Washington State Department of
Labor & Industries

Workers' Compensation Program
An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020
Olympia, Washington



Workers' Compensation Program
An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2020

Olympia, Washington

Prepared by:

Department of Labor and Industries
Joel Sacks, Director
Elizabeth Smith, Deputy Director
Randi Warick, Deputy Director for Strategy and Finance

Actuarial Services
Bill Vasek, FCAS, Senior Actuary
Joshua Ligosky, FCAS, MAAA
Mark Phillips, FCAS
Casey Tozzi, ACAS, MAAA

Financial Services
Rob Cotton, MBA, CPA, CMA, CGAP, Chief Accounting Officer
Rachel Swanner, MBA, Workers' Compensation Accounting Manager
Diane Bren, CPA,CFE, Operations Manager
Margo Driver, CPA, Revenue Accounting Manager
Linda Tilson, Accounting Services Manager
Teresa Andrews, Workers' Compensation Accountant
Dave Frederick, Workers' Compensation Accountant
Kendra Hanson, Workers' Compensation Accountant
Kay Kim, CPA, Workers' Compensation Accountant
Cathy Mowlds, Workers' Compensation Accountant
Yvonne Quijano, Workers' Compensation Accountant
Financial Services Program Personnel

Insurance Services Division Personnel

Additional assistance provided by:
Washington State Office of Financial Management
Washington State Investment Board

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Table of Contents

Table of Contents

Continued

Page

STATISTICAL SECTION

INDEPENDENT ACTUARIAL OPINION

Introductory Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

STATE OF WASHINGTON
DEPARTMENT OF LABOR AND INDUSTRIES
P.O. Box 44000 • Olympia, Washington 98504-4000

November 23, 2020

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

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program 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 State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program's financial statements for the year ended June 30, 2020. 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 basic 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 Provider One 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 lookup 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.

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system. The Workers' Compensation Program 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.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2019-2021 appropriated budget for administering the Workers' Compensation Program was $885,038,812, which included $818,559,812 that was appropriated to L&I and the remainder for other state agencies. This budget included $20,089,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program, the Division of Occupational Safety and Health (DOSH), and the Washington State Apprenticeship Program. The appropriated administering budget for fiscal year 2020 for the Workers' Compensation Program was $425,475,500, and the portion of the total fiscal year 2020 budget for L&I was $392,211,500.

The benefit expense portions of the accounts that make up the program are non-appropriated and non-allotted. Premiums collected from employers and workers and investment earnings finance the cost of providing medical coverage, time-loss payments, and disability benefits to qualifying individuals sustaining work-related injuries and illnesses, as well as Stay at Work reimbursements and structured settlements.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES – FISCAL YEAR 2020[1]

Washington was the thirteenth most populous state in 2019 (calendar year), with a population of 7.6 million,[2] and the tenth largest state economy in the United States (U.S.) (seasonally adjusted annual GDP of $606.92 billion in the third quarter of fiscal year 2020).[3] It is comprised of 11 major metropolitan areas and vast regions of wilderness and farmland. The Seattle/Tacoma/Bellevue metropolitan area alone accounts for 60.4 percent of the state's non-farm employment (as of May 2020),[4] and an even higher share of the state's Gross Domestic Product (69.3 percent).[5]

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including the world's most- and second-most valuable companies: Microsoft ($1.05 trillion) and Amazon ($943 billion).[6] Other Washington-based Fortune 500 companies include Costco, Starbucks, Paccar, Nordstrom, Expedia, Alaska Airlines, Expeditors, Fortive, and Weyerhaeuser.

---

[1] Unless otherwise indicated, all quarters and years mentioned in this report are fiscal quarters and fiscal years.
[2] "State Population Totals: 2010-2019", U.S. Census Bureau, December 2019.
[3] "Table 3, Gross Domestic Product by State: 1st Quarter 2020", BEA, July 2020.
https://www.bea.gov/sites/default/files/2020-07/qgdpstate0720_0_0.pdf
[4] BLS: https://www.bls.gov/eag/eag.wa_seattle_msa.htm
[5] Based on CY 2018 data from BLS: https://www.bea.gov/data/gdp/gdp-metropolitan-area.
[6] Based on the market cap from visualcapitalist.com. Market values retrieved on June 19, 2020.

CURRENT ECONOMIC SITUATION AND OUTLOOK FOR STATE

The U.S. and state economic landscapes changed dramatically due to the COVID-19 pandemic over the last few months of fiscal year 2020. Prior to March, the U.S. economy experienced the longest economic expansion in its history (128 months). Washington's economy also enjoyed a solid expansion during the first half of fiscal year 2020. Washington had the third-fastest-growing state economy in the July-September quarter and the fastest growing state economy in the October-December quarter with seasonally adjusted annual rates (SAAR) of 3.1 percent and 3.4 percent, respectively.[7] Washington was also recognized as having one of the top economies in several state economic and business ranking studies, including the U.S. News and World Report's Best States for Growth (1st), their Best States for Economy Rankings (3rd),[8] and the Business Insider State Economy Rankings (5th).[9] The U.S. and Washington economies took a big hit by the outbreak of the coronavirus pandemic and the subsequent stay-at-home orders across the nation. The U.S. economy declined by five percent (SAAR) in the third quarter of fiscal year 2020, and 32.9 percent in the final quarter of this fiscal year, the worst quarterly performance on record.[10] Washington State's economy also contracted by five percent in the third quarter[11] and is expected to decline further in the fourth quarter to the worst level since the 1930s. The growth of personal income in Washington is projected to slow down from 4.8 percent and 3.8 percent in fiscal year 2019 and fiscal year 2020, to 1.3 percent and 1.5 percent in fiscal year 2021 and fiscal year 2022, respectively.[12]

Due to the economic shutdown in March and April 2020, labor markets across the nation deteriorated sharply from one of the best to one of the worst records in just two months. The U.S. unemployment rate skyrocketed from a 50-year low of 3.5 percent in February to a near record high of 14.7 percent in April. The jobless rate dropped to 11.1 percent in June thanks to the slow but disrupted reopening process in recent months. Similarly, the Washington State unemployment rate jumped from 3.8 percent in February to the peak of 16.3 percent in April before declining to 9.8 percent in June 2020.[13] The jobless rate in the Seattle/Bellevue/Everett metropolitan area was 9.3 percent in June 2020 compared to 2.9 percent 12 months earlier.[14]

All 50 states and the District of Columbia posted year-over-year decreases in employment (from June 2019 to June 2020). Washington was the 12th worst state in terms of number of jobs lost (312,500 jobs) and the 22nd worst for the year-over-year percentage change (decrease of nine percent).[15] The monthly data shows the state economy added 45,900 jobs in the first eight months of fiscal year 2020 (July 2019-February 2020), but lost 554,000 jobs in the following two months as a result of the lockdown. The reopening of Washington businesses starting in early May helped

---

[7] "Gross Domestic Product by State, 4th Quarter and Annual 2019", BEA News Release. https://www.bea.gov/news/2020/gross-domestic-product-state-4th-quarter-and-annual-2019

[8] https://www.usnews.com/news/best-states/rankings.

[9] https://www.businessinsider.com/state-economy-ranking-q3-2019-2020-4.

[10] "Gross Domestic Product: 1st quarter 2020", and "Gross Domestic Product: 2nd quarter 2020", BEA.

[11] "Table 1, Gross Domestic Product by State: 1st Quarter 2020", BEA, 2020.

[12] "Table 2.1, Washington Economic Forecast Summary", Washington State Economic and Revenue Forecast, Washington State Economic and Revenue Forecast Council (ERFC), June 2020.

[13] Nonfarm employment and unemployment rate, seasonally adjusted, ESD, June 2020.

[14] Monthly Employment Report-Tables, ESD, June 2020.

[15] "State Employment and Unemployment - June 2020", Table E, BLS, July17, 2020.

recover 217,400 jobs in the final two months of the year.[16] Looking ahead, employment is projected to fall 1.1 percent in fiscal year 2020 and another 2.0 percent in fiscal year 2021, before gaining 5.0 percent in fiscal year 2022 and 2.0 percent in fiscal year 2023.[17]

Washington's credit rating remains in good standing. The most recent ratings released on June 29, 2020 by Moody's, S&P, and Fitch all indicate the state's General Obligation Bonds as high quality (AAA/AA+/AA+) with a stable outlook.[18] However, the state has been facing a significant revenue shortfall and extremely challenging budget situation because of the COVID-19 pandemic. While the rating agencies expect the shortfall will be addressed by a combination of aggressive spending reductions, the utilization of the state reserve fund, and extensive assistance from the federal government, they don't see any material immediate credit risks for Washington State. The long-term risk is more uncertain, and will largely depend on the severity and duration of this economic downturn.

Fueled by low mortgage rates and tight supply, home prices across the nation and in Washington State have risen significantly in fiscal year 2020. According to the S&P/Case Shiller home index, prices for existing homes in the U.S. rose 4.7 percent in April 2020 compared to the same month a year earlier, much faster than the 3.2 percent posted in the final month of fiscal year 2019. The Seattle home index indicated a 7.3 percent year-over-year increase in April as compared to the decline of 1.3 percent in June 2019.[19] The median home value in Washington peaked at $428 thousand in March before declining modestly to $424 thousand in June 2020. While home prices and construction remain robust and largely unaffected by the pandemic for the time being, the near double-digit jobless rates and the scale of unemployment will undoubtedly put a strain on the health of the overall housing market.

The U.S. stock market has been on a roller coaster this fiscal year. All the major indices posted solid gains until mid-February, plummeted more than 30 percent in just one month due to serious concerns over COVID-19 and the economic shutdown, and then quickly recovered most of the loss in the next few months, thanks to the unprecedented fiscal and monetary policies from the federal government,[20] as well as a fast economic recovery expectation. Between July 1 and mid-February when the stock market reached all-time high (February 12th for the Dow and February 19th for S&P 500 and Nasdaq), the Dow Jones Industrial Average, S&P 500, and Nasdaq Composite gained 11.1 percent, 15.1percent, and 22.6 percent, respectively. They closed on March 23rd down 37.1 percent, 33.9 percent and 30.1 percent. By the end of fiscal year 2020, the Dow and S&P 500 recovered 66 percent and 75 percent of their February-March losses, and the NASDAQ exceeded its previous high by eight percent.[21] While the equity market is expected to remain highly volatile and uncertain, the interest rates will stay very low for the foreseeable future.

---

[16] Employment Security Department, MER 2020-06, Employment Change-Seasonally Adjusted July 17, 2020.
[17] Table 2.1, "Washington Economic Forecast Summary", Washington State Economic and Revenue Forecast, ERFC, June 2020.
[18] Credit Ratings, State Debt Information, Washington State Treasurer. (https://www.tre.wa.gov/home/debt-management/debt-information/#toggle-id-4).
[19] Data Source: S&P/Case-Shiller National and WA-Seattle Home Price Indexes, Federal Reserve Bank of St. Louis.
[20] The Federal Reserve cut the interest rate to a near zero level and implemented a number of monetary policies to stimulate the economy. Meanwhile, the U.S. Congress passed the $2.2 trillion Federal Coronavirus Aid, Relief and Economic Security (CARES) Act in March.
[21] Data Source: Federal Reserve Bank of St. Louis.

For the market of fixed income securities, treasury yields on bonds, notes and bills all fell from last year. On June 30, 2020, the average rates for 1-month, 3-month, 2-year, 10-year, and 30-year treasury constant maturity series were 205, 196, 159, 134, and 111 basis points lower than those recorded at the end of fiscal year 2019.

Workers' Compensation Impacts

The unprecedented job losses in April have reset all the employment projections for the coming years, and the current economic recession[22] is expected to have a tremendous impact on Washington's workers' compensation system in the next few years.

First, workers' compensation premiums are projected to decline significantly in years ahead due to the much lower employment in the state economy. According to the state forecasting data, Washington's non-farm payroll, as a whole, will not return to its 2019 level until 2022. It will take an even longer time for certain industries to recover. For example, some of the high-risk industries such as manufacturing and construction are not expected to return to their 2019 levels until after 2025.[23] These are also industries with high premium rates, so their impact on the premiums that L&I collects will be disproportionately higher than other industries.

Second, the COVID-19 pandemic will have various impacts on workers' compensation exposure and claim duration, as well as severity. While the exposure and claim volume may decrease as a result of the reduced employment and hours affected by the economic recession, delayed and deferred medical treatments and physical therapies to comply with the statewide economic shutdown may result in longer claim duration and higher severity. In addition, it may become more difficult for injured workers to return to work due to fewer jobs or modified jobs available to them, which will also negatively impact claim duration and severity. Furthermore, more than 2,700 COVID-19 related claims have been filed so far. The number of these claims is expected to keep increasing until the virus is largely contained or a vaccine becomes widely available. This will have a lasting and substantial financial impact on the workers' compensation system.[24]

Third, while the wage growth picked up in the past year, translating into a larger liability increase in time-loss and pension benefits for most workers injured on or before July 1, 2019, the ongoing economic recession will suppress future wage growth. In Washington, the average annual wage increased 6.7 percent to $69,700 in 2019.[25] Accordingly, L&I will increase time-loss and pension benefit payments for eligible workers effective July 1, 2020, based on this wage inflation rate. However, the wage and salary will grow at less than two percent for fiscal years 2020 and 2021.[26]

---

[22] The National Bureau of Economic Research (NBER) announced on June 8, 2020 that a U.S. recession (the peak of business cycle) began in February 2020, marking the end of the economic expansion that lasted 128 months.

