicit in the calculation, because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Future premium income is not offset against benefit liabilities, because benefit liabilities come from coverage periods for which premiums have, in general, already been fully earned. The obligation to pay benefit and claims administration liabilities is not contingent upon any future premiums for future coverage periods.

Adjustments to benefit and claims administration liabilities are charged or credited to benefit and claims administration expenses in the periods in which they are made. Unpaid benefits and claims administration expenses include amounts based on past experience for claims development on reported claims and benefits incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in the period affected.

Statutory Accounting Principle Work Group (SAPWG) Ref# 2015-21, effective August 26, 2016, now requires that third party administrative costs be deducted from third party recoveries before reducing loss estimates. This statutory accounting principle change resulted from an NAIC effort to standardize accounting for third party administration costs. After research, it was determined that the change to the Industrial Insurance Fund was minimal, that this change would be difficult to implement, and that comparability with other entities would not be impacted. Thus, SAPWG Ref# 2015-21 was not implemented. If SAPWG Ref# 2015-21 were implemented, we estimate that claims administration expenses would be approximately $1,000,000 lower and loss liabilities would be approximately $1,000,000 higher.

1.C.3. Discounting Methodology

The Industrial Insurance Fund discounts benefit and claims administration expenses reserves to reflect the time value of money using an average discount rate of 2.97 percent. The amount of discount is based on actuarially derived projected payment patterns and selected annual interest rates. The Industrial Insurance Fund uses both tabular and non-tabular discounting. Non-tabular discounting is an accounting practice that departs from SSAP No. 65, as disclosed in 1.B. of this note. The bullets below discuss the discount method and rate applied to each discounted liability category as of June 30, 2020:

- The State Fund benefit liabilities in the Pension Reserve Account are discounted on a tabular basis at 4.5 percent. The Self-insured benefit liabilities in the Pension Reserve Account are discounted on a tabular basis at 5.9 percent.

- Liabilities in the Accident Account for pensions incurred but not yet awarded are discounted using a combination of discount rates on both a tabular and non-tabular basis. The future total permanent disability and fatal transfer amounts made to the Pension Account assume a discount rate of 4.5 percent. The transfer payments and all other liabilities are discounted on a non-tabular basis at one percent.

- All other Accident and Medical Aid Account benefit and claims administration liabilities are discounted on a non-tabular basis at one percent.

Per L&I policy, the non-pension discount rate is equal to the benchmark rate less the risk adjustment, rounded to the nearest one-half percentage point. The benchmark rate is the five-year moving average of the U.S. 20-Year Treasury yield. The risk adjustment equals two percentage points until the benchmark rate reaches four percent. Below four percent, the risk adjustment is half the benchmark rate.

1.C.4. Cash and Cash Equivalents

Cash includes cash in banks, cash on deposit with the Office of the State Treasurer (OST), and cash on hand. It also consists of cash equivalents invested by the OST that are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value due to interest rate fluctuations. Under RCW 43.08.015, the OST has the statutory responsibility to ensure the effective cash management of state public funds. RCW 43.84.080 authorizes the Treasurer to invest available cash and includes a list of eligible investments. Beginning in fiscal year 2018, SSAP No. 2R reclassified money market mutual funds, managed by the Washington State Investment Board (WSIB), to cash equivalents, which may be valued at either fair value or net asset value as a practical expedient. The Industrial Insurance Fund has elected to use the net asset value method.

1.C.5. Investments

The Industrial Insurance Fund uses the following accounting policies to value investments:

- Investment grade bonds are stated at amortized cost using the scientific interest method. Non-investment grade bonds with NAIC designations of 3-6 are stated at the lower of amortized cost or fair value. Fair values are reported using pricing sources approved by the NAIC.

- Short-term investments are stated at amortized cost using the scientific interest method. Per SSAP No. 2, accounting for short-term investments should follow guidance for similar long-term investments (see discussion above on investment grade bonds). Therefore, any short-term bond premiums and discounts are amortized using the scientific interest method.

- Common stocks are stated at fair value.

- Investment grade mortgage-backed and other loan-backed securities are stated at amortized cost. Non-investment grade mortgage-backed and other loan-backed securities with NAIC designations of 3-6 are stated at the lower of amortized cost or fair value. Fair values are reported using pricing sources approved by the NAIC. In compliance with SSAP No. 43R, changes in currently estimated cash flows are reviewed quarterly using the State Street Corporation's investment valuation model for prepayment assumptions in valuing mortgage-backed and other loan-backed securities. These securities are revalued using the retrospective adjustment method. (See Note 2.H. for other-than-temporary impairment analysis of mortgage-backed and other loan-backed securities.)

- Securities Lending Collateral - Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the Industrial Insurance Fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are also reported in the Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve. Securities lending transactions collateralized by securities that the Industrial Insurance Fund does not have the ability to pledge or sell unless the borrower defaults are not reported as assets or liabilities. Additional information on Securities Lending is available in Note 11.

1.C.6. Infrequently Occurring Items and Other Disclosures

The U.S. Department of Energy (DOE) has contracted with L&I to pay benefits to DOE contractors' employees injured on the job at the Hanford nuclear production complex that resulted in pensions granted prior to year 2000. The Industrial Insurance Fund has received amounts, including trust cash, in advance from the U.S. Department of Energy to cover the pension liability for these injured workers.

Trust cash of $461,485 and $405,134 was available to reimburse the Industrial Insurance Fund for monthly pension payments on June 30, 2020 and 2019, respectively.

1.C.7. Capital Assets

Capital assets are tangible or intangible assets held and used in the Industrial Insurance Fund's operations that have a service life of more than one year and meet the state's capitalization policy. In accordance with the Washington State Office of Financial Management's (OFM) policy, it is the Industrial Insurance Fund's policy to capitalize:

- All land

- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or greater

- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted

- Infrastructure with a cost of $100,000 or greater

- Intangible assets, either purchased or internally developed, with a cost of $1,000,000 or greater, that are "identifiable" by meeting either of the following conditions:

  - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; or

  - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.

- All capital assets acquired with a Certificate of Participation

Capital assets are recorded at cost. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of capital assets are not capitalized. The cost and related accumulated depreciation of capital assets that have been disposed of are removed from the accounting records.

The value of assets constructed for use in the Industrial Insurance Fund includes all direct construction costs and indirect costs that are related to the construction. Net interest costs incurred during the period of construction, if material, are capitalized.

Depreciation and amortization expenses are calculated using the straight-line method over the estimated useful lives of the assets. Total depreciation and amortization expense for capital assets was $7.5 million and $7.4 million at June 30, 2020 and 2019, respectively.

Generally, estimated useful lives are as follows:

• Buildings and building components	5 to 50 years
• Furnishings, equipment, and collections	3 to 50 years
• Other improvements	3 to 50 years
• Infrastructure	20 to 50 years
• Intangible assets with definite useful lives	3 to 50 years

In accordance with SAP, not all capitalized assets are admitted for reporting purposes. Common examples of nonadmitted capital assets are equipment, furniture, and internally developed software. These nonadmitted assets are adjusted from the respective account's contingency reserve, and current purchases are immediately expensed. SSAP No. 16R allows electronic data processing (EDP) equipment and operating system software to be admitted, up to three percent of the contingency reserve. However, the Industrial Insurance Fund takes a more conservative approach and does not admit any EDP equipment or operating system software.

1.C.8. Risk Management

The state of Washington operates a Self-Insurance Liability Program pursuant to RCW 4.92.130. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. Coverage is provided up to $10 million for each claim with no deductible. Commercial insurance is purchased for various liabilities and to limit the exposure to catastrophic losses. Otherwise, the Self-Insurance Liability Program services all claims against the state for injuries and property damage to third parties.

The Industrial Insurance Fund participates in the state's Self-Insurance Liability Program, in proportion to its anticipated exposure to liability losses, to manage its various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

1.C.9. Reinsurance

The Industrial Insurance Fund purchased catastrophe reinsurance effective February 1, 2019, to reduce its exposure to the financial risks associated with a catastrophe. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Industrial Insurance Fund as the direct insurer of the risks reinsured.

Amounts that are recoverable from reinsurers and that relate to paid claims and claim adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid claims and claim adjustment expenses are deducted from those liabilities. Ceded unearned premiums are netted with related unearned premiums. Receivables and payables from the same reinsurer, including amounts withheld, are netted. Reinsurance premiums ceded and reinsurance recoveries on claims are netted against related earned premiums and incurred claim costs in the Combined Statutory Statement of Operations and Changes in Contingency Reserve. (See Note 14 for additional information on reinsurance).

1.C.10. Subrogation Recoverables

The Industrial Insurance Fund evaluates the value of potential subrogation recoverable in determining the reserve for unpaid claims and claims adjustment expenses. The nature of the recoverable is such that the length of collections, coverage of the injured worker, and other parties with a bona fide claim vary greatly from case to case. For this reason, the Industrial Insurance Fund believes that although collections are probable, they are not reasonably estimable and, therefore, are not accrued within the financial statements.

1.D. Going Concern

L&I has evaluated its ability to continue as going concern and has no concerns over its ability to meet its obligations as they come due within one year.

Note 2 - Investments

2.A. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship over the Industrial Insurance Fund's investments is vested in the voting members of the Washington State Investment Board (WSIB). The legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB and its staff must comply with other state laws, such as the Ethics in Public Service Act, chapter 42.52 RCW, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with RCW 43.33A.110, Industrial Insurance Fund investments are to be managed to limit fluctuations in the industrial insurance premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the investment objectives are to:

- Maintain the solvency of the accounts
- Maintain premium rate stability
- Ensure sufficient assets are available to fund the expected liability payments
- Subject to the objectives above, achieve a maximum return at a prudent level of risk

The investment performance objectives are intended to provide the WSIB and the Industrial Insurance Fund with a way to measure the success of this investment policy, the overall asset allocation strategy, and the implementation of that strategy over time. First and foremost, the performance of the investment portfolios shall be judged relative to the investment objectives. With the first three criteria met, the actual rates of return of the portfolios will be compared to the Comparable Market Index (CMI) for each account. The CMIs are developed and calculated with the goal to construct a hypothetical passive portfolio, with the duration, asset allocation, and appropriate mix of fixed income sectors based on the individual targets for each Industrial Insurance Fund account. The return for each account's portfolio should not be significantly different from that of its CMI over the long-term.

Eligible Investments - Eligible investments are securities and deposits that are in accordance with the Industrial Insurance Fund's investment policy and chapter 43.33A RCW. Eligible investments include:

- U.S. equities

- International equities
- U.S. Treasuries and government agencies
- Credit bonds
- Mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Investment grade non-U.S. dollar bonds
- Real estate

Investment Policies and Restrictions

To meet stated objectives, investments of the Industrial Insurance Fund are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue cost shall exceed three percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the Fund's fair value at any time.
- Asset allocations will be reviewed every four years or sooner if there are significant changes in funding levels or the liability durations. Asset allocations per L&I's June 2017 asset investment policy are:

Asset Allocation Target and Ranges

Account	Fixed Income	Equity	Real Estate
Accident Account	80% ±6	15% ±4	5% ±2
Pension Reserve Account	85% ±5	10% ±3	5% ±2
Medical Aid Account	75% ±7	20% ±5	5% ±2

- Assets will be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

The WSIB has elected a gradual implementation plan to reach the strategic asset allocation. During this implementation period, if real estate is above or below its target due to timing or illiquidity, fixed income will be used to offset the balance.

Equity - The benchmark and structure for global equities will be the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index net with USA gross. The global equity portfolio will be passively managed in commingled index funds. The commingled fund managers may use futures for hedging or establishing a long position.

Fixed Income – It is the goal of the fixed income portfolios to match the target durations. The fixed income portfolios' required duration targets are to be reviewed every three years or sooner if there are significant changes in the funding levels or the liability durations.

Sector allocation of fixed income investments must be managed within the following prescribed ranges:

- U.S. Treasuries and government agencies 5 to 25 percent
- Credit bonds 20 to 80 percent
- Asset-backed securities 0 to 10 percent
- Commercial mortgage-backed securities 0 to 10 percent
- Mortgage-backed securities 0 to 25 percent

These targets are long-term in nature. Deviations may occur in the short term as a result of interim market conditions; however, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practicable.

Total fair value of below-investment-grade credit bonds, as defined by Bloomberg Barclays Family of Fixed Income Indices, shall not exceed five percent of the total fair value of the funds. Although below-investment-grade mortgage-backed, asset-backed, and commercial mortgage-backed securities may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held. Total fair value of below-investment-grade mortgage-backed, asset-backed, and commercial-mortgage-backed securities shall not exceed five percent of total fair value of the funds.

Real Estate - The objectives and characteristics of the real estate portfolio are as follows:

- Generate a six percent annual investment return over a rolling 10-year period.
- The return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.
- The portfolio will be diversified across geography and property type.

- The benchmark for the portfolio is a total net return of six percent measured over a rolling 10-year period.

- No more than 15 percent of the real estate portfolio will be invested in a single property after the program's build-out period.

2.B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The risk is managed within the portfolios using *effective duration*, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. The Industrial Insurance Fund does not have a formal policy specifically for interest rate risk.