[23] "June 2020 Preliminary Economic Forecast", Washington State Economic and Revenue Forecast Council, 2020.

[24] According to L&I internal database, approximately 1,900 state-fund claims and 839 self-insured claims have been filed as of July 23, 2020.

[25] Washington Employment Security Department, June 16, 2020: https://esd.wa.gov/newsroom/2019-washington-state-average-annual-wage.

[26] "Table 2.1, Washington Economic Forecast Summary", Washington State Economic and Revenue Forecast, Washington State Economic and Revenue Forecast Council (ERFC), June 2020.

The state minimum wage increased to $13.50 per hour in calendar year 2020, and this was the last increase directed by Initiative 1433. In some cities, such as Seattle and Tacoma, the local minimum wages were higher than the state rate.[27] The increase in minimum wages will add costs to the workers' compensation system in that the wage replacement benefit paid to eligible minimum wage earners will also increase. Starting in 2021, the state minimum wage will be adjusted based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) again, and the inflation is projected to stay below two percent for the next few years.[28]

The annual medical inflation rate (based on the Consumer Price Index for medical care) was 3.6 percent in June 2020 after hovering around two percent throughout fiscal year 2019. The inflation index reached its lowest point at 1.5 percent in August 2018.[29] While the mix of medical services provided in the workers' compensation system is somewhat different from general medical care, increases in medical expenses in Washington's workers' compensation system should be expected to parallel general medical care.

A strong equity market brought higher returns on investment for L&I prior to the COVID-19 outbreak. Although equity only accounted for 21.7 percent of L&I's total investment assets,[30] its high return rate in the last few years has substantially enhanced the agency's overall investment performance. Enhanced performance has helped to build up a healthy contingency reserve, which the agency needs to protect against the expected economic instability of the next several years. Following big gains in the first half of fiscal year 2020,[31] the stock market experienced a sharp loss due to the COVID-19 pandemic and its impact to the economy, and then quickly rebounded in the final quarter. The Dow Jones Industrial Average closed the year down only 3.0 percent, the S&P 500 was up 5.4 percent, and Nasdaq Composite was up 25.6 percent in the same period.[32] Unprecedented support by the Federal Reserve for both the equity and bond markets has so far helped insulate the markets from the current economic turmoil. While the labor market and the overall economy are projected to have strong growth in fiscal years 2021 and 2022, this will only serve to return us to prerecession levels.[33] Given the prospect of a slow, multi-year recovery, the stock market is increasingly perceived as disconnected from the real economy, and future instability can be expected if the Congress and Federal Reserve fail to provide further assistance to the economy.[34]

[27] In CY2020, minimum wage in Seattle was between $13.50 and $16.39 depending on firm size and medical benefit provision; Minimum wages in SeaTac and Tacoma were $16.34 and $13.50 per hour respectively.
[28] "Table 1.1, U.S. Economic Forecast Summary", Washington State Economic and Revenue Forecast, Washington State Economic and Revenue Forecast Council (ERFC), June 2020.
[29] Data Source: Consumer Price Index for All Urban Consumers: Medical Care, Federal Reserve Bank of St. Louis.
[30] Data Source: Labor & Industries Funds, Thirty-eighth Annual Report 2019, Washington State Investment Board.
[31] All of the three major indexes (Dow, S&P 500, and Nasdaq) gained at least 8 percent.
[32] Data Source: Federal Reserve Bank of St. Louis.
[33] Washington State ERFC, June 2020 Preliminary Economic Forecast.
[34] Data Source: Treasury Constant Maturity data series, Federal Reserve Bank of St. Louis.

LONG-TERM FINANCIAL PLANNING

The Workers' Compensation Program 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.

In order to ensure premium rate stability, the Director of Labor & 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.

RELEVANT FINANCIAL POLICIES

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 program remains in its early stages and has investments thus far consisting entirely of European residential properties.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2019. A copy of the Certificate of Achievement is included in the introductory section of this CAFR. This was the tenth consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

As in the work and service we provide every day, this CAFR 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

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State Department of Labor & Industries

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

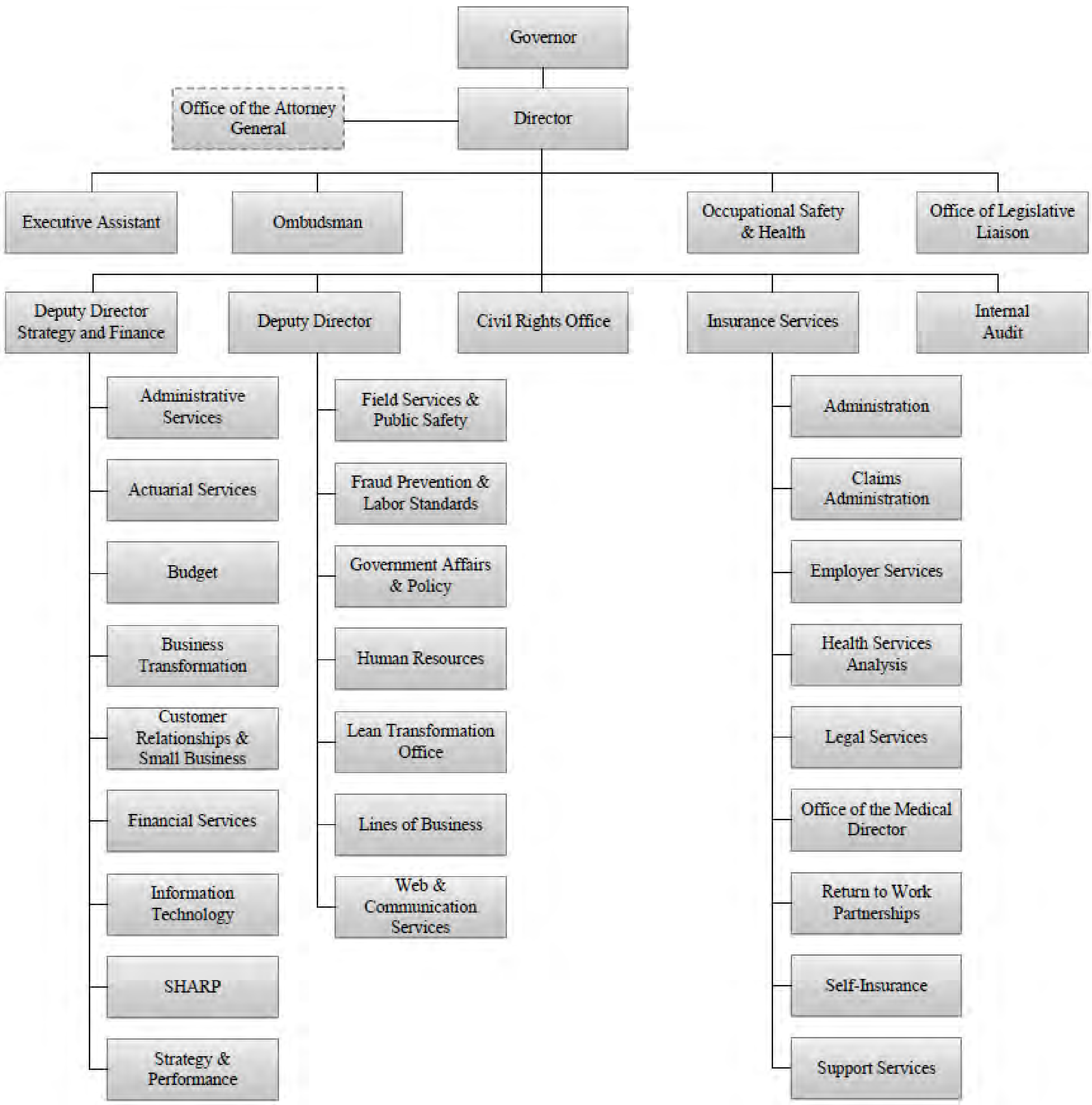
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart

June 30, 2020



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 23, 2020

Joel Sacks
Workers Compensation Program
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington, as managed by the Washington State Investment Board, which include the investments, related investment income, and investment interest receivable that represent 96 percent and 40 percent, respectively, of the assets and revenues of the Program. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Labor and Industries' Funds, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Program'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 Program'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 opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers Compensation Program, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2020, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements as a whole. The Combining and Individual Account Financial Schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic 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 basic financial statements taken as a whole.

The Introductory and Statistical Sections and the Independent Actuarial Opinion are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Program. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated November 23, 2020, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington's Workers' Compensation Program's Comprehensive Annual Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2020. The information included here should be considered along with the transmittal letter, which can be found on pages 3-12 of this report, and the accompanying basic financial statements and notes to the basic financial statements, which follow this narrative.

Financial Highlights

- Total assets increased $1,704 million from the prior fiscal year, mainly due to an increase in investments of $1,801 million, partially offset by a decrease in collateral held under securities lending agreements of $58.5 million and a premium receivables decrease of $31 million.

- Total liabilities increased $3,549 million from the prior year. The increase is largely due to an increase in claims payable of $3,626 million.

- Total revenues earned increased $435 million, mainly due to earnings on investments.

- Total expenses incurred increased $2,390 million from the prior year, primarily due to a $2,313 million increase in claims expense.

- Total net deficit increased $1,832 million from prior year mainly due to increased actual and estimated claims costs, along with decreased premium revenues.

Overview of the Basic Financial Statements

The Workers' Compensation Program is accounted for as an enterprise fund of the state of Washington, reporting business activities under the accrual basis of accounting, much like a private business enterprise.

These basic financial statements report the financial condition and results of operations for seven accounts: the Accident, Medical Aid, Pension Reserve, Supplemental Pension, Second Injury, Self-Insured Employer Overpayment Reimbursement, and Industrial Insurance Rainy Day Fund Accounts, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts represent the Workers' Compensation Program Industrial Insurance Fund, or Basic Plan.

For the fiscal year ended on June 30, 2020, the basic financial statements show financial position and results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information section on pages 99-102 of this report.

This discussion and analysis serves as an introduction to the Workers' Compensation Program's basic financial statements, which consist of the following components:

The Statement of Net Position presents information on the program's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It reflects the program's financial position as of June 30, 2020. It can be found on page 35 of this report.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the program's net position changed during the fiscal year. It presents both operating and non-operating revenues and expenses for the fiscal year. It can be found on page 36 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year. It can be found on page 37 of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the Workers' Compensation Program's financial statements. They can be found on pages 39-86 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position
(dollars in millions)

	June 30, 2020	June 30, 2019	$ Change	% Change
Assets				
Current assets	$ 2,471	$ 3,009	$ (538)	(17.9%)
DOE assets, noncurrent *	4	5	(1)	(16.0%)
Investments, noncurrent	18,754	16,497	2,257	13.7%
Capital assets, net	37	51	(14)	(27.1%)
Total Assets	21,266	19,562	1,704	8.7%
Deferred outflows of resources	48	38	10	26.3%
Liabilities				
Current liabilities	2,525	2,525	0	0.0%
Noncurrent liabilities	30,775	27,226	3,549	13.0%
Total Liabilities	33,300	29,751	3,549	11.9%
Deferred inflows of resources	79	81	(2)	(2.5%)
Net Position (Deficit)				
Investment in capital assets	37	51	(14)	(27.5%)
Unrestricted	(12,101)	(10,283)	(1,818)	17.7%
Total Net Position (Deficit)	$ (12,064)	$ (10,232)	$ (1,832)	17.9%

*Noncurrent assets of the U.S. Department of Energy, held in trust

Current assets - Current assets decreased by $538 million during fiscal year 2020, largely due to a decrease in current investments, collateral held, and premium receivables. Current investments decreased by $457 million due to fewer fixed income securities held. Collateral held decreased $58.5 million in fiscal year 2020 due to the decrease in borrowing demand for fixed income securities with lending agreements. Premium receivables decreased by $31 million, mainly due to premium rate decreases and the COVID-19 pandemic. Both the Accident and Medical Aid Accounts' premium rates decreased 7.5 percent on January 1, 2019, and another 3.0 percent on January 1, 2020. Premium receivables estimates also decreased as a result of the COVID-19 pandemic.

Noncurrent investments - Noncurrent investments increased by $2,257 million during fiscal year 2020, mainly due to increases in fixed income securities and equity investments. Real estate investments were added to the portfolio during the fiscal year to increase diversification to the overall portfolio. Fixed income securities increased due to the reinvestment of interest income, sales, and unrealized gains. Equities increased due to purchases and a strong stock market.

Current liabilities - Current liabilities, other than claims payable, decreased $75 million during fiscal year 2020, mainly due to a decrease of $58.5 million in securities lending collateral and a decrease of $13 million in accrued liabilities. Securities lending transactions fluctuate each year based on borrower demand and market conditions. Accrued liabilities decreased $13 million, because of a decrease in investment trades pending of $10.9 million, which changes based on the timing of trading activities. The rest of the decrease in accrued liabilities is mostly attributed to a decrease in retrospective rating refunds payable.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $32,793 million at the end of fiscal year 2020, an increase of $3,626 million, or 12.4 percent, when compared to the previous fiscal year. The claims administration expense liability increased by $56.4 million, due to increases in benefit liabilities and the corresponding expenses to process the increased benefits as well as the reduction of the discount rates. The remaining increase is due to a net increase in benefit liabilities. Benefit liabilities increased $3,570 million, as shown by the table below:

Schedule of Changes in Benefit Liabilities (Included in Claims Payable)*
(in millions)

	June 30, 2020	June 30, 2019
Benefit liabilities, beginning of year	$ 28,380	$ 27,116
New liabilities incurred, current year	2,136	1,915
Development on prior years		
Reserve discount accretion	585	623
Change in discount rate**	465	6
Other development on prior liabilities	2,657	915
Claim payments	(2,273)	(2,195)
Change in benefit liabilities	3,570	1,264
Benefit liabilities, end of year	$ 31,950	$ 28,380

* Excludes claims administration expense liabilities

** Includes the non-pension discount rate changes from 1.5% to 1.0% (State Fund) and 6.0% to 5.9% (Self-Insurance Program)

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.