As of June 30, 2020, the Industrial Insurance Fund's portfolio was within the duration targets below:

- Accident Account – within plus or minus 20 percent of an effective duration target of six years

- Medical Aid Account – within plus or minus 20 percent of an effective duration target of five years

- Pension Reserve Account – within plus or minus 20 percent of an effective duration target of eight years

It is the goal of the fixed income portfolios to match the target durations. Although there may be differences from the targets due to market conditions, over any extended period of time, those differences should not be material.

2.C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Industrial Insurance Fund's investment policies limit the fixed income securities to investment grade or higher at the time of purchase. Investment grade securities are those fixed income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. The debt investments of the Industrial Insurance Fund as of June 30, 2020, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - *Concentration of credit risk* is the risk of loss attributed to the magnitude of an investment in a single issuer. The Industrial Insurance Fund's policy states that the corporate fixed income issues cost shall not exceed three percent of the Fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the Fund's fair value at any time. There was no concentration of credit risk as of June 30, 2020.

Custodial Credit Risk - *Custodial credit risk* is the risk that in the event a depository institution or counterparty fails, the Industrial Insurance Fund would not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2020, investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) are registered and held in the name of the WSIB for the benefit of the Industrial Insurance Fund and are not exposed to custodial credit risk. There are no general policies related to custodial credit risk.

2.D. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Industrial Insurance Fund does not have a formal policy to limit foreign currency risk. The Industrial Insurance Fund had $1,379.5 million and $1,196.8 million invested in an international commingled equity index fund at June 30, 2020 and 2019, respectively.

2.E. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Industrial Insurance Fund is authorized to utilize various derivative financial instruments, including collateralized mortgage obligations, financial futures, forward contracts, interest rate and equity swaps, and options.

Derivative transactions involve, to varying degrees, market and credit risks. The Industrial Insurance Fund mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained in an amount equal to the securities positions outstanding and, thereby, prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. The only derivative securities held directly by the Industrial Insurance Fund were collateralized mortgage obligations (CMOs) of $532.8 million and $560.4 million at June 30, 2020 and 2019, respectively.

2.F. Reverse Repurchase Agreements

State law permits the Industrial Insurance Fund to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price, plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the Industrial Insurance Fund or provide securities or cash of equal value, the Industrial Insurance Fund would suffer an economic loss equal to the difference between the fair value, plus accrued interest, of the underlying securities and the agreement obligation, including accrued interest.

There were no reverse repurchase agreements during fiscal year 2020 or 2019, and there were no liabilities outstanding as of June 30, 2020 or 2019.

2.G. Wash Sales Transactions

Wash sales are any transfers that occur when an asset is sold and the proceeds are reinvested within 30 days in the same, or substantially the same, security. These transactions involve unrated securities or those with NAIC designations of 3 or below. Cash equivalents, derivative instruments, as well as short-term investments with credit assessments equivalent to an NAIC 1-2 designation, are excluded. A wash sale is generally a tax strategy, and since the Industrial Insurance Fund and WSIB are tax exempt, this strategy is not used.

2.H. Bonds

At June 30, 2020 and 2019, bonds and assets receiving bond treatment were comprised of U.S. government, other government, corporate, mortgage-backed, and other loan-backed securities, with an aggregate book adjusted carrying value (BACV) of $14,692.5 million and $14,632.6 million and fair value of $16,381 million and $15,420.5 million, respectively, as shown in the following tables:

Book Adjusted Carrying Values and Fair Values
June 30, 2020
(in thousands)

	Book Adjusted Carrying Value	Fair Value Excess over BACV	BACV Excess over Fair Value	Fair Value
U.S. government obligations - excluding mortgage-backed securities	$ 2,445,449	$ 475,061	$ -	$ 2,920,510
All other government obligations	1,439,002	92,435	-	1,531,437
Mortgage-backed and other loan-backed securities	973,791	86,920	-	1,060,711
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	9,726,237	1,040,566	(6,671)	10,760,132
Hybrid securities	107,998	2,831	(2,524)	108,305
Total	$ 14,692,477	$ 1,697,813	$ (9,195)	$ 16,381,095

Book Adjusted Carrying Values and Fair Values
June 30, 2019
(in thousands)

	Book/Adjusted Carrying Value	Fair Value Excess over BACV	BACV Excess over Fair Value	Fair Value
U.S. government obligations - excluding mortgage-backed securities	$ 2,905,759	$ 159,750	$ (5,784)	$ 3,059,725
All other government obligations	1,439,729	48,103	(1,170)	1,486,662
Mortgage-backed and other loan-backed securities	1,120,720	52,540	(2,394)	1,170,866
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	9,082,408	543,073	(10,223)	9,615,258
Hybrid securities	84,003	4,015	-	88,018
Total	$ 14,632,619	$ 807,481	$ (19,571)	$ 15,420,529

In compliance with SSAP No. 26R, the following tables present the Industrial Insurance Fund's bond investments by type and by stated contractual maturity in years, and provide the BACV and fair value of bonds and assets receiving bond treatment, as reported in the Annual Statement Schedule D-Bonds, as of June 30, 2020 and 2019. Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Schedule of Maturities
June 30, 2020
(in thousands)

Investment Type	Fair Value	Book Adjusted Carrying Value	Maturity: 1 year or less	Maturity: Over 1 year through 5 years	Maturity: Over 5 years through 10 years	Maturity: Over 10 years
U.S. government obligations - excluding mortgage-backed securities	$ 2,920,510	$ 2,445,449	$ 90,029	$ 314,854	$ 1,215,671	$ 824,895
All other government obligations	1,531,437	1,439,002	178,949	669,739	468,245	122,069
Mortgage-backed and other loan-backed securities	1,060,711	973,791	-	62,773	75,457	835,561
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	10,760,132	9,726,237	701,760	3,461,841	2,878,127	2,684,509
Hybrid securities	108,305	107,998	-	20,000	48,957	39,041
Total	$ 16,381,095	$ 14,692,477	$ 970,738	$ 4,529,207	$ 4,686,457	$ 4,506,075

Schedule of Maturities
June 30, 2019
(in thousands)

Investment Type	Fair Value	Book/Adjusted Carrying Value	Maturity: 1 year or less	Maturity: Over 1 year through 5 years	Maturity: Over 5 years through 10 years	Maturity: Over 10 years
U.S. government obligations - excluding mortgage-backed securities	$ 3,059,725	$ 2,905,759	$ 134,972	$ 290,074	$ 1,401,158	$ 1,079,555
All other government obligations	1,486,662	1,439,729	328,034	810,496	223,164	78,035
Mortgage-backed and other loan-backed securities	1,170,866	1,120,720	-	105,345	83,213	932,162
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	9,615,258	9,082,408	1,213,076	3,027,674	2,529,895	2,311,763
Hybrid securities	88,018	84,003	4,998	70,055	8,950	-
Total	$ 15,420,529	$ 14,632,619	$ 1,681,080	$ 4,303,644	$ 4,246,380	$ 4,401,515

The following additional tables are included to summarize the different classes of investments held by the Industrial Insurance Fund, as they are rated by the NAIC. There were no securities with an NAIC designation higher than 5 at the fiscal years ended June 30, 2020 or 2019.

Fair Value of Securities by NAIC Designation
June 30, 2020
(in thousands)

	NAIC Designation					
	1	**2**	**3**	**4**	**5**	**Total**
U.S. government obligations - excluding mortgage-backed securities	$ 2,920,510	$ -	$ -	$ -	$ -	$ 2,920,510
All other government obligations	1,357,035	158,885	8,130	7,387	-	1,531,437
Mortgage-backed and other loan-backed securities	1,060,711	-	-	-	-	1,060,711
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	7,324,483	3,351,833	68,395	15,421	-	10,760,132
Hybrid securities	-	73,420	-	34,885	-	108,305
Total	$ 12,662,739	$ 3,584,138	$ 76,525	$ 57,693	$ -	$ 16,381,095

Fair Value of Securities by NAIC Designation
June 30, 2019
(in thousands)

	NAIC Designation					
	1	**2**	**3**	**4**	**5**	**Total**
U.S. government obligations - excluding mortgage-backed securities	$ 3,059,725	$ -	$ -	$ -	$ -	$ 3,059,725
All other government obligations	1,321,844	148,385	8,079	8,354	-	1,486,662
Mortgage-backed and other loan-backed securities	1,170,866	-	-	-	-	1,170,866
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	6,696,103	2,852,864	20,878	45,413	-	9,615,258
Hybrid securities	-	9,731	-	78,287	-	88,018
Total	$ 12,248,538	$ 3,010,980	$ 28,957	$ 132,054	$ -	$ 15,420,529

Gross unrealized losses on bonds, the fair value of the related bonds aggregated by investment category, and the length of time that individual bonds have been in a continuous unrealized loss position at June 30, 2020 and 2019, were as follows:

Bonds with Unrealized Losses
June 30, 2020
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government obligations - excluding mortgage-backed securities	$ -	$ -	$ -	$ -	$ -	$ -
All other government obligations	-	-	7,387	(2,465)	7,387	(2,465)
Mortgage-backed and other loan-backed securities	-	-	-	-	-	-
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	297,060	(7,305)	-	-	297,060	(7,305)
Hybrid securities	31,517	(4,914)	-	-	31,517	(4,914)
Total	$ 328,577	$ (12,219)	$ 7,387	$ (2,465)	$ 335,964	$ (14,684)

Bonds with Unrealized Losses
June 30, 2019
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government obligations - excluding mortgage-backed securities	$ -	$ -	$ 379,094	$ (6,069)	$ 379,094	$ (6,069)
All other government obligations	-	-	384,872	(2,665)	384,872	(2,665)
Mortgage-backed and other loan-backed securities	-	-	391,674	(2,394)	391,674	(2,394)
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	-	-	1,349,573	(10,431)	1,349,573	(10,431)
Hybrid securities	-	-	-	-	-	-
Total	$ -	$ -	$ 2,505,213	$ (21,559)	$ 2,505,213	$ (21,559)

In compliance with SSAP No. 26R, management has looked at all bonds in an unrealized loss position and used several categories of information to determine whether any impairment is other-than-temporary. The information considered included general market conditions, industry or company financial prospects, an issuer's fundamental credit difficulties, and the length of time and the extent to which the fair value had been below cost. Management has no intention of selling these securities and does not believe these impairments are other-than-temporary.

Similarly, in compliance with SSAP No. 43R, management has looked at mortgage-backed and other loan-backed securities with unrealized losses and has used several categories of information to determine whether any impairment is other-than-temporary. State Street Corporation's investment valuation model for prepayment assumptions and determining currently estimated cash flows in valuing mortgage-backed and other loan-backed securities was used. The factors that are considered include discounted cash flow on an investment, the length of time and amount of impairment, forecasts, market data, and financial condition of the issuer(s). As of June 30, 2020, no mortgage-backed or other loan-backed securities have been determined to be other-than-temporarily impaired.

The following tables summarize realized gains or losses of bonds that were redeemed or sold during fiscal years 2020 and 2019:

Bonds Redeemed or Sold
Fiscal Year 2020
(in thousands)

	Sales Proceeds	Realized Gains	Realized Losses	Net Realized Gains (Losses)
U.S. government obligations - excluding mortgage-backed securities	$ 1,076,229	$ 176,204	$ -	$ 176,204
All other government obligations	409,141	1,739	(217)	1,522
Mortgage-backed and other loan-backed securities	126,817	-	-	-
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	2,277,154	92,343	(1,293)	91,050
Hybrid securities	55,944	910	-	910
Total	$ 3,945,285	$ 271,196	$ (1,510)	$ 269,686

Bonds Redeemed or Sold
Fiscal Year 2019
(in thousands)

	Sales Proceeds	Realized Gains	Realized Losses	Net Realized Gains (Losses)
U.S. government obligations - excluding mortgage-backed securities	$ 800,301	$ 184	$ (5,109)	$ (4,925)
All other government obligations	193,067	2,420	-	2,420
Mortgage-backed and other loan-backed securities	112,778	-	-	-
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	1,325,866	26,833	(50,730)	(23,897)
Hybrid securities	-	-	-	-
Total	$ 2,432,012	$ 29,437	$ (55,839)	$ (26,402)

In compliance with SSAP No. 43R, the following tables show the details of the structured notes held by the Industrial Insurance Fund at June 30, 2020 and 2019.

Structured Notes
June 30, 2020
(in thousands)

CUSIP* Identification	Actual Cost	Fair Value	Book/Adjusted Carry Value	Mortgage-Referenced Security (Y/N)
N/A	$ -	$ -	$ -	
Total	$ -	$ -	$ -	

*CUSIP: Number identifying all stocks and registered bonds, using the Committee on Uniform Securities Identification Procedures (CUSIP). The CUSIP number will be listed on any trading confirmation ticket and is the basis for identification of holdings for custodial systems.

Structured Notes
June 30, 2019
(in thousands)

CUSIP* Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security (Y/N)
24023KAD0	$ 40,000	$ 40,067	$ 40,000	N
50048MCB4	50,439	50,149	50,140	N
Total	$ 90,439	$ 90,216	$ 90,140	

*CUSIP: Number identifying all stocks and registered bonds, using the Committee on Uniform Securities Identification Procedures (CUSIP). The CUSIP number will be listed on any trading confirmation ticket and is the basis for identification of holdings for custodial systems.

In compliance with SSAP No. 26R and SSAP No. 43R, bonds, including loan-backed and structured securities, may provide for a prepayment penalty or acceleration fee in the event the security is liquidated prior to its scheduled termination date. Such fees shall be reported as investment income when received. The following table represents bonds, including loan-backed and structured securities, sold, redeemed, or otherwise disposed of during fiscal years 2020 and 2019, as a result of a callable feature (including make-whole call provisions).