This fiscal year, benefit liabilities increased mainly as a result of the following:

- The liabilities in the Supplemental Pension Account increased $2,839 million. The Supplemental Pension Account provides for the cost-of-living adjustments (COLAs) on workers' compensation time loss and pension benefit payments for injured workers insured through both the State Fund and Self-Insurance Program. By statute, the COLAs are based on the annual calendar year change in the states' average wages. The COLA for fiscal year 2020 is based on the change in the State's Average Annual Wage from the preceding calendar year, as published by Washington State Employment Security Department. The State's average annual wage increased from $65,301 in 2018 to $69,700 in 2019, an increase of 6.74 percent.

- The liabilities in the Accident Account increased $357 million, primarily due to increases in time loss attributable to a higher number of active claims and an anticipated increase of duration due to COVID-19 pandemic estimates.

- The liabilities in the Medical Aid Account increased $280 million, mainly due to a higher-than-expected number of replacement hearing aids, and the number of initial or first hearing aids has also 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. Additionally, there was increased use of private vocational rehabilitation services during the first year of the claim.

Total net position (deficit) - The Workers' Compensation Program deficit increased by $1,832 million during fiscal year 2020, ending with a deficit balance of $12,064 million. This deficit consists of a $17,740 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program accounts. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position
(dollars in millions)

	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,659	$ 2,613	$ 46	1.8%
Miscellaneous revenues	53	54	(1)	(1.9%)
Total Operating Revenues	2,712	2,667	45	1.7%
Nonoperating Revenues				
Earnings on investments	1,837	1,446	391	27.0%
Other revenues	9	10	(1)	(10.0%)
Total Revenues	4,558	4,123	435	10.6%
Operating Expenses				
Salaries and wages	200	187	13	7.0%
Employee benefits	59	59	-	0.0%
Personal services	16	13	3	23.1%
Goods and services	101	94	7	7.4%
Travel	4	4	-	0.0%
Claims	5,901	3,588	2,313	64.5%
Depreciation	8	7	1	14.3%
Miscellaneous expenses	98	45	53	117.8%
Total Operating Expenses	6,387	3,997	2,390	59.8%
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	6,387	3,997	2,390	59.8%
Income (Loss) before Transfers	(1,829)	126	(1,955)	(1551.6%)
Net Transfers	(3)	-	(3)	100.0%
Change in Net Position (Deficit)	(1,832)	126	(1,958)	(1554.0%)
Net Position (Deficit) - Beginning of Year	(10,232)	(10,358)	126	(1.2%)
Net Position (Deficit) - End of Year	$ (12,064)	$ (10,232)	$ (1,832)	17.9%

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2020 were $2,659 million compared to $2,613 million for fiscal year 2019, an increase of $46 million. The majority of this change derives from the increase in the Supplemental Pension Account premium rate increases of 8.7 percent and 9.4 percent on January 1, 2019, and January 1, 2020, respectively. The result of these premium rate increases is an increase of $53 million. The increase is slightly offset by decreases to the premium rates for the Accident and Medical Aid Accounts of 7.5 percent and 3.0 percent on January 1, 2019, and January 1, 2020, respectively.

The Workers' Compensation Program 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. Premium and assessment income has been reduced by $12 million for the purchase of ceded reinsurance (see Note 2 for additional reinsurance information).

Earnings on investments - The earnings on investments increased by $393 million from the prior fiscal year, as explained below:

Significant Changes in Investment Activity*
(dollars in millions)

	June 30, 2020	June 30, 2019	$ Change	% Change
Fixed Income				
Interest earnings	$ 506	$ 504	$ 2	0.3%
Realized gains (losses)	$ 274	$ (23)	297	(1286.1%)
Unrealized gains (losses)	$ 896	$ 850	46	5.5%
Fixed Income Total	$ 1,676	$ 1,331	345	25.9%
Equities				
Realized gains (losses)	$ 3	$ 3	-	0.0%
Unrealized gains (losses)	$ 166	$ 117	49	41.8%
Equities Total	$ 169	$ 120	49	40.8%
Real Estate LP				
Realized gains (losses)	-	$ -	-	0.0%
Unrealized gains (losses)	$ (1)	$ -	(1)	(100.0%)
Equities Total	$ (1)	$ -	(1)	(100.0%)
Total Investments	$ 1,844	$ 1,451	$ 393	27.1%

*The above does not include investment expenses.

- Realized and unrealized gains and losses for fixed income securities increased $345 million as compared to fiscal year 2019 mainly due to three bond sales. In the first quarter of fiscal year 2020, bonds were sold in order to transfer $629.3 million from the Accident Account to the Pension Reserve Account to cover the prior year deficit. In the third quarter of fiscal year 2020, the Washington State Investment Board (WSIB) rebalanced the investment portfolio, selling bonds and purchasing equity investments. In the fourth quarter of fiscal year 2020, shorter-term bonds were sold and longer-term bonds purchased in order to align the portfolio duration to the asset allocation policy. Also contributing to the increase were unrealized gains resulting from four federal interest rate cuts during the fiscal year.

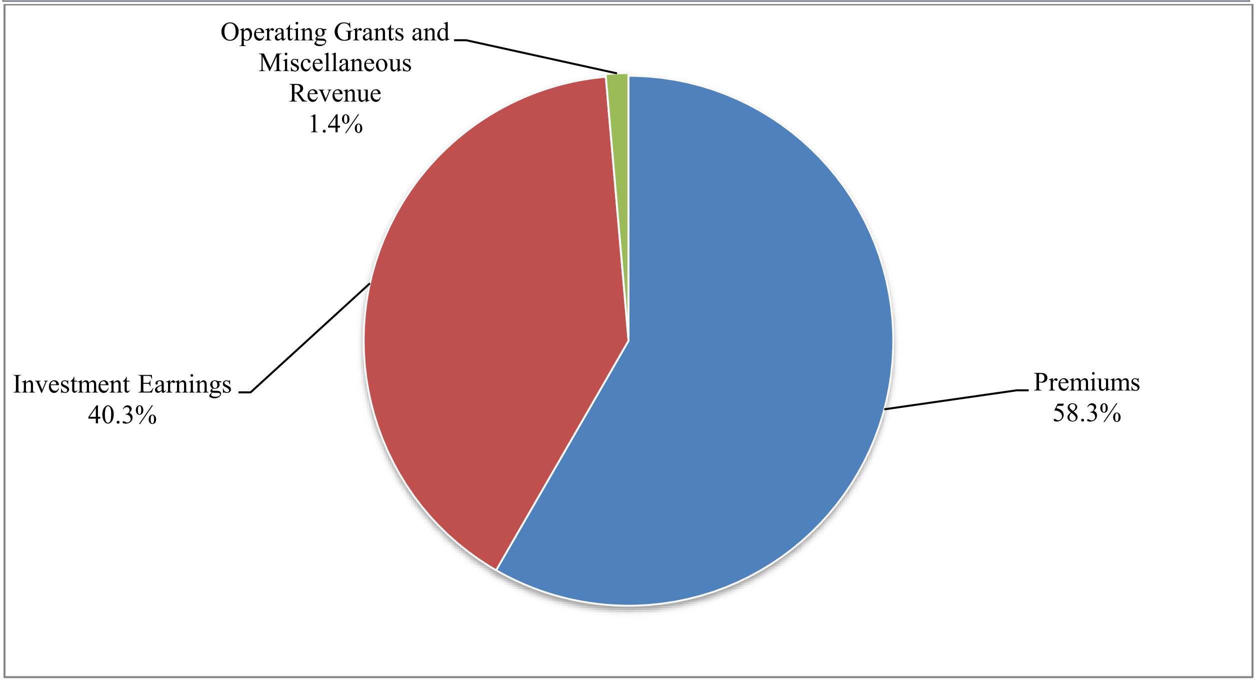
- Fixed income realized losses of $23 million for fiscal year 2019 resulted mainly from the sale of Odebrecht bonds. Odebrecht is a construction company in Brazil that has decreased in value due to bribery scandals. When Odebrecht defaulted on their interest payments, the bonds were sold at a loss.

- The change in equity realized and unrealized gains during the fiscal year was an increase of $49 million. In fiscal year 2019, net equity realized and unrealized gains were $120 million versus $169 million in fiscal year 2020. Fiscal year 2020 gains were the result of strong market conditions and the rebalancing of the portfolio by WSIB in the third quarter, as mentioned previously. During rebalancing, fixed income investments were sold and equities were purchased.

- In the first quarter of 2020, real estate investments were purchased for the first time to provide diversification to the overall portfolio. These investments decreased in value by $767 thousand for the year mainly due to market volatility and COVID-19 effects on the economy.

The following chart provides additional detail on the breakdown of revenues by source during fiscal year 2020:

Fiscal Year 2020 Revenues by Source



Claims expense - Claims expense for fiscal year 2020 increased $2,313 million, or 64.5 percent, as compared to fiscal year 2019. Claims expense includes two main components: payments to beneficiaries, and the change in claims payable.

Claims payable increases are previously explained above under the financial analysis section of this discussion. Claim payments to beneficiaries increased by $78.4 million, or 3.6 percent, when compared to the prior year.

The net increase in claim payments to beneficiaries can be explained by the following:

- The Medical Aid Account's $7.7 million increase in claim payments to beneficiaries stemmed from an increase in medical hearing loss and vocational rehabilitation payments.

- The Pension Reserve Account's claim payments to beneficiaries increased $11.3 million, mostly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

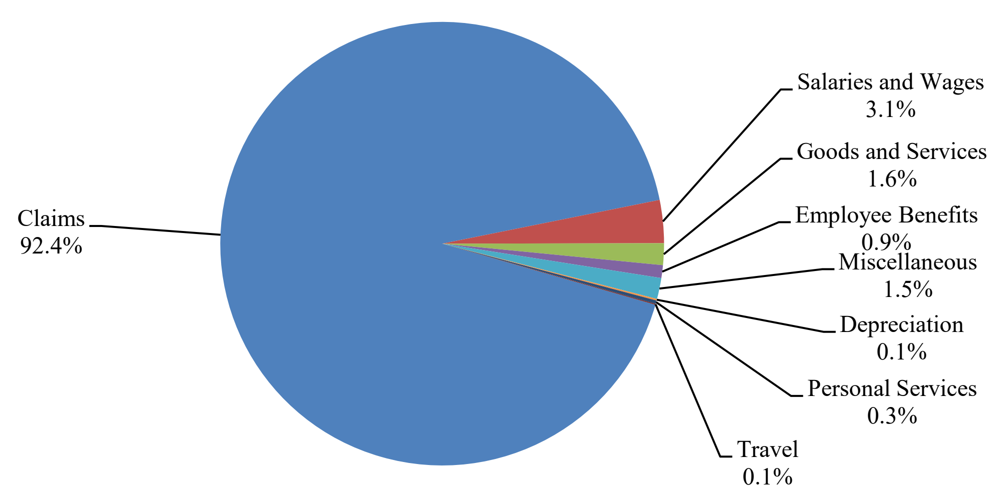
- The Accident Account's $14.9 million increase in claim payments to beneficiaries resulted primarily from increases in duration and wage growth.

- The Supplemental Pension Account's $44.0 million increase in claim payments to beneficiaries resulted mainly from an increase in the state's average annual wage.

Operating expenses - Operating expenses for fiscal year 2020, other than claims expense, were $486 million, as compared to $409 million in fiscal year 2019. The increase in operating expenses in fiscal year 2020 resulted from increased salaries and wages, goods and services, and miscellaneous expenses. State employee salaries increased due to pay increases for all employees of two percent and three percent effective January 1, 2019, and July 1, 2019, respectively. Additionally there was a slight increase in the number of employees due to implementing new initiatives. Goods and services increased as a result of the expensing of a large project to replace the agency's aging computer systems. The dramatic increase of $52.9 million in miscellaneous expenses is due predominantly to bad debt expense that resulted from the COVID-19 related recession.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2020:

Fiscal Year 2020 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2020, were $37 million. The $14 million decrease from the previous year resulted primarily from the expensing of the LINIIS Migration Project for $8.1 million, an increase in depreciation expense of $4.3 million, and $2.8 million fewer capital additions compared to the prior year. Each year, capital assets are expensed over their useful lives. Additional information on capital assets can be found in Note 1.D.7 and Note 6 of this report.

Potentially Significant Matters with Future Impacts

The beginning of calendar year 2020 brought about an unprecedented event for the state of Washington and the world. An outbreak of the COVID-19 virus created a public pandemic that shut down economies and halted certain business sectors around the world. The overall effects of this public health crisis have been tremendous and have changed the landscape of business permanently. The impact to the Worker's Compensation Program is still unknown but may influence the agency's premium revenues and benefit liabilities.

The Workers' Compensation Program 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 included $82 million out of the total estimated cost of $309 million to replace the old computer systems that support the Workers' Compensation Program. The seven-year project will simplify the program'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.

Requests for Information

This report is designed to provide a general overview of the Workers' Compensation Program and illustrate the program's financial condition to interested parties. If you have 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 Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) annually. This report is prepared in compliance with statutory accounting practices and principles.