During fiscal year 2020, L&I had 10 bonds called, six of which included prepayment penalties totaling $1,024,000. In fiscal year 2019, there were six bonds called, two of which included prepayment penalties totaling $639,000.

Prepayment Penalties and Acceleration Fees
Fiscal Year 2020
(in thousands)

Category	Number of CUSIPs	Aggregate Amount of Investment Income
Bonds Called	10	$ 1,024,000

Prepayment Penalties and Acceleration Fees
Fiscal Year 2019
(in thousands)

Category	Number of CUSIPs	Aggregate Amount of Investment Income
Bonds Called	6	$ 639,000

2.I. Common Stocks

The gross unrealized losses on common stocks, fair value of the common stocks, and length of time that individual common stocks had been in a continuous unrealized loss position at June 30, 2020 and 2019, were as follows:

Common Stocks with Unrealized Losses
June 30, 2020
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commingled index funds	$ 86,446	$ (5,276)	$ -	$ -	$ 86,446	$ (5,276)
Total	$ 86,446	$ (5,276)	$ -	$ -	$ 86,446	$ (5,276)

Common Stocks with Unrealized Losses
June 30, 2019
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Commingled index funds	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -	$ -

In compliance with SSAP No. 30, management looks at all commingled index funds in an unrealized loss position and uses several categories of information to determine whether any impairment is other-than-temporary. The information considered for broad equity funds include general market conditions and prospects for the economy as a whole in the short-term.

2.J. Restricted Assets

The following tables summarize restricted assets at June 30, 2020 and 2019. Other restricted assets include cash received in advance from the U.S. Department of Energy to cover the pension liability determined by the Industrial Insurance Fund.

Restricted Assets
June 30, 2020
(dollars in thousands)

Restricted Asset Category	Total General Account (G/A) Restricted Assets	Total from Prior Year	Increase/ (Decrease)	Total Nonadmitted Restricted	Total Admitted Restricted	Total Assets	% Gross Restricted to Total Assets	Total Admitted Assets	% Admitted Restricted to Total Admitted Assets
Collateral held under securities lending agreements	$ -	$ 58,469	$ (58,469)	$ -	$ -	$ 19,230,191	0.00%	$ 19,186,754	0.00%
Other restricted assets	$ 461	$ 405	$ 56	$ -	$ 461	$ 19,230,191	0.00%	$ 19,186,754	0.00%
Total restricted assets	$ 461	$ 58,874	$ (58,413)	$ -	$ 461	$ 19,230,191	0.00%	$ 19,186,754	0.00%

Restricted Assets
June 30, 2019
(dollars in thousands)

Restricted Asset Category	Total General Account (G/A) Restricted Assets	Total from Prior Year	Increase/ (Decrease)	Total Nonadmitted Restricted	Total Admitted Restricted	Total Assets	% Gross Restricted to Total Assets	Total Admitted Assets	% Admitted Restricted to Total Admitted Assets
Collateral held under securities lending agreements	$ 58,469	$ 98,853	$ (40,384)	$ -	$ 58,469	$ 19,072,222	0.31%	$ 18,411,895	0.32%
Other restricted assets	$ 405	$ 371	$ 34	$ -	$ 405	$ 19,072,222	0.00%	$ 18,411,895	0.00%
Total restricted assets	$ 58,874	$ 99,224	$ (40,350)	$ -	$ 58,874	$ 19,072,222	0.31%	$ 18,411,895	0.32%

The following tables summarize collateral at June 30, 2020 and 2019:

Collateral
June 30, 2020
(dollars in thousands)

Restricted Asset Category	Total General Account (G/A) Restricted Assets	Total from Prior Year	Increase/ (Decrease)	Total Nonadmitted Restricted	Total Admitted Restricted	Total Assets	% Gross Restricted to Total Assets	Total Admitted Assets	% Admitted Restricted to Total Admitted Assets
Assets received as collateral for securities lending agreements	$ -	$ 58,469	$ (58,469)	$ -	$ -	$ 19,230,191	0.00%	$ 19,186,754	0.00%
Liability to return collateral from securities lending agreements	$ -	$ 58,469	$ (58,469)	$ -	$ -	$ 19,230,191	0.00%	$ 19,186,754	0.00%

Collateral
June 30, 2019
(dollars in thousands)

Restricted Asset Category	Total General Account (G/A) Restricted Assets	Total from Prior Year	Increase/ (Decrease)	Total Nonadmitted Restricted	Total Admitted Restricted	Total Assets	% Gross Restricted to Total Assets	Total Admitted Assets	% Admitted Restricted to Total Admitted Assets
Assets received as collateral for securities lending agreements	$ 58,469	$ 98,853	$ (40,384)	$ -	$ 58,469	$ 19,072,222	0.31%	$ 18,411,895	0.32%
Liability to return collateral from securities lending agreements	$ 58,469	$ 98,853	$ (40,384)	$ -	$ 58,469	$ 19,072,222	0.31%	$ 18,411,895	0.32%

Note 3 - Real Estate and Improvements

At June 30, 2020 and 2019, the Accident and Medical Aid Accounts admitted only land, buildings, and improvements, net of accumulated depreciation and encumbrances.

SSAP No. 40R requires that buildings more than 50 percent occupied by the reporting entity be categorized as a real estate investment and that depreciation and interest expense be classified as investment expenses. The building occupied by the Industrial Insurance Fund's employees was financed through general obligation bonds of the state of Washington. The balance on the bonds was paid in full on October 1, 2015. Due to indirect ownership by L&I, the land, building, and improvements are not shown as a real estate investment of the Industrial Insurance Fund.

The related depreciation and interest expenses are allocated between administrative and non-insurance expenses based on percentage of use by employees.

Real Estate and Improvements (in thousands)				
		June 30, 2020		**June 30, 2019**
Land	$	3,204	$	3,204
Building occupied by Industrial Insurance Fund		65,111		65,111
Improvements, other than buildings		1,020		1,020
Encumbrances		-		-
Accumulated depreciation - building		(37,105)		(35,752)
Accumulated depreciation - improvements		(561)		(540)
Total	$	31,669	$	33,043

Note 4 - Investment Income

The Industrial Insurance Fund does not admit investment income due and accrued if amounts are over 90 days past due. As of June 30, 2020 and 2019, all investment income due and accrued prior to the 90 day cut-off period is presented below by security type:

Interest Income Admitted Due and Accrued (in thousands)				
		June 30, 2020		**June 30, 2019**
U.S. government obligations - excluding mortgage-backed securities	$	15,994	$	19,126
All other government obligations		10,902		11,064
Mortgage-backed and other loan-backed securities		3,083		3,647
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities		83,948		80,928
Hybrid securities		1,362		1,390
Other interest		39		316
Total	$	115,328	$	116,471

The following table provides details for net investment income by security type for the fiscal years ended June 30, 2020 and 2019:

Net Investment Income Earned (in thousands)	June 30, 2020	June 30, 2019
U.S. government obligations - excluding mortgage-backed securities	$ 73,462	$ 59,813
All other government obligations	36,542	35,085
Mortgage-backed and other loan-backed securities	37,223	41,017
Industrial and miscellaneous - excluding mortgage-backed and other loan-backed securities	348,491	351,216
Hybrid securities	1,896	4,724
Total Bond Interest	497,614	491,855
Equities dividends	305	508
Net securities lending income	574	78
Other interest and litigation income	5,268	7,763
Amortization	204	3,744
Gross investment income	503,965	503,948
Investment expenses	(6,984)	(5,322)
Total Net Investment Income Earned	$ 496,981	$ 498,626

Note 5 - Income Taxes

The Industrial Insurance Fund is exempt from federal income tax under the Internal Revenue Service Code sections 115 and 501(c)(27). Based on this exemption and in accordance with SSAP 101, L&I does not have any uncertain tax positions that are unlikely to be upheld.

Note 6 - Related Party Transactions

L&I administers the state's Workers' Compensation Program, including the Industrial Insurance Fund. It is an agency of the state of Washington; therefore, other Washington State agencies are related parties. Certain goods and services, such as attorney general legal services, information technology services, facilities management, building security, and cash and investment management services, are provided to L&I by other state agencies.

Total expenses incurred for goods and services provided by other Washington State agencies were $56,737,057 in fiscal year 2020 and $55,028,969 in fiscal year 2019. During fiscal year 2020, 88.4 percent of the total related party expenses were paid to the Attorney General's Office, the Department of Enterprise Services, Consolidated Technology Services, the Office of Financial Management, and the Health Care Authority. During fiscal year 2019, 90.0 percent of the total related party expenses were paid to the Attorney General's Office, the Department of Enterprise Services, Consolidated Technology Services, the Office of Financial Management, and

Washington State Patrol. Balances due to other Washington State agencies were $5,683,169 and $7,098,092 at June 30, 2020 and 2019, respectively.

The Washington State Legislature and the Governor provide appropriation authority from the Industrial Insurance Fund for use by the following Washington State agencies:

- **Board of Industrial Insurance Appeals** - hears appeals of decisions made by L&I

- **University of Washington** - promotes health and minimizes occupational disease or injury through teaching, research, and service

- **Department of Health** - completes surveys and on-site investigations of farm worker housing

- **Health Care Authority** - assists with reviews to develop preferred prescription drug lists

Total operating expenses incurred by these agencies in the Industrial Insurance Fund were $30,787,520 and $31,251,196 in fiscal years 2020 and 2019, respectively.

The Industrial Insurance Fund also transfers expenses and cash between the Accident, Medical Aid, and Pension Reserve Accounts, as well as the Supplemental Pension and Second Injury Accounts from the Workers' Compensation Program.

Note 7 - Retirement Plans, Compensated Absences, Deferred Compensation Plan, and Other Postemployment Benefits

7.A. Retirement Plans

The Industrial Insurance Fund is administered by L&I, an agency of the state of Washington and part of the primary government. Industrial Insurance Fund employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Washington State Department of Retirement Systems (DRS) and the Higher Education Defined Contribution Retirement Plan, which is privately administered.

The PERS is a cost-sharing multiemployer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Under the PERS rules, the employee and employer each contribute a percentage of the employee's compensation.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute, in accordance with chapters 41.40 and 41.45 RCW.

The employer contribution rates for the Industrial Insurance Fund at June 30, 2020 and 2019, for each of Plans 1, 2, and 3 were 12.86 and 12.83 percent of the employee's annual covered salary, respectively. The Industrial Insurance Fund contributed $25,306,861 and $23,527,889 to the PERS during the fiscal years ended June 30, 2020 and 2019, respectively. The Industrial Insurance Fund's contribution was 1.5 percent of total employer contributions to the plans in fiscal years ended June 30, 2020 and 2019. The employer contribution rate from July 1, 2019, through August 31, 2020 is 12.86 percent, and beginning September 1, 2020, has already been established by the legislature to be 12.97 percent, for Plans 1, 2, and 3.

Employee contribution rates for Plan 1 are established by statute at six percent for state agency employees. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency employees for fiscal years ended June 30, 2020 and 2019, were 7.90 and 7.41 percent of the employee's annual covered salary, respectively. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

Additional information regarding the PERS may be obtained from the stand-alone financial report prepared by the DRS. A copy of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

The Higher Education Retirement Plans are privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. No assets are accumulated in trusts or equivalent arrangements. The University of Washington employees paid from the Industrial Insurance Fund accounts are members of Higher Education Retirement Plans.

The state and regional universities, the state college, the state community and technical colleges and the Student Achievement Council each participate in a separate plan. As authorized by chapter

28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

RCW 28B.10.400, et. seq., assigns the authority to establish and amend benefit provisions to the board of regents of the state universities, the boards of trustees of the regional universities and the state college, the Washington State Board for Community and Technical Colleges, and the Student Achievement Council.

The Higher Education Supplemental Retirement Plans provide retirement, disability, and death benefits to eligible members. Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is one-twelfth of two percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of 50 percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution retirement plan benefit in the first month of retirement had they invested all employer and member contributions equally between fixed income and variable income annuity investments. Plan members have the option to retire early with reduced benefits. As of July 1, 2011, all Higher Educational Retirement Plans were closed to new entrants.

The Industrial Insurance Fund's proportionate share of the collective pension liability for the fiscal years ended June 30, 2020, and June 30, 2019, were $75,190,078 and $93,889,824, respectively, for the plans in which its employees participate. The proportion is based on the Industrial Insurance Fund's contributions relative to the contributions of all participating employers. In accordance with SSAP No. 102, the unfunded status of the pension plan is not required to be recognized, because it is considered a multiemployer plan; therefore, it has not been accrued in the State Fund's financials.

7.B. Compensated Absences

Industrial Insurance Fund employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the Industrial Insurance Fund does not pay employees for unused sick leave upon termination except upon employee death or retirement, at which time the Industrial Insurance Fund is liable for 25 percent of the employee's accumulated sick leave. In addition, the Industrial Insurance Fund has a "sick leave buyout option" in which, each January, employees who have accumulated sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the Industrial Insurance Fund's policy to liquidate unpaid compensated absence balances outstanding at June 30 with future resources, rather than advance funding it with currently available expendable financial resources.

The Industrial Insurance Fund recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned. The annual leave and sick leave accrued liability was $20,100,488 and $17,072,877 at June 30, 2020 and 2019, respectively.