The Workers' Compensation Program Comprehensive Annual Financial Report and Statutory Financial Information Report for the Industrial Insurance Fund are also 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

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	69,219,562
Investments, current		1,561,508,889
DOE trust cash and investments		461,485
Receivables, net of allowance		835,937,768
Receivables from other state accounts and agencies		142,089
Receivables from other governments		1,975,979
Inventories		115,490
Prepaid expenses		1,569,140
Total Current Assets		2,470,930,402
Noncurrent Assets		
DOE trust receivable		4,226,429
Investments, net of current portion		18,754,346,490
Capital assets, net of accumulated depreciation		37,154,582
Total Noncurrent Assets		18,795,727,501
Total Assets		21,266,657,903
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		31,105,057
Deferred outflow of resources on OPEB		16,996,707
Total Deferred Outflows of Resources		48,101,764
Total Assets and Deferred Outflows of Resources	$	21,314,759,667
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
Current Liabilities		
Accounts payable	$	9,437,105
Accrued liabilities		271,595,114
Net pension liability, current		33,168
Other post-employment benefits, current		2,280,171
Payable to other state accounts and agencies		5,831,723
Due to other governments		1,690,522
Unearned revenues		3,394,953
DOE trust liabilities, current		508,741
Claims payable, current		2,230,385,000
Total Current Liabilities		2,525,156,497
Noncurrent Liabilities		
Claims payable, net of current portion		30,562,756,000
Other long-term liabilities		8,652,214
DOE trust liabilities, net of current portion		4,179,173
Other post-employment benefits, net of current portion		129,956,957
Net pension liability, net of current portion		69,061,117
Total Noncurrent Liabilities		30,774,605,461
Total Liabilities		33,299,761,958
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		37,200,850
Deferred inflow of resources on OPEB		41,997,344
Total Deferred Inflows of Resources		79,198,194
NET POSITION (DEFICIT)		
Investment in capital assets		37,154,582
Unrestricted		(12,101,355,067)
Total Net Position (Deficit)		(12,064,200,485)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	21,314,759,667

The notes to the basic financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

OPERATING REVENUES		
Premiums and assessments, net of refunds and reinsurance	$	2,658,958,139
Miscellaneous revenues		52,706,329
Total Operating Revenues		2,711,664,468
OPERATING EXPENSES		
Salaries and wages		200,115,075
Employee benefits		59,562,991
Personal services		15,829,420
Goods and services		100,991,580
Travel		4,381,369
Claims		5,900,718,412
Depreciation		7,507,542
Miscellaneous expenses		97,669,002
Total Operating Expenses		6,386,775,391
Operating Income (Loss)		(3,675,110,923)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		1,836,909,118
Other revenues		9,722,154
Total Nonoperating Revenues (Expenses)		1,846,631,272
Income Before Transfers		(1,828,479,651)
Transfers out		(3,439,000)
Net Transfers		(3,439,000)
Change in Net Position		(1,831,918,651)
Net Position (Deficit) at July 1		(10,232,281,834)
Net Position (Deficit) - June 30	$	(12,064,200,485)

The notes to the basic financial statements are an integral part of this statement.

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,585,514,944
Payments to/for beneficiaries		(2,272,508,032)
Payments to employees		(269,828,564)
Payments to suppliers		(123,305,343)
Other		50,481,731
Net Cash Flows from Operating Activities		(29,645,264)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out (IT Tech Pool)		(3,364,000)
Operating grants received		9,071,222
License fees collected		111,898
Net Cash Flows from Noncapital Financing Activities		5,819,120
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets		6,804,309
Net Cash Flows from Capital and Related Financing Activities		6,804,309
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales (purchases) of trust investments		56,351
Receipt of interest and dividends		511,924,960
Investment expenses		(10,388,889)
Proceeds from sale of investment securities		8,195,480,421
Purchases of investment securities		(8,669,132,033)
Net Cash Flows from Investing Activities		27,940,810
Net increase in cash and cash equivalents		10,918,975
Cash & cash equivalents, July 1 (includes trust cash of $405,134)		58,837,072
Cash & cash equivalents, June 30 (includes trust cash of $461,485)	$	69,756,047 *
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	(3,675,110,923)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities		
Depreciation		7,507,542
Change in Assets: Decrease (Increase)		
Receivables		18,427,932
Inventories		47,953
Prepaid expenses		2,801,018
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		3,626,322,000
Accrued liabilities		(9,640,786)
Net Cash Flows from Operating Activities	$	(29,645,264)
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	$	1,061,817,930

The notes to the basic financial statements are an integral part of this statement.

* The discrepancy between the Statement of Net Position and Statement of Cash Flows is due to an accrued transfer out for the OFM IT Tech Pool of $75,000. Accrued cash is not represented on the Statement of Cash Flows.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

Index

Page

Note 1 - Summary of Significant Accounting Policies

The accompanying basic financial statements of the Workers' Compensation Program of the state of Washington were prepared in conformity with generally accepted accounting principles (GAAP). The Washington State Office of Financial Management (OFM) is the primary authority for the Workers' Compensation Program's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationwide. The following is a summary of the significant accounting policies:

1.A. Reporting Entity

The Department of Labor & Industries (L&I), an agency of Washington State and a part of the primary government, administers and enforces laws and regulations in accordance with Titles 43 and 51 of the Revised Code of Washington (RCW) and Title 296 of the Washington Administrative Code (WAC). The provisions of Title 51 RCW require all employers, unless excluded or exempted, to secure coverage for job-related injuries and illnesses, either by paying insurance premiums to the Workers' Compensation Program 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 Workers' Compensation Fund is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of L&I or the state of Washington. The Workers' Compensation Program's financial report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, WA 98504-3127. A copy can also be obtained from the OFM website at http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

The Workers' Compensation Fund consists of the following seven enterprise accounts:

The Accident Account, established on July 1, 1947, per RCW 51.44.010, pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. In addition, the Accident Account pays to the Pension Reserve Account the present value of pensions awarded to workers who are permanently and totally disabled and to the surviving spouse and dependents of fatally injured workers.

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 three years following the plan year, based on individual employers' actual losses incurred. This may result in either a refund of premiums paid or an assessment of additional premiums due. The premium adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together. However, 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 services, vocational rehabilitation services, and Stay at Work reimbursements. Revenues for this account come mostly from equal contributions by employers and employees; employers are required to withhold half of their medical aid premiums from their employees' wages.

The Pension Reserve Account, established on July 1, 1911, per RCW 51.44.030, pays benefits to the surviving spouse or dependents 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 reimbursements from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor(s).

The Industrial Insurance Rainy Day Fund Account, established on June 15, 2011, per RCW 51.44.023, was created to hold transfers 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 balance in this account will be primarily used to reduce future rate increases or aid businesses in recovering from or during economic recessions. This account was first used in fiscal year 2017. Additional information can be found in Note 12 of this report.

The four accounts described above are referred to as the Industrial Insurance Fund, the Workers' Compensation Program Basic Plan, or the State Fund. The Accident, Medical Aid, and Pension Reserve Accounts are maintained on an actuarially solvent basis; however, a cash flow basis is used for the surety bond components of the Pension Reserve Account. Self-insured employers have the option to guarantee pension-related benefits with a surety bond or to fund the benefits with cash.

The Supplemental Pension Account, established on July 1, 1971, per RCW 51.44.033, provides for a supplemental cost-of-living adjustment (COLA) to injured workers or their survivors receiving disability payments. Per RCW 51.32.073, this account operates on a current payment basis, and no assets are allowed to accumulate for the future servicing of claim payments.

COLA and time-loss payment increases are based on the increase in the state's average wage during the preceding calendar year and become effective in July of the following fiscal year. Revenues for COLA payments arise from assessments to State-Fund-insured and self-insured employers; half of the assessment is deducted from their employees' wages.

The Second Injury Account, established on July 1, 1945, per RCW 51.44.040, is used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury and to fund job modifications for some temporarily disabled workers. It is funded by self-insured assessments for self-insured pension claims, transfers from the Accident Account to the Pension Reserve Account for State-Fund-insured pensions, and transfers from the Medical Aid Account to pay for job modification and other claims. An allowance for future second injury benefit payments is contained within the Accident and Medical Aid Accounts' claims liabilities for State-Fund-insured claims. Therefore, the Second Injury Account does not carry any claims liabilities.

The Self-Insured Employer Overpayment Reimbursement Account, established on June 12, 2008, per RCW 51.44.142, reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer assessments.

L&I presents the following basic financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position – This statement presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources for the Workers' Compensation Program, in order of liquidity. Net position is classified into three categories:

- **Net investments in capital assets** – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted** – Consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Statement of Revenues, Expenses, and Changes in Net Position – This statement presents the activity and changes in net position of the Workers' Compensation Program. Activity is distinguished between operating and non-operating revenues and expenses.

Operating revenues for the Workers' Compensation Program consist mainly of premiums and assessments collected, net of refunds and reinsurance. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating, including interest expense and investment gains and losses.

Statement of Cash Flows – This statement reports cash collections and payments for the Workers' Compensation Program to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

1.C. Measurement Focus and Basis of Accounting

Measurement focus describes the types of transactions and events reported in an account's operating statement. The Workers' Compensation Program's seven accounts are accounted for using the economic resources measurement focus, much like that of a private-sector business. With this measurement focus, all assets and liabilities associated with the operations of the accounts are included in the Statement of Net Position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position with a focus on transactions and events that have increased or decreased the accounts' total economic resources during the period.

The basis of accounting determines the timing of the recognition of transactions and events. All accounts of the Workers' Compensation Program are reported on using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

Cash and cash equivalents are reported on the accompanying Statement of Net Position and Statement of Cash Flows. Cash includes cash in banks, cash on deposit with the Office of the State Treasurer (OST), and cash on hand. Cash equivalents are pooled investments and include short-term, highly-liquid investments that are both readily convertible to cash and mature within three months of the date acquired.

Under RCW 43.08.015, the OST has the statutory responsibility to ensure the effective cash management of the state's public funds. RCW 43.84.080 authorizes the Treasurer to invest available cash and includes a list of eligible investments. The OST invests Workers' Compensation Program cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of accounts with surplus pooled balances are not reduced for these investments.

1.D.2. DOE Trust Cash and Investments

Per RCW 51.04.130, the U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program are restricted assets and recorded as "DOE trust cash and investments." The remaining pension liability not covered by DOE trust cash and investments is recorded as "DOE trust receivable."
As of June 30, 2020, trust cash and investments of $461,485, representing the funds on deposit for the reimbursement of pension payments to Hanford injured workers, are classified as current assets on the Statement of Net Position; there were no noncurrent trust investments.

1.D.3. Investments

Current and noncurrent investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services.

1.D.4. Receivables and Payables

Current receivables arose in the ordinary course of business and consist of amounts due for workers' compensation premiums, investment interest receivable, and other miscellaneous receivables. Receivables are recorded when they can be reasonably estimated and have been earned (i.e., overpayment has occurred, service has been performed, or the time period has passed). Receivables due for workers' compensation premiums for the quarter ended June 30, 2020, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

The Workers' Compensation Program uses the allowance method for establishing an allowance for uncollectible receivables. Management regularly reviews receivables and adjusts the allowance based on weighted average percentages calculated from a historical analysis of past collection activity. The allowance percentages are determined based on aging category and collection activity for each receivable. Interest accrues on overdue accounts receivable at the rate of one percent per month. When an account is deemed uncollectible, it is written off against the allowance; however, such accounts are not forgiven until allowed by law. The Workers' Compensation Program does not require collateral for its accounts receivable, except for self-insurance pension receivables.

The Workers' Compensation Program establishes claims liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claims adjustment expenses) 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. Because 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. In accordance with GASB Statement No.10, the claims liabilities are reported net of recoveries.

Claims payable 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. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

The benefit and claims administrative expense liabilities are discounted to reflect the time value of money using an average discount rate of 1.78 percent. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rate. The Medical Aid and Supplemental Pension Accounts are discounted at 1.0 percent; the Pension Reserve Account is discounted at two different rates: the State Fund portion is discounted at 4.5 percent and the Self-Insurer portion is discounted 5.9 percent. For the Accident Account, two discount rates are used as follows: the future total permanent disability and fatal transfer amounts made to the

Pension Account assume a discount rate of 4.5 percent, and the transfer payments and all other liabilities are discounted at 1.0 percent.

The actuaries estimate 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. Retrospective return premiums due to employers are netted with additional premiums due from employers and recorded as a liability in the Accident Account.

1.D.5 Reinsurance

The Workers' Compensation Program purchased catastrophe reinsurance for risks in excess of its retention on the workers' compensation insurance policy 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 Workers' Compensation Program 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 statement of revenues, expenses, and changes in net position.

1.D.6. Inventories and Prepaid Expenses

Consumable inventories consisting of expendable materials and supplies held for consumption are valued and reported in the Statement of Net Position at weighted average cost if the fiscal year-end balance on hand at an inventory control point exceeds $50,000. The Workers' Compensation Program expenses consumable inventories when used.

Prepaid expenses are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2020, prepaid expenses amounted to $1,569,140.

1.D.7. Capital Assets

Capital assets are tangible or intangible assets held and used in the Workers' Compensation Program's operations which have a service life of more than one year and meet the state's capitalization policy. In accordance with OFM policy, it is the Workers' Compensation Program's policy to capitalize:

- All land
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or greater
- 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
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted

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 value of assets constructed for use in the Workers' Compensation Program includes all direct construction costs and indirect costs, such as agency project management costs, that are related to the construction. Net interest cost incurred during the period of construction, if material, is capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost and related accumulated depreciation of capital assets that have been disposed of are removed from the accounting records.