7.C. Deferred Compensation Plan

Industrial Insurance Fund employees have the option to participate in the state of Washington's Deferred Compensation Plan (DCP). There are no contributions made on behalf of employees to the DCP by the Industrial Insurance Fund. The DRS administers the DCP and contracts with a third party (currently Empower Retirement) for recordkeeping and other administrative services. The WSIB selects and monitors DCP's investment options based on advice and recommendations provided by the Employee Retirement Benefits Board.

7.D. Other Postemployment Benefits

Employees of the Industrial Insurance Fund are eligible to participate in the state of Washington's defined benefit Other Postemployment Benefit (OPEB) plan, a single-employer plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

Per RCW 41.05.065, the Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of active employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire, under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, Higher Education Retirement Plan, Judicial Retirement System, and the Law Enforcement Officers' and Fire Fighters' Retirement System.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2019, the average weighted implicit subsidy was valued at $367 per adult unit per month, and in calendar year 2020, the average weighted implicit subsidy is projected to be $373 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2019, the explicit subsidy was up to $168 per member per month, increasing up to $183 per member per month in calendar year 2020. It is projected to remain at $183 per member per month in calendar year 2021.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits. Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

The plan has no investments or other assets. Accordingly, the PEBB OPEB plan is not reported in the financial statements of the state, nor is a separate financial report publicly available.

The Industrial Insurance Fund's proportionate share of the collective OPEB liability for fiscal years ended June 30, 2020, and June 30, 2019, were $132,237,000 and $116,095,000, respectively. The proportion is based on the Industrial Insurance Fund's contributions relative to the contributions of all participating employers. The Industrial Insurance Fund had OPEB expenses of $3,292,000 and $4,768,000 at June 30, 2020 and 2019, respectively.

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, Washington 98504-3127 or online at http://www.ofm.wa.gov/cafr.

Note 8 - Capital and Contingency Reserve

8.A. Capital

The Industrial Insurance Fund has no shares of stock authorized or outstanding.

8.B. Contingency Reserve

The contingency reserve represents net admitted assets available for financing ongoing operations and uncertainties not otherwise reserved. Changes in the contingency reserve are comprised of investment and insurance operating results.

For fiscal years 2020 and 2019, changes in the contingency reserve resulted from the following:

Industrial Insurance Fund Operating and Investment Results
(in thousands)

	Fiscal Year 2020	Fiscal Year 2019
Contingency Reserve, July 1	$ 3,954,276	$ 3,484,964
Unexpected Investment Results		
Actual unrealized and realized gains (losses)		
Fixed income: unrealized gains (losses)	(3,870)	34,434
Equities: unrealized gains (losses)	165,902	117,386
Fixed income: realized gains (losses)	269,686	(26,402)
Equities: realized gains (losses)	2,580	2,904
Total actual unrealized and realized gains (losses)	434,298	128,322
Less expected gains	(93,906)	(78,497)
Total Unexpected Investment Results	340,392	49,825
Unexpected Insurance Operation Results		
Development of prior years' loss and CAE liability	(334,958)	206,633
Development of prior years' retro refund liability	(56,098)	(76,164)
Premium adequacy	153,763	308,247
Nonadmitted asset results	(62,442)	(19,229)
Total Unexpected Insurance Operation Results	(299,735)	419,487
Change in contingency reserve	40,657	469,312
Contingency Reserve, June 30	$ 3,994,933	$ 3,954,276

The contingency reserve balances by account for fiscal years 2020 and 2019 were:

Contingency Reserve Balances by Account
(in thousands)

	Accident Account	Medical Aid Account	Pension Reserve Account	Total
Contingency Reserve, June 30, 2020	$ 1,780,846	$ 2,214,087	$ -	$ 3,994,933
Contingency Reserve, June 30, 2019	$ 1,695,966	$ 2,258,310	$ -	$ 3,954,276

8.C. Restricted Contingency Reserve

The Industrial Insurance Rainy Day Fund Account was established to help keep rates stable and meet the obligations of the industrial insurance statute, Title 51 RCW. RCW 51.44.023 was adopted during the 2011 Legislative Session, authorizing L&I to determine whether the assets of the Accident and Medical Aid Accounts combined are at least 10 percent but not more than 30 percent in excess of the funded liabilities and if so, transfer any excess to the Industrial Insurance Rainy Day Fund Account. The funds set aside will be used to reduce a rate increase or aid businesses in recovering from or during economic recessions.

The table below explains the changes in the restricted contingency reserve from fiscal year 2019 to fiscal year 2020:

Changes in Restricted Contingency Reserve as of June 30, 2020
(rounded to the nearest thousand)

	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Total
Restricted Contingency Reserve, 6/30/19	$ 420,397,000	$ 1,809,989,000	$ -	$ 2,230,386,000
Changes for FY19 excess recorded in Q2 FY20	255,612,000	28,363,000		283,975,000
Restricted CR after changes for FY19 excess	$ 676,009,000	$ 1,838,352,000	$ -	$ 2,514,361,000
Increase (Decrease) in Net Asset Value Q1 FY20	9,432,000	32,040,000	-	41,472,000
Increase (Decrease) in Net Asset Value Q2 FY20	6,535,000	34,833,000	-	41,368,000
Increase (Decrease) in Net Asset Value Q3 FY20	(5,324,000)	(48,583,000)	-	(53,907,000)
Increase (Decrease) in Net Asset Value Q4 FY20	46,661,000	131,085,000	-	177,746,000
Total Incr (Decr) in Net Asset Value through 6/30/20	$ 57,304,000	$ 149,375,000	$ -	$ 206,679,000
Adjustment to Restricted Contingency Reserve June 2020	$ -	$ (370,614,000)	$ -	$ (370,614,000)
Total Restricted Contingency Reserve, 6/30/20	$ 733,313,000	$ 1,617,113,000	$ -	$ 2,350,426,000
Unrestricted Contingency Reserve, 6/30/20	1,047,533,000	596,974,000		1,644,507,000
Total Contingency Reserve, 6/30/20	$ 1,780,846,000	$ 2,214,087,000	$ -	$ 3,994,933,000
Total Liabilities (less Securities Lending)				$ 15,191,821,000
Total Contingency Reserve as a % of Total Liabilities (less Securities Lending)				26.30%

In June 2020, there was a one-time adjustment to decrease the Medical Aid Account's liability to the Rainy Day Fund and reduce the restricted contingency reserve. This transfer was done to bring the Medical Aid Account's unrestricted contingency reserve to ten percent of the Medical Aid Account's total liabilities and to ensure that the unrestricted Medical Aid Account has a positive balance at the end of fiscal year 2020.

Note 9 - Commitments and Contingencies

9.A. Commitments

Effective July 1, 1992, the Washington State Legislature required the Industrial Insurance Fund, under RCW 48.22.070, to participate in an assigned risk pool providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act. The Industrial Insurance Fund is obligated to participate 50 percent in the underwriting losses or surpluses of the assigned risk pool. This participation is scheduled to continue indefinitely, due to amending legislation passed in 1997. In the history of this program, no assessments or distributions have been declared since enactment of this indefinite commitment.

9.B. Contingencies

The Industrial Insurance Fund is party to numerous routine legal proceedings that normally occur in operations. At any given point, there may be numerous lawsuits that could financially impact the Fund. Although the outcome of these lawsuits is not currently determinable, the resolution of these matters is not likely to have a material impact on the Industrial Insurance Fund's financial position, revenues, or expenses.

9.C. Exposure

The lack of diversity of exposure by line of business and by state could be a risk factor for benefit liability and claims administration expenses (CAE) reserves. By statute, the Industrial Insurance Fund's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Fund's benefit liability and CAE reserves. Such trends would include legislative changes to benefit levels that may have an effect on all open workers' compensation claims.

Note 10 - Leases

The Industrial Insurance Fund leases office facilities, office and computer equipment, and other assets under a variety of operating lease agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. Since the possibility of not receiving funding from the Legislature is remote, leases are considered non-cancelable for financial reporting purposes. Certain operating leases are renewable for specified periods. Management expects the leases to be renewed or replaced by other leases.

The total operating lease expenses for fiscal years 2020 and 2019 were $14,742,780 and $13,534,694, respectively. There are no contingent rental payments or unusual renewal options, escalation clauses or restrictions. During fiscal year 2020, the Industrial Insurance Fund terminated a lease for one lost laptop, resulting in a charge of $1,947. Certain rental commitments have renewal options extending through the year 2025. Some of these renewals are subject to adjustments in future periods.

The following table presents future minimum payments for operating leases as of June 30, 2020:

Future Minimum Payments for Operating Leases
June 30, 2020

Fiscal Year Ending June 30,	Accident Account	Medical Aid Account	Total
2021	$ 4,417,006	$ 4,079,721	$ 8,496,727
2022	3,307,954	2,994,411	6,302,365
2023	2,774,489	2,469,850	5,244,339
2024	1,996,677	1,605,304	3,601,981
2025	1,516,016	1,426,097	2,942,113
Total Future Minimum Lease Payments	$ 14,012,142	$ 12,575,383	$ 26,587,525

Note 11 - Sale, Transfer, and Servicing of Financial Assets and Extinguishments of Liabilities

Securities Lending

The Industrial Insurance Fund participates in securities lending programs with the Washington State Investment Board (WSIB) and the Office of the State Treasurer (OST) to increase investment income. At June 30, 2020, the Industrial Insurance Fund had no securities on loan and, accordingly, no collateral was held through the WSIB in the Accident, Medical Aid, or Pension Reserve Accounts.

Securities Lending – Washington State Investment Board

Washington State law and WSIB policy permit the Industrial Insurance Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the WSIB in securities lending transactions. As State Street Corporation is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Debt securities were loaned and collateralized by the Industrial Insurance Fund's agent with cash and U.S. government or U.S. agency securities, including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest of the loaned securities.

During fiscal years 2020 and 2019, securities lending transactions could be terminated on demand by either the Industrial Insurance Fund or the borrower. Non-cash collateral could not be pledged or sold absent borrower default.

No more than 20 percent of the total on-loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European-domiciled holdings. There are no restrictions on the amount of securities that can be lent. Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Industrial Insurance Fund by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal years 2020 and 2019, there were no significant violations of legal or contractual provisions and no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Industrial Insurance Fund incurred no losses during fiscal years 2020 or 2019 resulting from a default by either the borrowers or the securities lending agents.

There were no cash collateral assets at June 30, 2020. At June 30, 2019, total collateral held was $325,926,625, and fair value of securities on loan were $318,754,320.

The market value of cash collateral assets at June 30, 2019 was $58,468,568. The following tables provide information regarding cash collateral assets:

Cash Collateral Held Under Securities Lending
June 30, 2020
(in thousands)

	NAIC Designation	Book Adjusted Carrying Value	Level 2 Fair Value	Maturity Date: Under 30 days	30 - 59 days	60 - 89 days	90 - 119 days	120 - 179 days	180 days - less than 1 year	1 - 2 years
Cash and cash equivalents	1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial paper	1	-	-	-	-	-	-	-	-	-
Repurchase Agreements	1	-	-	-	-	-	-	-	-	-
Repurchase Agreements	Not Rated	-	-	-	-	-	-	-	-	-
Yankee CDs	1	-	-	-	-	-	-	-	-	-
Corporate	1	-	-	-	-	-	-	-	-	-
Bank and promissory notes	1	-	-	-	-	-	-	-	-	-
Total Cash Collateral Held		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Cash Collateral Held Under Securities Lending
June 30, 2019
(in thousands)

	NAIC Designation	Book Adjusted Carrying Value	Level 2 Fair Value	Maturity Date: Under 30 days	30 - 59 days	60 - 89 days	90 - 119 days	120 - 179 days	180 days - less than 1 year	1 - 2 years
Cash and cash equivalents	1	$ 4,682	$ 4,685	$ 2,253	$ -	$ -	$ 694	$ 695	$ 1,043	$ -
Commercial paper	1	14,921	14,925	5,760	1,041	833	694	2,639	3,958	-
Repurchase Agreements	1	17,768	17,768	17,768	-	-	-	-	-	-
Repurchase Agreements	Not Rated	1,735	1,735	1,735	-	-	-	-	-	-
Yankee CDs	1	13,604	13,605	3,540	4,373	-	-	1,736	3,956	-
Corporate	1	543	543	-	-	-	-	-	543	-
Bank and promissory notes	1	5,206	5,208	-	-	694	694	-	1,875	1,945
Total Cash Collateral Held		$ 58,459	$ 58,469	$ 31,056	$ 5,414	$ 1,527	$ 2,082	$ 5,070	$ 11,375	$ 1,945

Non-cash collateral cannot be pledged or sold absent borrower default. At June 30, 2020, the Industrial Insurance fund had no securities on loan and, accordingly, no non-cash collateral held. At June 30, 2019, non-cash collateral held under securities lending contracts with a value of $267,458,057 that has not been included in the Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve. Net earnings received through the securities lending program were $574,158 for fiscal year 2020 and $77,818 for fiscal year 2019.

During the current fiscal year, the WSIB decided, after a thorough review, to discontinue lending of U.S. Treasuries in all fixed income portfolios. The new securities lending policy is effective July 1, 2020.