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

1.D.8. Compensated Absences

Workers' Compensation Program 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 Workers' Compensation Program does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the Workers' Compensation Program is liable for 25 percent of the employee's accumulated sick leave. In addition, the Workers' Compensation Program has a sick leave buyout option in which, each January, employees who accumulate 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.

The Workers' Compensation Program recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and applicable benefits, as the leave is earned. It is the Workers' Compensation Program's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

1.E. Other Information

1.E.1. 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 Workers' Compensation Program 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.E.2. Interfund/Interagency Activities

The Workers' Compensation Program engages in reciprocal and non-reciprocal interfund/interagency activities that may include an element of indirect cost. Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions. Non-reciprocal activity is non-exchange in nature and includes both transfers and reimbursements.

Note 2 – Reinsurance

Catastrophic reinsurance was first purchased by the Accident and Medical Aid accounts within the Workers' Compensation Program in February 2019 to reduce its exposure to the financial risks associated with a catastrophe. Catastrophic reinsurance allows the Workers' Compensation Program to shift some of the risk associated with providing workers' compensation insurance in exchange for a portion of the premiums that it receives.

Catastrophes are extremely rare events, and purchasing catastrophic reinsurance was a carefully considered decision by the Workers' Compensation Program. When catastrophes do occur, the amount of damages they cause can be significant. Without reinsurance, claims made after a catastrophe would come from the Workers' Compensation Program's contingency reserve, operating cash flows, debt financing, or from liquidating assets.

The existence of ceded reinsurance can add significant complexities to the evaluation of the Workers' Compensation Program's solvency and financial position. It can significantly reduce the net insurance risk faced, but can also introduce a significant amount of credit risk.

The Workers' Compensation Program purchased Workers' Compensation Excess of Loss Reinsurance to include coverage for catastrophic events and acts of terrorism in excess of $200 million. Reserves for compensation and compensation adjustment expenses will be reported gross of reinsured amounts if a qualifying event occurs. Management is not aware of any catastrophes during the coverage period, and no recoveries have been recorded. Reinsurance premiums are reflected as a reduction of premium income.

The reinsurance agreement consists of two excess of loss contracts. The first excess of loss contract covers catastrophic events or acts of terrorism that exceed $200 million up to $500 million per occurrence. The second excess of loss contract covers events that exceed $500 million up to $1 billion per occurrence. All reinsurers have an AM Best rating of "A" or higher at the time of placement.

The Workers' Compensation Program reinsurance agreement clearly transfers risk and does not contain any clauses that would bring into question whether the agreement transfers risk. The reinsurers will indemnify the Workers' Compensation Program against the aggregate loss and loss adjustment expenses arising from catastrophic and terrorism events.

The Workers' Compensation Program pays a flat premium amount for the ceded reinsurance. The total annual ceded premium is $12,403,000 for the coverage period January 2020 through December 2020. Premiums ceded of $12,039,183 for reinsurance coverage have been recorded in the accompanying basic financial statements for the year ended June 30, 2020, for the coverage period from July 2019 to June 2020.

The following chart shows the amounts that have been deducted from premiums in the presented financial statements as a result of reinsurance ceded for fiscal years 2020 and 2019:

		2020		**2019**
Premiums and assessments, net of refunds (in millions)	$	2,671	$	2,618
Ceded premiums (in millions)		(12)		(5)
Total premium and assessment income, net of refunds and ceded premiums (in millions)	$	2,659	$	2,613

Note 3 - Deposits and Investments

3.A. Deposits

Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, the Workers' Compensation Program would not be able to recover its deposits. See Note 1.D.1 for more information on cash and cash equivalents.

The Workers' Compensation Program minimizes custodial credit risk by restrictions set forth in state law. Statutes require state agencies to deposit funds in financial institutions that are physically located in Washington, unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 RCW, makes and enforces regulations and administers a collateral pool program to ensure that public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

The Office of the State Treasurer (OST) manages the deposits for the Workers' Compensation Program. At June 30, 2020, $69.5 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $211,485 uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship of the Workers' Compensation Program'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, the Workers' Compensation Program's portfolios are to be managed to limit fluctuations in workers' compensation premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the objectives are to:

- Maintain the solvency of the accounts.
- Maintain premium rate stability.
- Ensure that 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.

Eligible Investments - Eligible investments are securities and deposits that are in accordance with the WSIB'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 Workers' Compensation Program 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 are to 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
Supplemental Pension Account	100%	0%	0%

- Assets are to 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 broad 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 - Sector allocation of fixed income investments is to be managed within prescribed ranges. 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. Target allocations for the fixed income sectors include:

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

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 should 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.

3.B.2. Valuation of Investments

Fair Value - GASB Statement No. 72 *Fair Value Measurement and Application* (Statement 72) specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are

observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates)

- Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable

Inputs that are used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Workers' Compensation Program defaults to the lowest level input that is significant to the fair value measurement of each investment, with Level 3 being the lowest level. The determination of fair value of an investment within the hierarchy of classifications above is not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Workers' Compensation Program performed a detailed analysis of the assets and liabilities that are subject to Statement 72. Valuation policies and procedures are managed by the Investment and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The Workers' Compensation Program receives fair value prices for publicly traded debt securities directly from its custodian bank. These prices are obtained from reputable pricing sources, which include, but are not limited to, Bloomberg and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the pricing data on a daily basis:

- Price changes from the previous day of two to five percent or greater are researched, with corroborating evidence required from the primary pricing vendor.

- Prices unchanged for more than 10 days are sent to the appropriate vendor for review and verification.

The Workers' Compensation Program receives fair value measurements for alternative assets from a third-party provider, who collates data received from the general partners and other sources and prepares monthly valuation reports. WSIB staff review these reports monthly and verify the information to the appropriate source.

The Workers' Compensation Program invests in Collective Investment Trusts operated by a bank or trust company and groups assets contributed into a commingled investment fund. These "mutual fund" type investments are not available to the general public and are open-ended funds, which issue or reduce shares for contributions and redemptions from the funds. The commingled fund manager determines a periodic price per unit of the collective trust by obtaining fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share.

The Workers' Compensation Program reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Unrealized gains and losses are included in the Statement of Revenues, Expenses, and Changes in Net Position.

The table below presents fair value measurements as of June 30, 2020:

Schedule of Fair Value Measurement
June 30, 2020
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 1,055,969		$ 1,055,969	
Corporate bonds	11,123,826		11,123,826	
U.S. and foreign government and agency securities	4,304,287		4,304,287	
Total Investments by Fair Value Level	$ 16,484,082		$ 16,484,082	
Investments Measured at Net Asset Value (NAV)				
Commingled equity investment trusts	3,347,866			
Real Estate	11,597			
Total investments measured at the NAV	3,359,463			
Total Investments Measured at Fair Value*	$ 19,843,545			

*This total does not tie to Investments, current and noncurrent, on the Statement of Net Position. This schedule includes only WSIB investments.

Investments Classified as Level 2 - Investments classified as Level 2 in the above table are 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.

Investments Measured at Net Asset Value (NAV) - The Workers' Compensation Program invests in a single collective investment trust fund (fund). The fund is passively managed to track the investment of a broad, global equity index, the MSCI All Country World Investable Market Index net with USA gross. The fund determines a fair value by obtaining the values of underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings are publicly traded equity securities.

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

Alternative Investments. The fair value of investments that are organized as limited partnerships and have no readily ascertainable fair value is determined by using the net asset value per share (or its equivalent) of the Workers' Compensation Program's 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 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 will be different than the June 30, 2020, reported net asset value.

These investments can never be redeemed. Instead, the nature of these investments provides for distributions through the sale or liquidation of the underlying assets and from net operating cash flows. It is anticipated that the investments will be held for at least ten years.

Real Estate. This currently includes only one real estate investment. Targeted investment structures within the Workers' Compensation Program's 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 externally appraised generally at least every five years, depending upon the investment. Annual audits of most partnerships include a review of compliance with the partnership's valuation policies.

3.B.3. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2020, the Workers' Compensation Program had no securities on loan and, accordingly, no cash collateral received in the Medical Aid or Pension Reserve Accounts invested through the WSIB.

Securities Lending – WSIB

State law and WSIB policy permit the Workers' Compensation Program 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 Workers' Compensation Program in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Program, it is counterparty to securities lending transactions.

During fiscal year 2020, debt securities were loaned and collateralized by the Workers' Compensation Program'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.

As of June 30, 2020, the Workers' Compensation Program had no securities on loan and, accordingly, no collateral was held. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories.

Securities lending transactions can be terminated on demand either by the Workers' Compensation Program or the borrower. Non-cash collateral cannot 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 Workers' Compensation Program 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 year 2020, 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 Workers' Compensation Program incurred no losses during fiscal year 2020 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

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 earned 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.

The 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. During fiscal year 2020, there was no cash collateral from securities lending.

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 distributed 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 Workers' Compensation Program totaled $793,233.

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 year 2020, 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.

3.B.4. 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. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program's portfolio 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. As of June 30, 2020, the Workers' Compensation Program's portfolio durations were within the prescribed duration targets.

The schedules below provide information about the interest rate risks associated with the Workers' Compensation Program investments as of June 30, 2020. The schedules display various asset classes held by years until maturity and effective duration, and credit ratings. All debt securities are reported using average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Schedule of Maturities and Effective Duration
June 30, 2020
(in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Effective Duration (years)**
Mortgage and other asset-backed securities	$ 1,055,969	$ 34,368	$ 764,999	$ 256,602	$ -	3.5
Corporate bonds	11,123,826	809,435	4,633,156	2,459,081	3,222,154	7.4
U.S. government and agency securities	3,005,826	101,045	745,727	1,046,698	1,112,356	11.1
Foreign government and agencies	1,298,461	144,757	668,749	391,338	93,617	5.0
Total investments categorized	$ 16,484,082	$ 1,089,605	$ 6,812,631	$ 4,153,719	$ 4,428,127	
Investments Not Required to be Categorized						
Commingled investment trusts	3,347,866					
Cash and cash equivalents	471,904					
Real estate	11,597					
Total investments not categorized	3,831,367					
Total*	$ 20,315,449					

*This total does not tie to Investments, current and noncurrent, on the Statement of Net Position. This schedule includes only WSIB investments.

**Excludes cash and cash equivalents.

Investments with multiple credit ratings at June 30, 2020, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2020
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,055,969	$ 494,858	$ 192,251	$ 1,743,078
Aa1	-	172,648	236,840	409,488
Aa2	-	327,289	191,314	518,603
Aa3	-	725,821	277,291	1,003,112
A1	-	1,639,931	278,090	1,918,021
A2	-	2,190,490	-	2,190,490
A3	-	1,974,979	-	1,974,979
Baa1	-	1,601,696	-	1,601,696
Baa2	-	1,466,673	92,968	1,559,641
Baa3		364,925	29,707	394,632
Ba1 or lower	-	164,516	-	164,516
Total Fair Value	$ 1,055,969	$ 11,123,826	$ 1,298,461	$ 13,478,256

3.B.5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program'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 Workers' Compensation Program 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 Workers' Compensation Program's policy states that 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. There was no concentration of credit risk as of June 30, 2020.

Custodial Credit Risk (Investments) - Custodial credit risk is the risk that in the event that a depository institution or counterparty fails, the Workers' Compensation Program would not be able to recover the value of its deposits, investments, or collateral securities. The Workers' Compensation Program does not have a policy related to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Program.

3.B.6. 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 Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only securities held by the Workers' Compensation Program with foreign currency exposure at June 30, 2020, consisted of $1,380 million (includes U.S. dollar-denominated securities) invested in an international commingled equity index fund.

The following schedule presents the exposure of the Workers' Compensation Program to foreign currency risk, stated in U.S. dollars:

Workers' Compensation Program
Foreign Currency Exposure by Country
June 30, 2020
(in thousands)

Foreign Currency Denomination		Equity Securities
Australia - Dollar	$	65,882
Brazil - Real		21,578
Canada - Dollar		93,089
China - Yuan Renminbi		17,030
Denmark - Krone		21,334
E.M.U. - Euro		286,790
Hong Kong - Dollar		117,483
India - Rupee		33,271
Japan - Yen		247,018
New Taiwan - Dollar		53,773
South Korea - Won		48,325
Sweden - Krona		33,647
Switzerland - Franc		90,843
United Kingdom - Pound		136,812
Miscellaneous Foreign Currencies		112,678
Total	$	1,379,553

3.B.7. Derivatives

To manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns, the Workers' Compensation Program 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 Workers' Compensation Program mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, 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. At June 30, 2020, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $532.8 million.

Note 4 - Receivables

Receivables at June 30, 2020, consisted of the following:

Receivables June 30, 2020		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	220,951,517
Estimated premiums receivable[1]		615,170,000
Estimated self-insurance premiums receivable[2]		86,986,235
Total Premiums Receivable		923,107,752
Other receivables		
Receivable from overpayments		3,815,985
Investment interest receivable		115,832,984
Safety fines & penalties receivable		22,653,250
Miscellaneous receivables		4,918,039
Total Current Receivables, Gross		1,070,328,010
Less: Allowance for uncollectible receivables		234,390,242
Total Current Receivables, Net of Allowance	$	835,937,768

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2020. Premium amounts were estimated by L&I actuaries, to be collected for the Accident, Medical Aid, and Supplemental Pension Accounts.