Securities Lending – Office of the State Treasurer

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with Northern Trust Company as a lending agent and receives a share of income from this activity. The lending agent lends U.S. government, U.S. agency, and supranational securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

Cash is invested by the lending agent in repurchase agreements, deposit accounts, or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. One option available to the lending agent is to invest cash collateral into an OST account in the Local Government Investment Pool (LGIP). The LGIP portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification, and liquidity for the external investment pools that elect to measure, for financial reporting purposes, all of its investments at amortized costs. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP. There was no cash collateral from securities lending as of June 30, 2020 or 2019.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2020, the fair value of securities on loan for the Industrial Insurance Fund totaled $793,233. At June 30, 2019, the fair value of securities on loan for the Industrial Insurance Fund totaled $748,315.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal years 2020 and 2019, the OST had no credit risk exposure to borrowers, because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

Note 12 - Fair Value Measures

The Industrial Insurance Fund has categorized its investments that are reported at fair value on the Combined Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve into a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value per SSAP No. 100R - Fair Value Measurements. The three-level hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities

- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables present the financial instruments related to the Industrial Insurance Fund's assets carried at fair value as of June 30, 2020 and 2019, by the SSAP No. 100R valuation hierarchy.

Assets Carried at Fair Value
June 30, 2020
(in thousands)

	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Fixed income	$ -	$ 71,421	$ -	$ -	$ 71,421
Equities	-	-	-	3,347,866	3,347,866
Real Estate	-	-	-	11,595	11,595
Money Market Mutual Funds	-	-	-	471,904	471,904
Total	$ -	$ 71,421	$ -	$ 3,831,365	$ 3,902,786

Assets Carried at Fair Value
June 30, 2019
(in thousands)

	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Fixed income	$ -	$ 38,213	$ -	$ -	$ 38,213
Equities	-	-	-	2,809,079	2,809,079
Money Market Mutual Funds	-	-	-	156,031	156,031
Total	$ -	$ 38,213	$ -	$ 2,965,110	$ 3,003,323

Only bonds with an NAIC designation of 3 to 6 and a fair value lower than the book adjusted value are carried at fair value on the financial statements. On June 30, 2020, there were six bonds in this category, with fair values totaling $71,421,000. On June 30, 2019, there were two bonds in this category, with fair values totaling $38,213,000.

At the end of each reporting period, the Industrial Insurance Fund evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3.

Investments classified as Level 2 in the above table were comprised of publicly traded debt securities. Publicly traded debt securities are sourced from reputable pricing vendors, using models that are market-based measurements representing their good faith opinion as to the exit value of a security, in an orderly transaction under current market conditions. Such models take into account quoted prices, nominal yield spreads, benchmark yield curves, prepayment speeds, and other market-corroborated inputs.

Equity securities consist of holdings in a single collective investment trust fund (CIT). The CIT is passively managed to track the investment return of a broad, global equity index, the Morgan Stanley Capital International All Country World Investible Market Index net with USA gross (MSCI ACWI IMI net with USA Gross). The CIT determines a fair value by obtaining the values of the underlying holding, using reputable pricing sources and computing an overall net asset value (NAV) per share. The underlying holdings are publicly traded equity securities. The NAV represents the net value of the securities divided by the number of shares outstanding at the end of a specific day.

The CIT has daily openings, and contributions and withdrawals can be made on any business day. The CIT manager, at its discretion, may require withdrawal proceeds to be made partially or wholly in kind. Under certain circumstances the CIT manager may choose to suspend valuation and/or the right to make contributions and withdrawals from the CIT. Such circumstances include actual or anticipated closure, restriction, or suspension of trading activity in any markets or exchanges where the CIT investments are traded, where the purchase, sale, or pricing of the CIT's investments would not be reasonably practicable or advisable, or where suspending contributions or withdrawals would be in the best interest of the CIT or participants.

The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value has been determined by using the NAV per share (or its equivalent) of the L&I Funds' ownership interest in partners' capital. These values are based on the individual investee's capital account balance reported at fair value by the general partner, at the most recently available reporting period, adjusted for subsequent contributions, distributions, management fees, changes in values of foreign currency, and published market prices for certain securities.

The limited partnerships' annual financial statements are audited by independent auditors. These investments are valued at approximately $11.6 million (0.1 percent of total investments) as of June 30, 2020. Because of the inherent uncertainties in estimating fair values, it is possible these estimates will change in the near-term or the subsequent sale of assets would be different from the June 30, 2020, reported NAV. These investments can never be redeemed. Instead, the nature of these investments provides for distributions from the sale/liquidation of the underlying assets of the fund and from net operating cash flows. It is anticipated that the investments will be held for at least 10 years. This includes one real estate investment. Targeted investment structures within the L&I real estate portfolio include limited liability companies, limited partnerships, joint ventures, commingled funds, and co-investments.

Real estate partnerships generally provide quarterly valuations based on the most recent capital account balance. Individual properties are valued by the investment management at least annually, and are adjusted as frequently as quarterly if material market or operational changes have occurred. Properties are generally externally appraised at least once every five years, depending upon the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

The Industrial Insurance Fund elects to use NAV for all money market mutual funds in lieu of fair value as NAV is more readily available. These funds are backed by high quality, very liquid short-term instruments, and the probability is remote that the funds would be sold for a value other than NAV.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of the future fair values. The Industrial Insurance Fund has determined that its valuation methods are appropriate and consistent with other market participants; however, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables reflect the fair values and admitted values of all admitted assets that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy, as described above.

Assets at Fair Value
June 30, 2020
(in thousands)

	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Fixed income	$ 16,381,095	$ 14,692,477	$ -	$14,692,477	$ -	$ -	$ 14,692,477
Equities	3,347,867	3,347,867	-	-	-	3,347,867	3,347,867
Real Estate	11,595	11,595	-	-	-	11,595	11,595
Cash, cash equivalents and restricted cash	428,573	428,573	4,026	-	-	424,547	428,573
Total	$ 20,169,130	$ 18,480,512	$ 4,026	$14,692,477	$ -	$ 3,784,009	$ 18,480,512

Assets at Fair Value
June 30, 2019
(in thousands)

	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Fixed income	$ 15,420,529	$ 14,632,619	$ -	$ 15,420,529	$ -	$ -	$ 15,420,529
Equities	2,809,079	2,809,079	-	-	-	2,809,079	2,809,079
Cash, cash equivalents and restricted cash	164,506	164,506	8,475	-	-	156,031	164,506
Total	$ 18,394,114	$ 17,606,204	$ 8,475	$ 15,420,529	$ -	$ 2,965,110	$ 18,394,114

Note 13 - Subsequent Events

For the annual Statutory Financial Information Report as of June 30, 2020, an analysis of subsequent events has been evaluated through the report issuance date of December 14, 2020. The events described below existed after June 30, 2020.

13.A. Proposed Rate Announcement

Each year, the Director of L&I adopts new workers' compensation insurance premium rates for the next calendar year. On September 15, 2020, the Director announced a proposed zero percent change in the average premium rate for 2021. With no rate change in 2021, the overall hourly rate would remain at $0.640.

While financial projections point to the need for a significant increase to cover all of the costs for injuries and illnesses that occur in 2021, the agency is proposing using funds from the Workers' Compensation Program's contingency reserve to keep the rates from climbing.

The final rates will be adopted in December 2020 and go into effect on January 1, 2021.

13.B. Restricted Contingency Reserve

RCW 51.44.023 was enacted during the 2011 Legislative session, creating an Industrial Insurance Rainy Day Fund Account to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent of total liabilities for the Industrial Insurance Fund. Money from the Industrial Insurance Rainy Day Fund Account should be applied to reduce a future rate increase or aid businesses during or recovering from economic recessions. Based on the June 30, 2020, Statutory Financial Information Report for the Industrial Insurance Fund, the combined contingency reserve is 26.3 percent of total liabilities. As a part of the 2021 rate-making process, the Director will determine the timing and additional amount to be restricted in the contingency reserve balance.

Note 14 - Reinsurance

To reduce its exposure to the financial risks associated with a catastrophe, the Industrial Insurance Fund first purchased catastrophe reinsurance in February 2019, to cover risks in excess of the retention amount in the reinsurance policy. The current reinsurance coverage period is calendar year January 2020 through December 2020. Management is not aware of any catastrophes that occurred during the coverage period, and has not recorded any reinsurance recoveries.

The Industrial Insurance Fund purchased non-proportional, per occurrence excess of loss catastrophe reinsurance. The Industrial Insurance Fund retains the first $200 million loss per occurrence. The catastrophe reinsurance has two layers. The reinsurers' limit to the liabilities are: the first layer of ceded reinsurance is $274,974,000 in excess of $200 million, and the second layer is $474,437,000 in excess of $500 million.

The reinsurance agreements clearly transfer risk and do not contain any clauses that would bring into question whether the agreements transfer risk. Through the reinsurance policies, the reinsurers will indemnify the Industrial Insurance Fund against the loss and loss adjustment expenses arising from a catastrophic event. The reinsurer assumes up to $749 million in losses out of $1 billion in total losses arising from one catastrophic event.

The Industrial Insurance Fund pays a flat premium amount for the ceded reinsurance. The total annual ceded premium is a flat rate of $12,403,000 for the coverage period January 2020 through December 2020. Premiums ceded of $12,039,000 for reinsurance for fiscal year coverage period of July 2019 through June 2020 have been recorded in the accompanying basic financial statements for the year ended June 30, 2020.

14.A. Unsecured Reinsurance Recoverable

The Industrial Insurance Fund does not have any unsecured aggregated reinsurance recoverable for paid and unpaid losses, loss adjustment expenses, or unearned premiums.

14.B. Reinsurance Recoverable in Dispute

The Industrial Insurance Fund does not have reinsurance recoverables for paid losses or loss adjustment expenses in dispute.

14.C. Reinsurance Assumed and Ceded

The Industrial Insurance Fund has no assumed reinsurance. As a result of ceded reinsurance, the following ceded premiums have been deducted in the accompanying financial statements:

Ceded Reinsurance Premiums
(dollars in millions)

	Fiscal Year 2020	Fiscal Year 2019
Net standard premiums earned	$ 2,123	$ 2,171
Less net retrospective rating adjustments	(205)	(239)
Less ceded reinsurance premiums	(12)	(5)
Net premiums earned	$ 1,906	$ 1,927

14.D. Uncollectible Reinsurance

The Industrial Insurance Fund has no uncollectible reinsurance.

Note 15 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

15.A. Method Used to Estimate

The Industrial Insurance Fund estimates accrued retrospective premium annual adjustments for unadjusted enrollment periods by reviewing historical participation and return patterns. The historical averages are used to arrive at an estimate of net retrospective return premiums for unadjusted periods. Cumulative return premiums for periods from the first annual adjustment through the third annual adjustment are system-generated, and the accruals are the difference between the cumulative returns and the amount already returned. The third annual retrospective adjustment is final.

15.B. Method Used to Record

Retrospective return premiums due to employers are netted with additional premiums due from employers and recorded as a liability.

15.C. Amount and Percent of Net Retrospective Premiums

Net premiums for the fiscal year ended June 30, 2020, on retrospectively rated workers' compensation policies were $742.5 million, which were 35 percent of total workers' compensation net standard premiums earned. The net premiums for fiscal year ended June 30, 2019, on retrospectively rated workers' compensation policies were $823.4 million, which were 38 percent of total workers' compensation net standard premiums earned for that year.

15.D. Calculation of Nonadmitted Retrospective Premiums

Retrospective additional premiums 90 days past due after the third annual retrospective adjustment are nonadmitted.

Note 16 - Changes in Benefit and Claims Administration Liabilities

The following schedule presents the changes in benefit and claims administration liabilities for the fiscal years ended June 30, 2020 and 2019, for the Industrial Insurance Fund:

Changes in Benefit and Claims Administration Liabilities
(in thousands)

	Fiscal Year 2020	Fiscal Year 2019
Unpaid benefit and claims administration liabilities, July 1	$ 13,966,787	$ 13,766,126
Incurred benefit and claims administration liabilities		
Provision for insured events of the current year	1,942,661	1,792,697
Increase in provision for insured events of prior years	706,111	219,400
Total incurred benefit and claims administration liabilities	2,648,772	2,012,097
Less payments		
Benefit and claims administration liabilities attributable to		
Insured events of the current year	(326,927)	(321,423)
Insured events of prior years	(1,534,026)	(1,490,013)
Total payments	(1,860,953)	(1,811,436)
Unpaid benefit and claims administration liabilities, June 30	$ 14,754,606	$ 13,966,787

It is expected that benefit and claims administration liabilities will change every year due to normal activities, such as adding the insured events of the current year, discounting existing liabilities, and paying claims. Benefit and claims administration liabilities also changed in fiscal year 2020 due to an increase of $706.1 million in provisions for insured events of prior years, mostly due to increases of $372.8 million in the mixed discount accretion, $109.7 million for the change in discount rate, and $223.6 million of net unfavorable development on prior years.

During fiscal year 2020, the Self-Insurance Program's discount rate was reduced from 6.0 percent to 5.9 percent. All other Accident and Medical Aid Account benefits and claims administration liabilities discount percent were reduced from 1.5 percent to 1.0 percent. These decreases resulted in an increase of $109.7 million across the Accident Fund, Medical Aid Fund, and Pension Reserve Fund Accounts.