[2]Estimated self-insurance premiums receivable represents estimated assessment receivables accrued for the quarter ended June 30, 2020, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and accounts receivable balances.

Note 5 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2020, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2020		
General Fund	$	23,452
L&I accounts*		11,435
Other state agencies		107,202
Total Receivables From Other State Accounts and Agencies	$	142,089

*Receivables and payables between the Workers' Compensation Program accounts are not included in the above totals.

All balances are expected to be received within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2020. Payables to other state accounts and agencies as of June 30, 2020, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2020		
General Fund	$	998
L&I accounts*		147,555
Other state agencies		5,683,170
Total Payables To Other State Accounts and Agencies	$	5,831,723

*Receivables and payables between the Workers' Compensation Program accounts are not included in the above totals.

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services received prior to June 30, 2020, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

Capital Assets Activity For the Fiscal Year Ended June 30, 2020	Beginning Balance July 1, 2019	Increases	Decreases	Ending Balance June 30, 2020
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,204,301	$ -	$ -	$ 3,204,301
Construction in progress	8,123,387	916,274	(8,123,387)	916,274
Total Capital Assets Not Being Depreciated	11,327,688	916,274	(8,123,387)	4,120,575
Capital Assets Being Depreciated:				
Buildings and building components	65,110,518	-	-	65,110,518
Accumulated depreciation	(35,751,932)	(1,353,040)	-	(37,104,972)
Net Buildings and Building Components	29,358,586	(1,353,040)	-	28,005,546
Furnishings, equipment, and collections	60,704,213	438,520	(3,238,320)	57,904,413
Accumulated depreciation	(59,010,079)	(641,204)	3,228,939	(56,422,344)
Net Furnishings, Equipment, and Collections	1,694,134	(202,684)	(9,381)	1,482,069
Other improvements	1,289,263	-	-	1,289,263
Accumulated depreciation	(809,216)	(20,408)	-	(829,624)
Net Other Improvements	480,047	(20,408)	-	459,639
Total Capital Assets Being Depreciated, Net	31,532,767	(1,576,132)	(9,381)	29,947,254
Intangible assets - definite useful lives	47,208,593	-	-	47,208,593
Accumulated amortization	(38,628,951)	(5,492,889)	-	(44,121,840)
Total Capital Assets Being Amortized, Net	8,579,642	(5,492,889)	-	3,086,753
Total Capital Assets, Net of Depreciation and Amortization	$ 51,440,097	$ (6,152,747)	$ (8,132,768)	$ 37,154,582

For fiscal year 2020, the total depreciation and amortization expense was $7,507,542.

Note 7 - Noncurrent Liabilities

7.A. Claims Payable

The following schedule presents the changes in claims liabilities (unpaid claims and claim adjustment expense liabilities) for the past two fiscal years for the Workers' Compensation Program:

Changes in Claims Liabilities
For the Fiscal Years ended June 30, 2020 and 2019

Claims Payable	**June 30, 2020**	**June 30, 2019**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 29,166,819,000	$ 27,774,303,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,347,952,000	2,105,190,000
Increase in provision for insured events of prior fiscal years	3,744,191,000	1,658,960,000
Total Incurred Claims and Claim Adjustment Expenses	6,092,143,000	3,764,150,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	326,927,000	321,422,000
Insured events of prior fiscal years	2,138,894,000	2,050,212,000
Total payments	2,465,821,000	2,371,634,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 32,793,141,000	$ 29,166,819,000
Current portion	$ 2,230,385,000	$ 2,155,389,000
Noncurrent portion	$ 30,562,756,000	$ 27,011,430,000

At June 30, 2020, $42,631 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $32,793 million. These claims are discounted on an actuarially derived projected payment pattern and selected annual interest rate (see Note 1.D.4).

The claims and claim adjustment liabilities of $32,793 million as of June 30, 2020, include $18,056 million for supplemental pension COLAs that are funded on a current payment basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claims liabilities of $14,737 million are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.B. Changes in Current and Noncurrent Liabilities

Current and noncurrent liability activity for the fiscal year ended June 30, 2020, was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2020

Current and Noncurrent Liabilities	Beginning Balance June 30, 2019	Additions	Reductions	Ending Balance June 30, 2020	Due Within One Year[2]	Noncurrent Balance June 30, 2020
Claims payable, current & noncurrent	$ 29,166,819,000	$ 6,092,143,000	$ (2,465,821,000)	$ 32,793,141,000	$ 2,230,385,000	$ 30,562,756,000
Other current and noncurrent liabilities						
Compensated absences[1]	17,072,877	19,211,944	(16,184,333)	20,100,488	11,448,274	8,652,214
DOE trust liabilities	4,886,838	-	(198,924)	4,687,914	508,741	4,179,173
Other postemployment benefits	116,094,941	63,451,013	(47,308,825)	132,237,129	2,280,171	129,956,957
Net pension liability	88,650,427	45,627,931	(65,184,073)	69,094,285	33,168	69,061,117
Total Other Current and Noncurrent Liabilities	226,705,083	128,290,888	(128,876,155)	226,119,816	14,270,354	211,849,461
Total Current and Noncurrent Liabilities	$ 29,393,524,083	$ 6,220,433,888	$ (2,594,697,155)	$ 33,019,260,816	$ 2,244,655,354	$ 30,774,605,461

[1]Compensated absences due within one year are included in accrued liabilities on the Statement of Net Position.
[2]There are other current liabilities that are not included in the table above.

7.C. Operating Leases

The Workers' Compensation Program leases land, 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 in order 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 that the leases will be renewed or replaced by other leases.

The following schedule 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,	
2021	$ 8,496,726
2022	6,302,365
2023	5,244,339
2024	3,601,981
2025	2,942,114
Total Future Minimum Lease Payments	$ 26,587,525

The total operating lease rental expense for fiscal year 2020 was $14,742,780.

Note 8 - Deficit

At June 30, 2020, the Workers' Compensation Program had a deficit of $12,064 million. This is the result of a $17,740 million deficit in the Supplemental Pension Account at June 30, 2020, offset by a combined $5,676 million net position in the total Basic Plan, Second Injury Account, and the Self-Insured Employer Overpayment Reimbursement Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2020, noncurrent claims payable in the Supplemental Pension Account totaled $17,378 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2020:

Supplemental Pension Account Net Position (Deficit)		
Balance, July 1, 2019	$	(14,929,778,827)
Fiscal year 2020 activity		(2,810,602,642)
Balance, June 30, 2020	$	(17,740,381,469)

Note 9 - Retirement Plans and Net Pension Liability

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), administered by the Department of Retirement Systems (DRS), and a Higher Education Defined Contribution Retirement Plan, which is privately administered.

The table below shows the net pension liability, deferred outflows of resources, deferred inflow of resources, and pension expense reported on June 30, 2020, for the Workers' Compensation Program's proportionate share of the liabilities for the PERS and TRS employee retirement plans and the Higher Education Retirement Plan Supplemental Defined Benefit Plans. Additional detail is provided later in this note.

Workers' Compensation Program's Proportionate Share
June 30, 2020

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERS 1	$ 50,676,170	$ 9,581,502	$ (3,385,594)	$ (7,273,946)
PERS 2/3	16,053,547	20,741,919	(33,554,383)	(11,753,297)
TRS 1	300,182	68,363	(23,022)	198,524
TRS 2/3	12,948	25,344	(15,036)	(9,170)
Higher Ed	2,051,438	687,928	(222,815)	138,144
Total	$ 69,094,285	$ 31,105,057	$ (37,200,850)	$(18,699,744)

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

9.A. Public Employees' Retirement System

Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing multiple-employer 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. The defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. 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. The option must be exercised within 90 days of employment. Employees who fail to make a selection within 90 days default to Plan 3.

Benefits Provided

PERS plans provide retirement, disability, and death benefits to eligible members. The monthly retirement benefit is two percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and one percent of the AFC per year of service for the defined benefit portion of Plan 3.

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions 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 rate for the Workers' Compensation Program at the close of fiscal year 2020 for each of Plans 1, 2, and 3 was 12.86 percent.

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies. 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 at June 30, 2020, was 7.90 percent of the employee's annual covered salary. 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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocations to simulate future investment returns over various time horizons.

The OSA selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2019, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation. There were no material changes in assumptions, benefit terms, or methods for the reporting period.

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

The following table presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.40 percent) or one percentage point higher (8.40 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	PERS 1	PERS 2/3
1% Decrease	$ 63,462,684	$ 123,124,308
Current Discount Rate	$ 50,676,170	$ 16,053,547
1% Increase	$ 39,582,156	$ (71,805,084)

Net Pension Liability

At June 30, 2020, the Workers' Compensation Program reported a liability of $50,676,170 for its proportionate share of the collective net pension liability for PERS 1 and $16,053,547 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.15 percent, no change since the prior reporting period, and 3.27 percent for PERS 2/3, an increase of 0.03 percent. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2020, the Workers' Compensation Program recognized a pension expense of ($7,273,946) for PERS 1, and a pension expense of ($11,753,297) for PERS 2/3.

At June 30, 2020, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2020	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 4,599,379	$ 4,599,379
Changes of assumptions	-	411,080	411,080
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	413,592	413,592
Contributions subsequent to measurement date	9,581,502	15,317,868	24,899,371
Total	$ 9,581,502	$ 20,741,919	$ 30,323,421

At June 30, 2020, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2020	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 3,451,424	$ 3,451,424
Changes of assumptions	-	6,735,534	6,735,534
Net difference between projected and actual earnings on pension plan investments	3,385,594	23,367,426	26,753,020
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 3,385,594	$ 33,554,383	$ 36,939,977

Pension contributions made subsequent to the measurement date in the amount of $9,581,502 and $15,317,868 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2020, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the fiscal years ending June 30 (expressed in thousands):

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ending June 30,		**PERS 1**		**PERS 2/3**
2021	$	(747,389)	$	(7,127,133)
2022	$	(1,770,349)	$	(11,966,626)
2023	$	(631,764)	$	(5,292,393)
2024	$	(236,093)	$	(2,820,199)
2025	$	-	$	(1,146,609)
Thereafter	$	-	$	222,627

9.B. Teachers' Retirement System

Plan Description

The Legislature established the TRS in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees. There are University of Washington employees paid from Workers' Compensation Program funds that are members of TRS Plan 3. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a defined benefit plan with a defined contribution component. The defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, and by June 30, 2007, are members of TRS Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided

TRS plans provide retirement, disability, and death benefits to eligible members. The monthly retirement benefit is two percent of the average final compensation (AFC) per year of service for Plan 1 and Plan 2, and one percent of the AFC per year of service for the defined benefit portion of Plan 3.

TRS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established under 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 41.32 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2020 for each of Plans 1, 2, and 3 was 15.51 percent.

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies and higher education 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 and higher education employees at June 30, 2020, was 7.77 percent of the covered payroll. 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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocations to simulate future investment returns over various time horizons.

The OSA selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2019, are summarized in the following table:

Rates of Return

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
Total	100%	

The inflation component used to create the above table is 2.20 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.40 percent) or one percentage point higher (8.40 percent) than the current rate.

Employers' Proportionate Share of Net Pension Liability/(Asset)

	TRS 1	TRS 2/3
1% Decrease	$ 383,673	$ 70,562
Current Discount Rate	$ 300,182	$ 12,948
1% Increase	$ 227,767	$ (33,898)

Net Pension Liability

At June 30, 2020, the Workers' Compensation Program reported a liability of $300,182 for its proportionate share of the collective net pension liability for TRS 1 and $12,948 for TRS 2/3. Workers' Compensation Program's proportion for TRS 1 was 1.11 percent, an increase of 0.91 percent since the prior reporting period, and 0.20 percent for TRS 2/3, a decrease of 0.01 percent since the prior reporting period. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2020, a pension expense of $198,524 was recognized for TRS 1, and a pension expense of ($9,170) was recognized for TRS 2/3.

At June 30, 2020, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2020

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 9,003	$ 9,003
Changes of assumptions	-	4,881	4,881
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	(2,242)	(2,242)
Contributions subsequent to measurement date	68,363	13,702	82,065
Total	$ 68,363	$ 25,344	$ 93,708

At June 30, 2020, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2020

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 417	$ 417
Changes of assumptions	-	3,440	3,440
Net difference between projected and actual earnings on pension plan investments	23,022	11,179	34,200
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 23,022	$ 15,036	$ 38,057

Pension contributions made subsequent to the measurement date in the amount of $68,363 and $13,702 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2020, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ending June 30,	**TRS 1**	**TRS 2/3**
2021	$ (4,726)	$ (4,694)
2022	$ (12,359)	$ (4,436)
2023	$ (4,346)	$ (683)
2024	$ (1,591)	$ 468
2025	$ -	$ 1,411
Thereafter	$ -	$ 4,542

9.C. Higher Education Retirement Plan Supplemental Defined Benefit Plans

Plan Description

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. There are University of Washington employees paid from Workers' Compensation Program funds that are members of Higher Education Retirement Plans. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program.

The state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each participated 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, and the Student Achievement Council.

Benefits Provided

The Higher Education Supplemental Retirement Plans provide retirement, disability, and death benefits to eligible members. As of July 1, 2011, all Higher Educational Retirement Plans were closed to new entrants. 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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25% - 6. 50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

Most actuarial assumptions used in the June 30, 2019, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate decrease from 3.50 percent to 2.21 percent.

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Index, or 2.21 percent, for the June 30, 2020, measurement date.