During fiscal year 2019, in addition to the normal activities mentioned above, benefit and claims administration liabilities also changed due to increases of $219.4 million in provisions for insured events of prior years, mostly due to increases of $426.0 million in the mixed discount accretion and $6.4 million for the change in discount rate, offset by $213.0 million of net favorable development on prior years. The main reasons for the net favorable development was a reduction in the number of active time-loss claims, reductions in permanent partial disability awards, and lower-than-anticipated medical payments.

During fiscal year 2019, management moved to align the current discount rate with the expected market portfolio. Per RCWs 51.44.070 and 51.44.073, the discount rate is established at the discretion of the Director, and the industry standard is to align the applied discount rate with the expected return on investments. The pension discount rate was reduced from 6.1 to 4.5 percent for the State Fund and 6.1 to 6.0 percent for the Self-Insurance Program. Management analyzed portfolio performance and deemed the currently established discount rate to be reasonable and generally accepted within actuarial standards.

At June 30, 2020 and 2019, unpaid benefit and claims administration liabilities are shown at their undiscounted value of $21,425 million and $20,866 million and their discounted value of $14,755 million and $13,967 million, respectively. In the Accident Account, liabilities for pensions incurred but not yet awarded were discounted on both a tabular and non-tabular basis. For each future pension award, the estimated future pension payments were discounted from the anticipated payment dates back to the anticipated date of the pension award on a tabular basis at 4.5 percent. The payments were then discounted from the anticipated date of the pension award back to the evaluation date, on a non-tabular basis, at 1.0 percent for fiscal year 2020 and 1.5 percent in fiscal year 2019. For more information on discounting, see Note 1.C.3.

Benefit Liability Development by Program
June 30, 2020
(dollars in thousands)

Program/Category	Undiscounted Liabilities	Discount Rate	Benefit Liabilities
Accident	$ 7,044,816	1.0% & 4.5%	$ 4,641,594
Medical Aid	4,612,956	1.0%	3,853,686
Pensions	8,822,390	4.5% & 5.9%	5,398,706
Total Benefit Liability	20,480,162		13,893,986
Claim Administration Expense (CAE)	944,931	1.0%	860,620
Total Benefit and CAE Liabilities	$ 21,425,093		$ 14,754,606

Benefit Liability Development by Program
June 30, 2019
(dollars in thousands)

Program/Category	Undiscounted Liabilities	Discount Rate	Benefit Liabilities
Accident	$ 6,507,201	1.5% & 4.5%	$ 4,284,740
Medical Aid	4,705,161	1.5%	3,574,041
Pensions	8,729,403	4.5% & 6.0%	5,304,272
Total Benefit Liability	19,941,765		13,163,053
Claim Administration Expense (CAE)	924,596	1.5%	803,734
Total Benefit and CAE Liabilities	$ 20,866,361		$ 13,966,787

Note 17 - Discounting of Liabilities for Unpaid Benefits or Unpaid Claims Administration Expenses

The case reserves shown in this exhibit are the reserves only for pensions awarded through June 30, 2020. The Industrial Insurance Fund estimates case reserves on certain other individual claims solely for the purpose of classification rating, retrospective rating, and experience rating. Such case reserves are not maintained on claims that do not enter the rating calculations, so they are not meaningful for claims more than approximately seven years old.

17.A. Tabular Discounts

The mortality tables are based on a 2014 study of Industrial Insurance Fund claimant data and the 2000 U.S. Census data. The liabilities for pensions already granted were discounted at 4.5 percent per annum for State Fund liabilities, and 5.9 percent per annum for Self-insured liabilities. The liabilities for pensions incurred but not yet granted were discounted at 4.5 percent per annum. The June 30, 2020, liabilities included $7,919,813,000 of such reserves, net of tabular discounts. The amount of the tabular discount for case reserves (i.e., pensions already granted) was $3,423,684,000 and was $2,169,307,000 for incurred but-not-reported (IBNR) reserves at June 30, 2020. Tabular discount accretion decreased by $46,040,000 in fiscal year 2020 to $252,618,000.

At June 30, 2019, the liabilities, net of tabular discounts, amounted to $7,734,605,000. The amount of the tabular discount for case reserves was $3,425,131,000 and was $1,902,714,000 for IBNR reserves. Tabular discount accretion increased by $17,292,000 in fiscal year 2019 to $298,658,000.

Liabilities Discounted on a Tabular Basis*
June 30, 2020
(in thousands)

Fiscal Accident Year	Undiscounted Benefit Liabilities Gross of Tabular Discounts	Tabular Discounts** Case	Tabular Discounts** IBNR	Benefit Liabilities Net of Tabular Discounts
2010 & Prior	$ 7,871,511	$ 2,674,884	$ 415,847	$ 4,780,780
2011	510,198	150,458	77,223	282,517
2012	483,202	134,050	82,603	266,549
2013	489,863	114,443	105,827	269,593
2014	524,775	105,466	130,960	288,349
2015	513,312	81,591	150,105	281,616
2016	522,323	62,353	173,478	286,492
2017	560,434	39,008	213,648	307,778
2018	647,474	29,249	253,623	364,602
2019	684,853	19,862	277,119	387,872
2020	704,859	12,320	288,874	403,665
Total	$ 13,512,804	$ 3,423,684	$ 2,169,307	$ 7,919,813

*Includes liabilities for pensions already granted and pensions incurred but not yet granted.
**The amount of interest accretion from tabular discounts included in benefits incurred and claims administration expense incurred in the Combined Statutory Statement of Operations and Changes in Contingency Reserve was $252,618,000 and $0, respectively.

Liabilities Discounted on a Tabular Basis*
June 30, 2019
(in thousands)

Fiscal Accident Year	Undiscounted Benefit Liabilities Gross of Tabular Discounts	Tabular Discounts** Case	Tabular Discounts** IBNR	Benefit Liabilities Net of Tabular Discounts
2009 & Prior	$ 7,631,813	$ 2,637,683	$ 353,518	$ 4,640,612
2010	542,954	166,065	75,145	301,744
2011	521,301	147,205	85,570	288,526
2012	488,089	127,882	90,744	269,463
2013	507,002	103,510	122,000	281,492
2014	530,434	85,654	149,837	294,943
2015	494,328	62,659	157,894	273,775
2016	476,653	36,298	175,347	265,008
2017	601,645	23,651	229,303	348,691
2018	631,067	20,568	234,504	375,995
2019	637,164	13,956	228,852	394,356
Total	$ 13,062,450	$ 3,425,131	$ 1,902,714	$ 7,734,605

*Includes liabilities for pensions already granted and pensions incurred but not yet granted.
**The amount of interest accretion from tabular discounts included in benefits incurred and claims administration expense incurred in the Combined Statutory Statement of Operations and Changes in Contingency Reserve was $298,658,000 and $0, respectively.

17.B. Non-Tabular Discounts

The non-tabular discount rate is made up of a benchmark rate less a risk adjustment rate, rounded to the nearest one-half percentage point. The benchmark rate is the five-year moving average of the U.S. 20-Year Treasury yield. The risk adjustment equals two percentage points until the benchmark rate reaches 4.0 percent. Below 4.0 percent, the risk adjustment is one-half the benchmark rate rounded to the nearest one-half percent. As of June 30, 2020, the benchmark rate was 2.46 percent, and the indicated non-tabular discount rate was 1.0 percent. The non-tabular discount is calculated using the selected non-tabular discount rate and the anticipated payout of the liabilities.

The June 30, 2020, liabilities included $8,495,280,000 of reserves for benefits and $860,619,000 of reserves for claims administration expenses, net of tabular and non-tabular discounts. The amount of the non-tabular discounts for IBNR reserves was $993,185,000; the amount for defense and cost containment (DCC) expense reserves was $70,691,000; and the amount for adjusting and other (AO) expense reserves was $13,620,000. Non-tabular discount accretion for benefit liabilities and claims administration decreased by $9,062,000 and expense liabilities increased $1,854,000 in fiscal year 2020 to $109,095,000 and $11,073,000 respectively.

The June 30, 2019, liabilities included $7,858,781,000 of reserves for benefits and $803,734,000 of reserves for claims administration expenses, net of tabular and non-tabular discounts. The amount of the non-tabular discounts for IBNR reserves was $1,450,867,000; the amount for defense and cost containment (DCC) expense reserves was $102,136,000; and the amount for adjusting and other (AO) expense reserves was $18,726,000. Non-tabular discount accretion for benefit liabilities and claims administration expense liabilities increased by $3,364,000 and $976,000 in fiscal year 2019 to $118,157,000 and $9,219,000 respectively.

Liabilities Discounted on a Non-Tabular Basis*
June 30, 2020
(in thousands)

Fiscal Accident Year	Benefit & CAE Liabilities Net of Tabular and Gross of Non-Tabular Discount	Non-Tabular Discounts** Case	IBNR	DCC	AO	Benefit & CAE Liabilities Net of Tabular and Non-Tabular Discount
2010 & Prior	$ 2,896,525	$ -	$ 381,330	$ 28,182	$ 2,012	$ 2,485,001
2011	276,645		30,733	2,230	323	243,359
2012	299,133		32,163	2,330	363	264,277
2013	367,487		36,991	2,655	476	327,365
2014	470,073		46,136	3,286	625	420,026
2015	545,198		49,747	3,498	788	491,165
2016	643,189		56,525	3,948	946	581,770
2017	815,289		66,840	4,635	1,240	742,574
2018	1,053,103		81,324	5,569	1,719	964,491
2019	1,339,702		98,510	6,710	2,253	1,232,229
2020	1,727,051		112,886	7,648	2,875	1,603,642
Total	$ 10,433,395	$ -	$ 993,185	$ 70,691	$ 13,620	$ 9,355,899

*Excludes liabilities for pensions already granted, but includes liabilities for pensions incurred but not yet granted.

**The amount of interest accretion from non-tabular discounts included in benefits incurred and claims administration expense incurred in the Combined Statutory Statement of Operations and Changes in Contingency Reserve was $109,095,000 and $11,073,000, respectively.

Liabilities Discounted on a Non-Tabular Basis*
June 30, 2019
(in thousands)

Fiscal Accident Year	Benefit & CAE Liabilities Net of Tabular and Gross of Non-Tabular Discount	Non-Tabular Discounts** Case	IBNR	DCC	AO	Benefit & CAE Liabilities Net of Tabular and Non-Tabular Discount
2009 & Prior	$ 2,989,696	$ -	$ 579,609	$ 42,442	$ 2,970	$ 2,364,675
2010	311,530		51,908	3,723	490	255,409
2011	331,659		52,258	3,728	566	275,107
2012	351,091		53,618	3,820	629	293,024
2013	450,852		62,638	4,397	897	382,920
2014	568,649		77,331	5,390	1,155	484,773
2015	632,433		81,200	5,607	1,341	544,285
2016	728,751		89,643	6,142	1,563	631,403
2017	990,483		110,937	7,466	2,329	869,751
2018	1,247,727		133,876	8,931	3,013	1,101,907
2019	1,631,373		157,849	10,490	3,773	1,459,261
Total	$ 10,234,244	$ -	$ 1,450,867	$ 102,136	$ 18,726	$ 8,662,515

*Excludes liabilities for pensions already granted, but includes liabilities for pensions incurred but not yet granted.

**The amount of interest accretion from non-tabular discounts included in benefits incurred and claims administration expense incurred in the Combined Statutory Statement of Operations and Changes in Contingency Reserve was $118,157,000 and $9,219,000, respectively.

Note 18 - Asbestos and Environmental Reserves

Claims related to asbestos and hazardous chemicals or waste arise mainly as a result of the claimants' exposure at work and are covered by the Industrial Insurance Fund. There is not a large exposure, and it is not fundamentally different from any other injury due to exposure to hazardous materials in normal industrial activity. Case and incurred-but-not-reported (IBNR) reserves related to asbestos or environmental exposure claims are not specifically reserved. IBNR and claim administrative expenses (CAE) reserves related to asbestos or environmental claims are included as part of benefit and CAE liabilities.

The table below shows a gross basis for the case reserves related to asbestos. L&I first purchased reinsurance in February 2019, but has not had any reinsurance claims.

Workers' Compensation
Asbestos Claims

	Fiscal Year 2020	Fiscal Year 2019
Beginning case reserve related to asbestos	$ 43,101,779	$ 39,874,992
Benefits incurred	5,175,296	10,270,439
Payments made	(6,539,288)	(7,043,652)
Ending case reserve related to asbestos	$ 41,737,787	$ 43,101,779

Note: Amounts are case reserves and do not include IBNR or CAE reserves.

Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

State of Washington Industrial Insurance Fund
Schedule of Undiscounted Claims Development Information
Fiscal Years 2011 through 2020
(dollars in millions)

The table below illustrates how the Industrial Insurance Fund's earned revenues (net of reinsurance) and investment revenues compared to the related costs of losses (net of loss assumed by reinsurers) and other expenses assumed by the program as of the end of each of the last ten fiscal years. The Industrial Insurance Fund purchased reinsurance in February 2019 and has not had a qualifying event that generated a recovery.