Plan Membership

Membership of the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2019, the date of the latest actuarial valuation for all plans. The Workers' Compensation Program comprises less than one percent of the membership.

Proportionate Share of Participating Members			
Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
2	1	18	21

Net Pension Liability

The following table presents the changes in total pension liability/(asset) of Higher Educational Supplemental Retirement Plans for the fiscal year ended June 30, 2020:

Changes in Total Pension Liability/(Asset) June 30, 2020		
Total Pension Liability		
Service cost	$	27,955
Interest		35,543
Changes of benefit terms		-
Differences between expected and actual experience		52,609
Changes in assumptions		212,184
Benefit payments		(13,921)
Other		-
Net Change in Total Pension Liability		314,370
Total Pension Liability - Beginning		1,737,068
Total Pension Liability - Ending	$	2,051,438

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2020, the Higher Education Supplemental Retirement Plans reported a pension expense of $60,026.

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.50 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
1% Decrease	$	2,379,659
Current Discount Rate	$	2,051,438
1% Increase	$	1,781,305

At June 30, 2020, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows of Resources
June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 278,409	$ 156,333
Changes of assumptions	409,519	66,482
Transactions subsequent to measurement date	-	-
Total	$ 687,928	$ 222,815

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ending June 30,		
2020	$	59,029
2021	$	59,029
2022	$	59,029
2023	$	59,029
2024	$	95,308
Thereafter	$	133,689

Note 10 - Other Postemployment Benefits

The Workers' Compensation Program is administered by L&I, an agency of the state of Washington and part of the primary government. Employees of the Workers' Compensation Program are eligible to participate in the state of Washington's defined benefit Other Postemployment Benefit (OPEB) plan, a single-employer defined benefit plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

The state implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* starting with fiscal year 2018 financial reporting. 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 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 understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumption used in valuations presented in this footnote assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources measurement focus and the accrual basis of accounting. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

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 the PEBB plan 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, Service Employees' Retirement System, Washington State Patrol Retirement System, Higher Education Retirement Plans, Judicial Retirement System, and 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 years 2018 and 2019, the average weighted implicit subsidy was valued at $347 and $367 per adult unit per month, respectively. 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. The final amount is approved by the state Legislature. In calendar years 2018 and 2019, the explicit subsidy was up to $168 per member per month, increasing to 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. L&I contributed $33,346,482 during fiscal year 2019.

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. For information on the results of the most recent actuarial valuation for the OPEB plan, refer to the Office of the State Actuary's website: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Actuarial Assumptions

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2018
Actuarial Measurement Date	6/30/2019
Actuarial Cost Method	Entry Age
Amortization Method	The recognition period for the experience and assumption changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset Valuation Method	N/A – No Assets

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (i.e., the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50% plus service-based salary increases
Healthcare trend rates	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 8%, reaching an ultimate rate of approximately 4.5% in 2080.
Post-retirement participation	65.00%
Percentage with spouse coverage	45.00%

In projecting the growth of the explicit subsidy after 2022, when the cap is $183, it is assumed to grow at the healthcare trend rates. The Legislature determines the value of the cap, and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Sensitivity of the Healthcare Cost Trend Rates		
1% Decrease	$	107,025,876
Current Healthcare Cost Trend Rate	$	132,237,128
1% Increase	$	166,167,644

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spousal coverage were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent, for the June 30, 2018, measurement date, and 3.50 percent for the June 30, 2019, measurement date.

The increase in the total OPEB liability is due to changes in assumptions resulting from a decrease in the Bond Buyer Obligation 20-Bond Municipal Bond Index discount rate.

The following represents the Workers' Compensation Program's proportionate share of the total OPEB liability, calculated using the discount rate of 3.50 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) than the current rate.

Sensitivity of the Discount Rate
OPEB Liability

1% Decrease	$	160,134,736
Current Discount Rate	$	132,237,128
1% Increase	$	110,568,950

Total OPEB Liability

As of June 30, 2020, the Workers' Compensation Program reported a total OPEB liability of $132,237,128. This liability was determined based on a measurement date of June 30, 2019.

The following table shows changes in the Workers' Compensation Program's total OPEB liability as of the June 30, 2020, reporting date.

Changes in Total OPEB Liability
For the Fiscal Year Ended June 30, 2020

Total OPEB Liability - Beginning	$	116,094,941
Changes for the year		
Service cost		5,354,357
Interest cost		4,644,598
Changes of assumptions*		8,267,857
Benefit payments		(2,124,625)
Net Changes in Total OPEB Liability		16,142,187
Total OPEB Liability - Ending	$	132,237,128

*The recognition period for these changes is nine years. This is equal to the average remaining service lives of all active and inactive members.

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

The Workers' Compensation Program will recognize OPEB expense of $3.3 million.

For fiscal year 2020, L&I reported its proportionate share of the state-reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows and Inflows of Resources June 30, 2020				
		Outflows		Inflows
Difference between expected and actual	$	3,531,150	$	-
Changes of assumptions		7,688,410		38,341,236
Changes in proportionate share of contributions		3,496,975		3,656,108
Transactions subsequent to the measurement date		2,280,172		-
Total	$	16,996,707	$	41,997,344

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the fiscal year ending June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense in the fiscal years ending June 30 as follows:

Future OPEB Expense		
Fiscal Year ending June 30,		
2021	$	(4,427,054)
2022	$	(4,427,054)
2023	$	(4,427,054)
2024	$	(4,427,054)
2025	$	(4,427,054)
Thereafter	$	(5,145,536)

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 Statewide 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 11 - Commitments and Contingencies

11.A. Federal Assistance

The Workers' Compensation Program has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for fiscal year 2020 was $9.58 million.

11.B. Contingencies

The Workers' Compensation Program is party to numerous routine legal proceedings that normally occur in the course of operations. At any given point, there may be numerous lawsuits that could financially impact the program. 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 Workers' Compensation Program's financial position, revenues, or expenses.

11.C. Financial Guarantees

Effective July 1, 1992, the Washington State Legislature requires the Workers' Compensation Program, under RCW 48.22.070, to participate in an assigned risk pool, the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan (WARP), providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act (USL&H). The Workers' Compensation Program 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.

The WARP was authorized to provide USL&H coverage to those unable to purchase it through the normal market. The rules governing the plan are contained in chapter 284-22 of the Washington Administrative Code. It is administered by a governing committee appointed by the Insurance Commissioner and made up of the Director of L&I and three members representing each of the following stakeholder groups: labor, maritime employers, and insurers and insurance producers. The plan has been operating profitably, and the Workers' Compensation Program has not made any payments to this risk pool since enactment of this indefinite commitment. It is unlikely that the Workers' Compensation Program will be required to make any payments in the near future; therefore, there are no guarantees extended that are outstanding at the reporting date. No payment recovery arrangements were authorized from other parties under the law.

Note 12 - Subsequent Events

12.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.

12.B. Industrial Insurance Rainy Day Fund Account

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 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 26.30 percent of total liabilities. As a part of the 2021 rate-making process, the Director will determine the timing and amount of a transfer.

Note: Statutory Financial Information is based on Statutory Accounting Principles (SAP) as promulgated by the National Association of Insurance Commissioners (NAIC).

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2020 and 2019
(in thousands)

The schedule below presents the changes in claims liabilities for the past two fiscal years for the Workers' Compensation Basic and Supplemental Pension Plans:

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 13,949,819	$ 13,750,303	$ 15,217,000	$ 14,024,000	$ 29,166,819	$ 27,774,303
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,939,609	1,789,780	408,343	315,410	2,347,952	2,105,190
Increase (decrease) in provision for insured events of prior fiscal years	708,666	221,171	3,035,525	1,437,789	3,744,191	1,658,960
Total incurred claims and claim adjustment expenses	2,648,275	2,010,951	3,443,868	1,753,199	6,092,143	3,764,150
Less payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	326,927	321,422	-	-	326,927	321,422
Insured events of prior fiscal years	1,534,026	1,490,013	604,868	560,199	2,138,894	2,050,212
Total payments	1,860,953	1,811,435	604,868	560,199	2,465,821	2,371,634
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 14,737,141	$ 13,949,819	$ 18,056,000	$ 15,217,000	$ 32,793,141	$ 29,166,819
Current portion	$ 1,552,756	$ 1,516,903	$ 677,629	$ 638,486	$ 2,230,385	$ 2,155,389
Noncurrent portion	$ 13,184,385	$ 12,432,916	$ 17,378,371	$ 14,578,514	$ 30,562,756	$ 27,011,430

Source: Washington State Department of Labor & Industries Actuarial Services

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.15%	3.15%	3.10%	3.22%	3.26%	3.24%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 50,676,170	$ 58,964,003	$ 61,659,391	$ 72,577,582	$ 70,982,707	$ 69,146,130
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 1	$ 1,725,539	$ 2,183,895	$ 2,645,571	$ 3,324,167	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 2/3	178,843,396	169,694,838	156,736,031	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's employers' covered-employee payroll*	$ 180,568,935	$ 171,878,733	$ 159,381,602	$157,200,870	$149,664,275	$ 143,786,141
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	2936.83%	2699.95%	2330.66%	2183.33%	1804.35%	1483.82%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.27%	3.24%	3.18%	3.31%	3.34%	3.30%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$16,053,547	$27,874,638	$55,546,159	$82,761,762	$58,566,959	$ 32,912,727
Workers' Compensation Program's employers' covered-employee payroll*	$ 178,843,396	$ 169,694,838	$ 156,736,031	$153,876,703	$145,729,911	$ 139,125,855
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	8.98%	16.43%	35.44%	53.78%	40.19%	23.66%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	1.110%	0.200%	0.190%	0.210%	0.380%	0.800%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 300,182	$ 64,554	$ 59,122	$ 70,402	$ 104,621	$ 183,886
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 1	$ 17,283	$ 3,786	$ 4,703	$ 12,044	$ 14,869	$ 36,888
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 2/3	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's employers' covered-employee payroll*	$ 103,447	$ 132,499	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	1736.89%	1705.07%	1257.24%	584.57%	700.00%	497.30%
Plan fiduciary net position as a percentage of the total pension liability	70.37%	66.52%	65.58%	62.07%	65.70%	68.77%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of the Workers' Compensation Program's Share of the Net Pension Liability
Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30

	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.200%	0.210%	0.210%	0.250%	0.480%	1.100%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 12,948	$ 10,164	$ 18,413	$ 29,456	$ 29,388	$ 21,139
Workers' Compensation Program's employers' covered-employee payroll*	$ 86,164	$ 128,713	$ 110,321	$ 104,508	$ 161,784	$ 282,403
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	15.03%	7.90%	16.69%	28.19%	17.90%	7.45%
Plan fiduciary net position as a percentage of the total pension liability	96.36%	96.88%	93.14%	88.72%	92.48%	96.81%

This schedule is to be built prospectively until it contains ten years of data.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 1
Fiscal Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contributions	$ 9,603,399	$ 9,441,964	$ 8,836,133	$ 7,552,340	$ 7,431,555	$ 6,064,083	$ 5,942,879
Less							
Workers' Compensation Program's employer contributions related to covered payroll of employees participating in PERS Plan 1	178,451	223,396	276,209	295,632	366,587	360,952	420,032
Workers' Compensation Program's employer UAAL contributions related to covered payroll of employees participating in PERS Plan 2/3	9,424,948	9,218,568	8,559,924	7,256,708	7,064,968	5,703,131	5,522,847
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	9,603,399	9,441,964	8,836,133	7,552,340	7,431,555	6,064,083	5,942,879
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll of employees participating in PERS plan 1	$1,383,134	$1,725,539	$2,183,895	$2,645,571	$3,324,167	$3,934,364	$4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS plan 2/3	193,024,372	178,843,396	169,694,838	156,736,031	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's covered-employee payroll	$194,407,506	$180,568,935	$171,878,733	$159,381,602	$157,200,870	$149,664,275	$143,786,141
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	4.94%	5.23%	5.14%	4.74%	4.73%	4.05%	4.13%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Public Employees' Retirement System (PERS) Plan 2/3
Fiscal Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 15,238,347	$ 13,487,652	$ 12,603,647	$ 9,749,591	$ 9,501,317	$ 7,327,801	$ 6,911,983
Less							
Workers' Compensation Program's contributions in relation to the contractually-required contribution	15,238,347	13,487,652	12,603,647	9,749,591	9,501,317	7,327,801	6,911,983
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$193,024,372	$178,843,396	$169,694,838	$156,736,031	$153,876,703	$145,729,911	$139,125,855
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	7.89%	7.54%	7.43%	6.22%	6.17%	5.03%	4.97%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 1
Fiscal Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 68,985	$ 60,344	$ 9,164	$ 6,855	$ 6,174	$ 7,297	$ 12,295
Less Workers' Compensation Program's employer contributions related to covered-payroll of employees participating in TRS Plan 1	2,495	2,678	543	619	775	1,475	3,605
Workers' Compensation Program's employer UAAL contributions related to covered-payroll of employees participating in TRS Plan 2/3	66,490	57,666	8,621	6,236	5,399	5,822	8,690
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	68,985	60,344	9,164	6,855	6,174	7,297	12,295
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 1	$15,884	$17,283	$3,786	$4,703	$12,044	$14,869	$36,888
Workers' Compensation Program's covered-payroll of employees participating in TRS Plan 2/3	166,352	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's covered-employee payroll	$ 182,236	$ 103,447	$ 132,499	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	37.85%	58.33%	6.92%	5.96%	5.30%	4.13%	3.85%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Contributions
Teachers' Retirement System (TRS) Plan 2/3
Fiscal Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$13,461	$11,084	$9,868	$7,439	$7,069	$9,233	$15,989
Less							
Workers' Compensation Program's contributions in relation to the contractually-required contribution	13,461	11,084	9,868	7,439	7,069	9,233	15,989
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$166,352	$86,164	$128,713	$110,321	$104,508	$161,784	$282,403
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	8.09%	12.86%	7.67%	6.74%	6.76%	5.71%	5.66%

This schedule is to be built prospectively until it contains ten years of data.