The columns of the table show data for successive fiscal years.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net earned required contribution and investment revenues	$ 2,525	$ 2,581	$ 1,928	$ 2,888	$ 2,113	$ 2,931	$ 2,770	$ 2,448	$ 3,477	$ 3,859
Estimated incurred claims and expenses, end of fiscal accident year	2,254	2,086	2,105	2,061	2,304	2,205	2,218	2,311	2,208	2,367
Paid (cumulative) as of										
End of fiscal accident year	289	284	296	297	301	304	309	326	321	327
One year later	584	580	593	613	605	614	627	648	656	
Two years later	747	734	755	778	766	771	788	817		
Three years later	857	840	866	888	874	877	901			
Four years later	940	918	949	973	956	957				
Five years later	1,006	979	1,016	1,044	1,020					
Six years later	1,060	1,029	1,072	1,099						
Seven years later	1,106	1,075	1,117							
Eight years later	1,151	1,113								
Nine years later	1,189									
Re-estimated incurred claims and expenses *										
End of fiscal accident year	2,254	2,086	2,105	2,061	2,304	2,205	2,218	2,311	2,208	2,367
One year later	2,139	2,026	2,001	2,175	2,124	2,119	2,173	2,171	2,311	
Two years later	2,066	1,967	2,036	2,097	2,045	2,032	2,061	2,185		
Three years later	2,012	1,878	2,025	2,061	1,963	1,867	2,020			
Four years later	1,986	1,960	1,995	2,040	1,886	1,921				
Five years later	2,060	1,874	1,948	1,966	1,905					
Six years later	1,956	1,855	1,890	1,953						
Seven years later	1,953	1,819	1,867							
Eight years later	1,916	1,815								
Nine years later	1,904									
Increase (decrease) in estimated incurred claims and expenses from end of policy year **	(350)	(271)	(238)	(108)	(399)	(284)	(198)	(126)	103	
Percentage change in estimated incurred claims and expenses	(15.5%)	(13.0%)	(11.3%)	(5.2%)	(17.3%)	(12.9%)	(8.9%)	(5.5%)	4.7%	

Source: Washington State Department of Labor & Industries Actuarial Services

* Re-estimated claims and expenses result from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.

** This line compares the latest re-estimated incurred claims amount to the amount originally established and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in more recent fiscal accident years.

Supplemental Investment Risk Interrogatories
June 30, 2020

1. The Industrial Insurance Fund's total admitted assets as reported on page 33 of this annual Statutory Financial Information Report were $19,186,754,000 at June 30, 2020.

2. The following are the Industrial Insurance Fund's ten largest exposures to a single issuer/borrower/investment by investment category, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed as exempt in the Appendix to the Securities Evaluation Office's *Practices and Procedures Manual*, (ii) property occupied by the Industrial Insurance Fund, and (iii) policy loans:

	Amount	Percentage of Total Admitted Assets
Bonds - JPMorgan Chase & Co	$ 179,996,000	0.94%
Bonds - Freddie Mac	175,676,000	0.92%
Bonds - Mitsubishi UFJ Fin Group	171,029,000	0.89%
Bonds - Fannie Mae	164,655,000	0.86%
Bonds - Apple Inc	160,307,000	0.84%
Bonds - Boeing Co	148,908,000	0.78%
Bonds - FHLMC Gold	134,870,000	0.70%
Bonds - Toronto Dominon Bank	129,928,000	0.68%
Bonds - Goldman Sachs Group Inc	129,797,000	0.68%
Bonds - Novaris Capital Corp	118,970,000	0.62%

3. The Industrial Insurance Fund's total admitted assets held in bonds and preferred stocks, by National Association of Insurance Commissioners' designation, including bonds classified as short-term investments at June 30, 2020, were:

	Amount	Percentage of Total Admitted Assets
Bonds with an NAIC rating of 1	$ 11,307,977,000	58.94%
Bonds with an NAIC rating of 2	3,252,270,000	16.95%
Bonds with an NAIC rating of 3	75,879,000	0.40%
Bonds with an NAIC rating of 4	56,351,000	0.29%

4. Assets held in foreign investments:

   Assets held in foreign investments exceeded 2.5 percent of the Industrial Insurance Fund's total admitted assets.

Supplemental Investment Risk Interrogatories
June 30, 2020

Total admitted assets held in foreign investments at June 30, 2020:

Asset Type	Amount	Percentage of Total Admitted Assets
Bonds	$ 3,857,588,000	20.11%
Equities	1,379,553,000	7.19%

Total admitted assets held in foreign investments in bonds by NAIC rating at June 30, 2020:

NAIC Designation	Amount	Percentage of Total Admitted Assets
Countries rated NAIC – 1	$ 3,106,678,000	16.20%
Countries rated NAIC – 2	389,275,000	2.03%
Countries rated NAIC – 3 or below	361,635,000	1.88%

The two countries with the largest foreign investment exposure in each NAIC designation at June 30, 2020:

Issuer	NAIC Designation	Amount	Percentage of Total Admitted
Japan	1	$ 504,168,000	2.63%
United Kingdom	1	452,865,000	2.36%
Indonesia	2	144,244,000	0.75%
India	2	79,587,000	0.41%
SupraNational	3 or below	244,535,000	1.27%
Brazil	3 or below	109,712,000	0.57%

Supplemental Investment Risk Interrogatories
June 30, 2020

Ten largest non-sovereign (i.e., non-governmental) investments held in foreign issues at June 30, 2020:

Issuer	NAIC Designation	Amount	Percentage of Total Admitted
Mitsubishi UFJ Fin Group	1	$ 171,029,000	0.89%
Mizuho Financial Group	1	95,000,000	0.50%
BNP Paribas	1	75,473,000	0.39%
Barclays PLC	2	74,950,000	0.39%
Codelco Inc	1	74,093,000	0.39%
Westpac Banking Corp	2	69,998,000	0.36%
Commonwealth Bank Aust	1	64,989,000	0.34%
Astrazeneca PLC	2	64,776,000	0.34%
BNZ Intl Funding London	1	59,962,000	0.31%
Tencent Holdings LTD	1	56,972,000	0.30%

	Amount	Percentage of Total Admitted
5. Total admitted assets held in Canadian investments	$1,226,454,000	6.39%

Assets held in Canadian investments exceeded 2.5 percent of the Industrial Insurance Fund's total admitted assets.

6. The Industrial Insurance Fund had no investments with *contractual sales restrictions*, which are defined as "investments having restrictions that prevent investments from being sold within 90 days."

7. The Industrial Insurance Fund's admitted assets held in equity interests, including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities (including Schedule BA equity interests), and excluding money market and bond mutual funds listed in the Appendix to the SVO's *Practices and Procedures Manual* as exempt, or Class 1, were:

Fund	Amount	Percentage of Total Admitted Assets
MSCI ACWI IMI Index Fund B2	$ 3,347,867,000	17.45%

Assets held in equity interests exceeded 2.5 percent of the Industrial Insurance Fund's total admitted assets.

Supplemental Investment Risk Interrogatories
June 30, 2020

8. The Industrial Insurance Fund did not hold any non-affiliated, privately placed equities under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

9. The Industrial Insurance Fund did not hold general partnership interests.

10. The Industrial Insurance Fund did not own any mortgage loans.

11. Total admitted assets held in limited partnership interest in real estate investments:

	Amount	Percentage of Total Admitted Assets
Aevitas Venture Investors	$ 11,595,000	0.06%

Assets held in real estate investments were less than 2.5 percent of the Industrial Insurance Fund's total admitted assets.

12. The Industrial Insurance Fund held no investments in mezzanine real estate loans.

13. The Industrial Insurance Fund did not have admitted assets subject to repurchase agreements, reverse repurchase agreements, dollar repurchase agreements, or dollar reverse repurchase agreements at June 30, 2020.

14. The Industrial Insurance Fund did not own any warrants not attached to other financial instruments, options, caps, or floors at June 30, 2020.

15. The Industrial Insurance Fund did not have any exposure for collars, swaps, or forwards during fiscal year 2020.

16. The Industrial Insurance Fund did not have any potential exposure for futures contracts during fiscal year 2020.

Summary Investment Schedule
June 30, 2020

The Industrial Insurance Fund held cash and invested assets as of June 30, 2020, consisting of the following:

	Gross Investment Holding		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
Bonds						
U.S. Government	$ 2,469,921,000	13.28%	$ 2,469,921,000	$ -	$ 2,469,921,000	13.28%
All other governments	1,439,002,000	7.74%	1,439,002,000		1,439,002,000	7.74%
U.S. special revenue & special assessment obligations, etc. non-guaranteed	618,937,000	3.33%	618,937,000	-	618,937,000	3.33%
Industrial and miscellaneous	10,056,618,000	54.08%	10,056,618,000	-	10,056,618,000	54.08%
Hybrid securities	107,999,000	0.58%	107,999,000	-	107,999,000	0.58%
Common Stocks						
Industrial and miscellaneous (unaffiliated) publicly traded	3,347,867,000	18.00%	3,347,867,000	-	3,347,867,000	18.00%
Other Invested Assets						
Joint venture, partnership or limited liability company interests for which the underlying assets have the characteristics of real estate	11,595,000	0.06%	11,595,000	-	11,595,000	0.06%
Cash, Cash Equivalents and Restricted Cash						
Cash	3,565,000	0.02%	3,565,000	-	3,565,000	0.02%
Cash equivalents	424,547,000	2.28%	424,547,000	-	424,547,000	2.28%
Restricted Cash	461,000	0.00%	461,000	-	461,000	0.00%
Interest Receivable	115,328,000	0.62%	115,328,000	-	115,328,000	0.62%
Total Invested Assets	$18,595,840,000	100.00%	$18,595,840,000	$ -	$18,595,840,000	100.00%

Supplemental Reinsurance Interrogatories
June 30, 2020

Provided below are management's responses to certain reinsurance interrogatories required by NAIC Statutory Accounting Principles.

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes [ ] No [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions.

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [ ] No [ ]

8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes [ ] No [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results: A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(a) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
(c) Aggregate stop loss reinsurance coverage;
(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity?
Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.
Yes [ ] No [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [ ] No [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:

(a) The entity does not utilize reinsurance; or, Yes [ ] No [X]

(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or
Yes [ ] No [X]

(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement.
Yes [ ] No [X]

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Independent Actuarial Opinion

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Deloitte.

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October 14, 2020

June 30, 2020 Statement of Actuarial Opinion

State of Washington – Industrial Insurance Fund

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. I was appointed by the Washington State Auditors' Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Industrial Insurance Fund's ("the Fund") carried loss and loss adjustment expense reserves as of June 30, 2020. I meet the qualification standards promulgated by the American Academy of Actuaries and am appropriately qualified to perform these procedures and issue Statements of Actuarial Opinion. I have attested compliance with the Casualty Actuarial Society Continuing Education Policy as of December 31, 2019 to perform actuarial services in 2020.

The Fund is comprised of three Workers' Compensation Program Accounts: the Accident Account, the Medical Aid Account, and the Pension Reserve Account. The Fund is currently administered by the State of Washington Department of Labor & Industries ("the Department").

The intended purpose of this opinion is to provide an opinion on the carried loss and loss adjustment expense reserves as of June 30, 2020. The intended users of this opinion are the Department and the State Auditor' Office. The loss and loss adjustment expense reserves are the responsibility of Department. My responsibility is to express an opinion on those reserves based on my review.

Scope

I have examined the reserves listed in Exhibit A, as shown in the Fund's Statutory Financial Information Report, as of June 30, 2020. The loss and loss adjustment expense reserves ("reserves") specified in Exhibit A, where applicable, include provisions for Disclosure items (disclosures 8 thru 12) in Exhibit B. I have reviewed the June 30, 2020 loss and loss adjustment expense reserves recorded under U.S. Statutory Accounting Principles. My review considered data evaluated as of June 30, 2020 and additional information provided to me through the date of this opinion.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by Mr. William Vasek, the Department's Chief Actuary, his actuarial staff, and Rob Cotton, the Department's Chief Accounting Officer. I evaluated that data for reasonableness and consistency. In performing this evaluation, I have assumed that the Department (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. In other respects, my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

My review was limited to items listed in Exhibit A, and did not include an analysis of any other balance sheet items. I have not examined the Fund's assets and I have formed no opinion as to the validity or value of these assets.

Opinion

In my opinion, the amounts carried in Exhibit A on account of the items identified:

(A) meet the requirements of the insurance laws of the State of Washington;

(B) are consistent with reserves computed in accordance with accepted actuarial standards and principles;

(C) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Fund under the terms of its contracts and agreements.

Relevant Comments

A. Company-Specific Risk Factors

Actuarial estimates of property and casualty loss and loss adjustment expense unpaid claims are inherently uncertain because they are dependent on future contingent events. Also, these unpaid claim estimates are generally derived from analyses of historical data, and future events or conditions may differ from the past. The actual amount necessary to settle the unpaid claims may therefore be significantly different from the reserve amounts listed in Exhibit A.

The major factors and/or particular conditions underlying the risk and uncertainties that I consider relevant to the Department's estimates of unpaid losses and loss adjustment expenses as of June 30, 2020 are described in the sections below. These include but are not necessarily limited to the following items.

By statute, the Fund's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Fund's loss and loss adjustment expense reserves. Such trends would include legislative benefit level changes and adverse decisions or interpretations of law that may have an effect on all open workers' compensation claims.

A major assumption in the analysis of the medical component of the workers' compensation reserves is the selection of a long-term medical trend factor to apply to future calendar year medical payments. Estimating medical trend is difficult because it is highly variable. In my opinion, there is a higher than normal degree of variability associated with the Fund's medical loss reserves due to the uncertainty surrounding future medical trends and the expected length of medical payments.

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money using an average annual interest rate of 2.97%. Changes to the interest rate used for discounting could result in material changes to the reserves. I note that the current risk free interest rate matching the duration of these liabilities (approximately 14.8 years) was 0.91% as of June 30, 2020 and 2.15% as of June 30, 2019.

The Fund defines its “Contingency Reserve” as the difference between its assets and liabilities. Other insurance companies typically refer to this Contingency Reserve as Statutory Surplus. Due to the size of the Fund’s Contingency Reserve, $3.994 billion, relative to the size of its loss and loss adjustment expense reserve, $14.755 billion, any small changes in reserves will have a material impact on the Contingency Reserve. The current reserve leverage ratio (reserve / contingency reserve) is significantly higher than the majority of workers’ compensation carriers in the industry and workers’ compensation funds in other states, although the Fund’s leverage ratio has been declining in recent years except this year where the ratio increased due to decreases in the interest rates used to discount the reserves.

An implicit assumption in the Department’s actuarial review is that the State of Washington cost of living adjustments will be similar to cost of living adjustments approved by the Federal Government for Social Security retirement benefits. Future State of Washington cost of living adjustments that vary significantly from those approved by the Federal Government for Social Security retirement benefits could result in a material change in future costs and the adequacy of the reserves, especially for the Pension Reserve Account.

The COVID-19 pandemic has impacted the number and severity of reported claims over the last few months of the most recent fiscal accident year. In addition, the resultant shutdowns and economic downturn has had an effect on medical treatment, legal processes, and business operations potentially causing the development of losses for previously reported claims to be understated for the period starting with the pandemic’s inception through the evaluation date of the data for this opinion. The volume of data affected by the pandemic which was available at the time of my analysis is small and immature. In my analysis I have incorporated estimated adjustments to the actuarial assumptions in consideration of the effects of the pandemic. However, I caution that the volatility and uncertainty of my projections are increased due to the lack of sufficiently credible data.

B. Risk of Material Adverse Deviation

With respect to this Statement of Actuarial Opinion, the amount of adverse deviation that I consider to be material is $799 million. My basis for determining this amount is 20% of the Contingency Reserve. This amount represents a reasonable upward fluctuation in reserves from those carried by the Fund that would be material to the Contingency Reserve. My materiality standard was selected based on the context in which this opinion letter will be used. It is prepared solely to assess the reasonableness of the Fund’s loss and loss adjustment expense reserves. Other measures of materiality might be used for reserves that are being evaluated in a different context.

I believe there are significant risks and uncertainties with the Fund’s net loss and loss adjustment expenses that could result in material adverse deviation. I have identified those risk factors as the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, reserve leverage, and future cost of living adjustments. These risk factors are described in greater detail in the preceding paragraph and in the report supporting this opinion. The absence of other risk factors from this commentary is not meant to imply that additional factors cannot be identified in the future as having had a significant influence on the Fund’s reserves.

C. Other Disclosures in Exhibit B

Discounting

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rates as follows.

- For the Medical Aid Account, the Department's selected interest rate is 1.0%.
- For "state fund pensions" within the Pension Reserve Account, the Department's selected interest rate is 4.5%.
- For "self-insured pre-funded pensions" within the Pension Reserve Account, the Department's selected interest rate is 5.9% according to the Washington administrative code rule WAC 296-14-8810. The rates selected for self-insured pre-funded pensions is allowed to be different from the rate selected for state fund pensions according to SB6393.
- For the Accident Account, combinations of interest rates are used to discount the reserves. The future total permanent disability and fatal transfers made to the Pension Reserve Account assume interest discounts based on an annual rate of 4.5%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.0%.

The average combined interest rate for the Program is approximately 2.97% with a total discount amount of $6.67 billion. The interest rates were selected by the Department, and I make no opinion regarding the appropriateness of the selected rates. I note that the current risk free interest rate matching the duration of these liabilities was 0.91% as of June 30, 2020 and 2.15% as of June 30, 2019.

The interest rates used for the self-insured pre-funded pensions within the Pension Reserve Account changed from 6.0% last year to 5.9% this year while the interest rates used for the "state fund pensions" within the Pension Reserve Account remained the same at 4.5%. The future total permanent disability and fatal transfers made from the Accident Account to the Pension Reserve Account remained the same at 4.5% while the interest rates used for the actual transfer payments and all other Accident Account and Medical Aid Account payments changed from 1.5% to 1.0% this year. The effect of changing these interest rate assumptions this year was an increase in the discounted reserve of $469.1 million.

Underwriting Pools or Associations

The Fund participates in the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan ("WARP") which was established to provide USL&H workers' compensation insurance coverage for employers unable to purchase it through the normal private insurance market. The Fund pays assessments to WARP and participates in any underwriting losses or surpluses incurred by WARP. Based on discussions with the Department, I understand that WARP is not currently in a deficit position. Therefore, the Fund has not booked a reserve to account for any unpaid claims related to WARP.

I understand that the Fund does not participate in any other voluntary or involuntary pools.

Asbestos Exposures and Environmental Exposures

I have reviewed the Fund's exposure to asbestos and environmental claims. There has been no reported claim activity. In my opinion, the chance of material liability related to asbestos and environmental claims is remote. The Fund has not provided coverage that could reasonably be expected to produce material levels of asbestos and/or environmental liability claims activity.

Disclosure of Total Claims Made Extended Loss and Loss Expense Reserves

Department management has informed me that the Fund does not provide extended reporting coverage at no additional charge in the event of death, disability, or retirement of the insured.

Disclosure of Accident and Health (A&H) Long Duration Contracts

Department management has informed me that the Fund does not write A&H policies with contract terms of thirteen months or greater and for which contract reserves are required.

Disclosure of Unearned Premium Reserves for Property and Casualty (P&C) Long Duration Contracts

Department management has informed me that the Fund does not write single or fixed premium policies with coverage periods of thirteen months or greater which are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty policies, and surety contracts).

Other items on which the Appointed Actuary is providing Relevant Comments disclosed in Exhibit B

D. Reinsurance

Reinsurance Collectability

Use of ceded reinsurance is minimal and is limited to catastrophic events and terrorism coverage at high limits in older years and once again purchased effective February 1, 2019 and subsequent. The current reinsurance program consists of two excess of loss contracts. The first excess of loss contract covers catastrophic or terrorism events that exceed $200 million up to $500 million per occurrence of which the Fund retains 8.342% of the losses in the layer. The second excess of loss contract covers catastrophic or terrorism events that exceed $500 million up to $1.0 billion per occurrence of which the Fund retains 5.1126% of the losses in the layer. All reinsurers are rated A or better by AM Best. As of June 30, 2020, Fund management has informed me that it is not aware of any catastrophic events that would trigger a reinsurance recovery. Therefore, there are currently no ceded reserves recorded as of June 30, 2020 and no reinsurance collectability problems. With respect to loss and loss adjustment expense reserves net of ceded reinsurance, I have not anticipated any contingent liability which could arise if any of the reinsurers prove unable to meet their loss and loss adjustment expense obligations under the terms and conditions of their contracts with the Fund.

Retroactive Reinsurance, Financial Reinsurance

Based on discussions with Department management and its description of the Fund's ceded reinsurance, I am not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

E. Methods and Assumptions

With the economic downtown related to Covid-19, it is expected that the claim count persistency rates (i.e. number of active time-loss claims) will increase in the near future. The Department's actuarial methodologies for certain types of claim categories (i.e. medical, time-loss, and total permanent disability) are highly dependent on a future estimate of the persistency rates. The future persistency rate assumptions selected over the past year by the Department have increased to reflect the actual anticipated increase in persistency rates due to the economic downturn. This increase in assumption has caused an increase in the estimate of unpaid claims of approximately $106.9 million.

The Department reduced the long term medical trend assumption this year by 50 basis points to reflect the lower medical inflation rates that have occurred in most recent years. The medical non-hearing loss trend assumption was lowered from 4.5% to 4.0% annually and the medical hearing loss trend assumption was lowered from 5.5% to 5.0%. The effect of this assumption change was a decrease of $335.7 million in the Medical Aid Account discounted reserve at 1.0%.

Effective May 15, 2019, there was a rule change (WAC 296-20-1101) that caused an increase in the estimate of unpaid hearing loss claims. The rule change required the replacement of hearing aids upon request five years after the issue date of the current hearing aid and battery replacement for the life of the hearing aid. Previously, the Department or self-insurer was only required to bear the cost of repairing or replacing the hearing aid due to normal wear and tear at its discretion. Over the past year, there has been greater than expected development in the number of hearing loss claims. The average hearing loss claims per active claim are increasing more than expected as more claimants are requesting hearing aids rather than other (less expensive) services. In addition, the general injured worker population has become more aware of both the ability to request new hearing aids, and to request hearing aid replacements, as opposed to a repair. The Department's new estimate of the medical hearing loss claims has increased approximately $120 million since the June 30, 2019 estimate to account for this greater than expected development.

Beginning in fiscal year 2020, the Department initiated a Workers' Compensation System Modernization (WCSM) project to update its policy, administration, and claim systems. The anticipated cost of WCSM is approximately $245 million over the next eight fiscal years. The Department assumes that approximately 2/3 of the cost will be claims related and will expense the allocated State Fund costs (i.e. excluding costs allocated to self-insureds) through its claims administration expense (CAE). The CAE related cost has been distributed to both future and historical fiscal accident years. The estimated amount allocated to fiscal years 2020 and prior and included in the reserves as of June 30, 2020 totals $57.4 million on a discounted basis and $59.3 million on an undiscounted basis.

F. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expense, it is necessary to project future loss and loss adjustment expense payments. It is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur. Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Fund's historical database or which are not yet quantifiable.

Actuarial Report

An actuarial report and underlying actuarial workpapers supporting the findings expressed in this Statement of Actuarial Opinion will be provided to the Department to be retained for a period of seven years in the administrative offices of the Department and available for regulatory examination.

This Opinion is solely for the use of assessing the reasonableness of the loss and loss adjustment expense reserves and is only to be relied upon by the Fund and the State.

Rod Morris

____

Rod Morris, FCAS, FSA, MAAA
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(213) 688-3374
rmorris@deloitte.com
October 14, 2020

Statement of Actuarial Opinion – Year Ended June 30, 2020

State of Washington Industrial Insurance Fund

Exhibit A: SCOPE

Loss and Loss Adjustment Expense Reserves:	
1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)	$13,893,986,000
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3) Total Net Loss and Loss Adjustment Expense Reserves	$ 860,620,000 **$14,754,606,000**
3. Unpaid Losses – Direct and Assumed (Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1,000)	$13,893,986,000
4. Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1,000) Total Direct and Assumed Loss and Loss Adjustment Expense Reserves	$ 860,620,000 **$14,754,606,000**
5. The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	$
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	$
Premium Reserves:	
7. Reserve for Direct and Assumed Unearned Premiums for P&C Long Duration Contracts	$
8. Reserve for Net Unearned Premiums for P&C Long Duration Contracts	$
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	$

Statement of Actuarial Opinion – Year Ended June 30, 2020

State of Washington Industrial Insurance Fund

Exhibit B: DISCLOSURES

<table>
<tr><th>Item:</th><th colspan="3"></th></tr>
<tr><td rowspan="2">1. Name of the Appointed Actuary</td><td>Last</td><td>First</td><td>Middle</td></tr>
<tr><td>Rodney</td><td>Scott</td><td>Morris</td></tr>
<tr><td>2. The Appointed Actuary’s Relationship to the Fund. Enter E or C based upon the following:
E if an Employee of the Fund or Group
C if a Consultant</td><td colspan="3">C</td></tr>
<tr><td>3. The Appointed Actuary’s Accepted Actuarial Designation (indicated by the letter code):
F if a Fellow of the Casualty Actuarial Society (FCAS)
A if an Associate of the Casualty Actuarial Society (ACAS)
S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track
M if the actuary does not have an Accepted Actuarial Designation but is approved by the Academy’s Casualty Practice Council.
O for Other</td><td colspan="3">F</td></tr>
<tr><td>4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following:
R if Reasonable
I if Inadequate or Deficient Provision
E if Excessive or Redundant Provision
Q if Qualified. Use Q when part of the OPINION is Qualified.
N if No Opinion</td><td colspan="3">R</td></tr>
<tr><td>5. Materiality Standard expressed in U.S. dollars (Used to answer Question #6.)</td><td colspan="3">$798,986,600</td></tr>
<tr><td>6. Are there significant risks that result in Material Adverse Deviation?</td><td colspan="3">YES [X]
NO [ ]
N/A [ ]</td></tr>
<tr><td>7. Statutory Surplus (Contingency Reserve)</td><td colspan="3">$3,994,933,000</td></tr>
</table>

Exhibit B: DISCLOSURES

Item:	Amount
8. Discount included as a reduction to loss reserves and loss adjustment expense reserves	
8.1 Non-tabular Discount	$1,077,497,000
8.2 Tabular Discount	$5,592,992,000
9. The net reserves for losses and loss adjustment expenses for the Fund's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses	N/A
10. The net reserves for losses and loss adjustment expenses that the Fund carries for the following liabilities	
10.1 Asbestos	$0
10.2 Environmental	$0
11. The total claims made extended loss and loss adjustment expense reserve	
11.1 Amount reported as loss and loss adjustment reserves	$0
11.2 Amount reported as unearned premium reserves	$0
12. The net reserves for A&H Long Duration Contracts that the Fund carries	
12.1 Losses	$0
12.2 Loss Adjustment Expenses	$0
12.3 Unearned Premium	$0

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