Schedule of Changes in Total Pension Liability and Related Ratios
Higher Education Supplemental Defined Benefit Plans
Fiscal Years Ended and Measurement Date of June 30

	2020	2019	2018
Changes in Pension Liability			
Service cost	$ 27,955	$ 53,040	$ 33,074
Interest	35,543	73,022	36,072
Changes of benefit terms	-	-	-
Differences between expected and actual experience	52,609	460,792	(292,464)
Changes in assumptions	212,184	261,223	(110,437)
Benefit payments	(13,921)	(33,566)	(13,710)
Other	-	-	-
Net Change in Total Pension Liability	314,370	814,511	(347,465)
Total Pension Liability - Beginning	1,737,068	922,557	1,270,022
Total Pension Liability - Ending	$ 2,051,438	$ 1,737,068	$ 922,557
Covered payroll	$1,953,750	$2,302,582	$1,699,122
Total Pension Liability/(Asset) as a Percentage of Covered Payroll	105.00%	75.44%	54.30%

This schedule is to be built prospectively until it contains ten years of data.

Source: Washington State Office of the State Actuary

Notes to Required Supplementary Information

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions for PERS and TRS

The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered-year valuation date determine the ADC for the biennium that ensues two years later. The actuarial valuation with a June 30, 2017, valuation date, completed in the fall of 2018, plus any supplemental contribution rates from the preceding legislative session, determined the ADC for the period beginning July 1, 2019, and ending June 30, 2021.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different, pending the actions of the governing bodies.

For cost-sharing plans, OSA calculates the Contractually Required Contributions (CRC) using the same assumptions and methods as the ADC, except the CRC reflect the adopted contribution rates for the time period shown, which may differ from the contribution rates produced for the ADC.

Schedule of the Workers' Compensation Program's Changes in Total OPEB Liability and Related Ratios As of the Measurement Date of June 30

(dollars in thousands)

	2019	2018	2017
Changes in OPEB Liability			
Service Cost	$ 5,354	$ 7,258	$ 8,764
Interest Cost	4,645	4,990	4,105
Difference between expected and actual experience	-	4,555	-
Changes in benefit terms	-	-	-
Changes in assumptions	8,268	(27,871)	(20,024)
Benefit Payments	(2,125)	(2,108)	(2,092)
Other	-	-	-
Net Change in Total OPEB Liability	$ 16,142	$ (13,176)	$ (9,247)
Total OPEB Liability - Beginning	116,095	129,271	138,518
Total OPEB Liability - Ending	$ 132,237	$ 116,095	$ 129,271
Covered payroll	$ 194,590	$ 180,672	$ 172,011
Total OPEB Liability as a Percentage of Covered Payroll	68.0%	64.3%	75.2%

This schedule is to be built prospectively until it contains ten years of data.
Note: Figures may not total due to rounding.
Source: Washington State Office of the State Actuary

Notes to Required Supplementary Information

The Public Employees Benefits Board (PEBB) OPEB plan does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, healthcare trend rates, salary projections, and participation percentages.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplementary and Other Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2020

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
Current Assets									
Cash and cash equivalents	$ 3,160,524	$ 769,319	$ (364,873)	$ -	$ 3,564,970	$ (50,165)	$ 65,525,784	$ 178,973	$ 69,219,562
Investments, current	576,600,806	578,989,803	346,313,672	-	1,501,904,281	59,604,608	-	-	1,561,508,889
DOE trust cash and investments	-	-	461,485	-	461,485	-	-	-	461,485
Receivables, net of allowance	370,089,766	229,671,708	48,113,859	-	647,875,333	171,631,432	16,389,105	41,898	835,937,768
Receivables from workers' compensation accounts	24,486,242	2,495,046	29,921,073	-	56,902,361	1,687,715	-	-	58,590,076 *
Receivables from other state accounts and agencies	69,730	70,009	-	-	139,739	2,350	-	-	142,089
Receivables from other governments	1,629,157	346,822	-	-	1,975,979	-	-	-	1,975,979
Inventories	57,745	57,745	-	-	115,490	-	-	-	115,490
Prepaid expenses	1,082,610	486,530	-	-	1,569,140	-	-	-	1,569,140
Total Current Assets	977,176,580	812,886,982	424,445,216	-	2,214,508,778	232,875,940	81,914,889	220,871	2,529,520,478
Noncurrent Assets									
Due from other funds, net of current portion	-	-	-	2,350,425,687	2,350,425,687	-	-	-	2,350,425,687 *
DOE trust receivable	-	-	4,226,429	-	4,226,429	-	-	-	4,226,429
Investments, net of current portion	6,595,916,421	6,399,746,661	5,667,917,957	-	18,663,581,039	90,765,451	-	-	18,754,346,490
Capital assets, net of accumulated depreciation	18,810,601	18,343,981	-	-	37,154,582	-	-	-	37,154,582
Total Noncurrent Assets	6,614,727,022	6,418,090,642	5,672,144,386	2,350,425,687	21,055,387,737	90,765,451	-	-	21,146,153,188
Deferred Outflows of Resources									
Deferred outflows from pensions	15,699,768	15,405,289	-	-	31,105,057	-	-	-	31,105,057
Deferred outflow of resources on OPEB	8,055,598	8,941,109	-	-	16,996,707	-	-	-	16,996,707
Total Deferred Outflows of Resources	23,755,366	24,346,398	-	-	48,101,764	-	-	-	48,101,764
Total Assets and Deferred Outflows of Resources	$ 7,615,658,968	$ 7,255,324,022	$ 6,096,589,602	$ 2,350,425,687	$ 23,317,998,279	$ 323,641,391	$ 81,914,889	$ 220,871	$ 23,723,775,430

*Receivables from and payables to the workers' compensation accounts are not included in the Statement of Net Position.

Continued

Combining Schedule of Net Position
June 30, 2020

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)									
Current Liabilities									
Accounts payable	$ 4,792,141.0000	$ 4,586,066.0000	$ 46,396.0000	$ -	$ 9,424,603.0000	$ 12,502.0000	$ -	$ -	$ 9,437,105.0000
Accrued liabilities	205,402,352	48,419,733	15,175,389	-	268,997,474	2,542,584	12,775	42,281	271,595,114
Net pension liability, current	16,450	16,718	-	-	33,168	-	-	-	33,168
Other post-employment benefits, current	1,127,860	1,152,311	-	-	2,280,171	-	-	-	2,280,171
Payables to workers' compensation accounts	459,855	5,308,704	20,701,000	-	26,469,559	2,199,444	29,921,073	-	58,590,076 *
Payables to other state accounts and agencies	3,442,326	2,389,397	-	-	5,831,723	-	-	-	5,831,723
Payables to other governments	1,436,944	253,578	-	-	1,690,522	-	-	-	1,690,522
Unearned revenues	82,399	44,224	-	-	126,623	3,268,330	-	-	3,394,953
DOE trust liabilities, current	-	-	508,741	-	508,741	-	-	-	508,741
Claims payable, current	601,237,000	495,111,000	456,408,000	-	1,552,756,000	677,629,000	-	-	2,230,385,000
Total Current Liabilities	817,997,327	557,281,731	492,839,526	-	1,868,118,584	685,651,860	29,933,848	42,281	2,583,746,573
Noncurrent Liabilities									
Due to other funds, net of current portion	733,313,166	1,617,112,521	-	-	2,350,425,687	-	-	-	2,350,425,687 *
Claims payable, net of current portion	4,316,534,000	3,925,553,000	4,942,298,000	-	13,184,385,000	17,378,371,000	-	-	30,562,756,000
Other long-term liabilities	4,494,167	4,158,047	-	-	8,652,214	-	-	-	8,652,214
DOE trust liabilities, net of current portion	-	-	4,179,173	-	4,179,173	-	-	-	4,179,173
Other post-employment benefits, net of current portion	64,500,274	65,456,683	-	-	129,956,957	-	-	-	129,956,957
Net pension liability, net of current portion	35,792,358	33,268,759	-	-	69,061,117	-	-	-	69,061,117
Total Noncurrent Liabilities	5,154,633,965	5,645,549,010	4,946,477,173	-	15,746,660,148	17,378,371,000	-	-	33,125,031,148
Total Liabilities	5,972,631,292	6,202,830,741	5,439,316,699	-	17,614,778,732	18,064,022,860	29,933,848	42,281	35,708,777,721
Deferred Inflows of Resources									
Deferred inflows from pensions	18,799,694	18,401,156	-	-	37,200,850	-	-	-	37,200,850
Deferred Inflow of resources on OPEB	20,437,366	21,559,978	-	-	41,997,344	-	-	-	41,997,344
Total Deferred Inflows of Resources	39,237,060	39,961,134	-	-	79,198,194	-	-	-	79,198,194
Net Position (Deficit):									
Investment in capital assets	18,810,601	18,343,981	-	-	37,154,582	-	-	-	37,154,582
Unrestricted	1,584,980,015	994,188,166	657,272,903	2,350,425,687	5,586,866,771	(17,740,381,469)	51,981,041	178,590	(12,101,355,067)
Total Net Position (Deficit)	1,603,790,616	1,012,532,147	657,272,903	2,350,425,687	5,624,021,353	(17,740,381,469)	51,981,041	178,590	(12,064,200,485)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 7,615,658,968	$ 7,255,324,022	$ 6,096,589,602	$ 2,350,425,687	$ 23,317,998,279	$ 323,641,391	$ 81,914,889	$ 220,871	$ 23,723,775,430

*Receivables from and payables to the workers' compensation accounts are not included in the Statement of Net Position.

Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES									
Premiums and assessments, net of refunds and reinsurance	$ 1,135,681,140	$ 806,702,308	$ 26,012,115	$ -	$ 1,968,395,563	$ 631,152,868	$ 59,269,161	$ 140,547	$ 2,658,958,139
Miscellaneous revenue	40,961,268	1,160,241	33,726	-	42,155,235	10,551,081	13	-	52,706,329
Total Operating Revenues	1,176,642,408	807,862,549	26,045,841	-	2,010,550,798	641,703,949	59,269,174	140,547	2,711,664,468
OPERATING EXPENSES									
Salaries and wages	99,654,647	100,460,428	-	-	200,115,075	-	-	-	200,115,075
Employee benefits	29,723,323	29,839,668	-	-	59,562,991	-	-	-	59,562,991
Personal services	7,172,741	8,656,679	-	-	15,829,420	-	-	-	15,829,420
Goods and services	52,941,331	48,050,249	-	-	100,991,580	-	-	-	100,991,580
Travel	2,778,693	1,602,676	-	-	4,381,369	-	-	-	4,381,369
Claims	936,412,310	920,025,977	600,023,512	-	2,456,461,799	3,441,787,812	2,272,533	196,268	5,900,718,412
Depreciation	2,527,063	4,980,479	-	-	7,507,542	-	-	-	7,507,542
Miscellaneous expenses	58,852,230	21,910,447	1,091,223	-	81,853,900	15,815,089	13	-	97,669,002
Total Operating Expenses	1,190,062,338	1,135,526,603	601,114,735	-	2,926,703,676	3,457,602,901	2,272,546	196,268	6,386,775,391
Operating Income (Loss)	(13,419,930)	(327,664,054)	(575,068,894)	-	(916,152,878)	(2,815,898,952)	56,996,628	(55,721)	(3,675,110,923)
NONOPERATING REVENUES (EXPENSES)									
Earnings on investments	656,427,369	543,946,797	631,238,642	-	1,831,612,808	5,296,310	-	-	1,836,909,118
Other revenues	8,012,362	1,709,792	-	-	9,722,154	-	-	-	9,722,154
Total Nonoperating Revenues (Expenses)	664,439,731	545,656,589	631,238,642	-	1,841,334,962	5,296,310	-	-	1,846,631,272
Income (Loss) Before Transfers	651,019,801	217,992,535	56,169,748	-	925,182,084	(2,810,602,642)	56,996,628	(55,721)	(1,828,479,651)
Transfers in	650,038,000	370,613,900	987,355,439	490,653,712	2,498,661,051	-	27,481,973	-	2,526,143,024 *
Transfers out	(1,233,008,788)	(180,570,222)	(674,100,000)	(370,613,900)	(2,458,292,910)	-	(71,289,114)	-	(2,529,582,024) *
Net Transfers	(582,970,788)	190,043,678	313,255,439	120,039,812	40,368,141	-	(43,807,141)	-	(3,439,000)
Changes in Net Position	68,049,013	408,036,213	369,425,187	120,039,812	965,550,225	(2,810,602,642)	13,189,487	(55,721)	(1,831,918,651)
Net Position (Deficit) at July 1	1,535,741,603	604,495,934	287,847,716	2,230,385,875	4,658,471,128	(14,929,778,827)	38,791,554	234,311	(10,232,281,834)
Net Position (Deficit) - June 30	$ 1,603,790,616	$ 1,012,532,147	$ 657,272,903	$ 2,350,425,687	$ 5,624,021,353	$ (17,740,381,469)	$ 51,981,041	$ 178,590	$ (12,064,200,485)

* Transfers in from and transfers out to workers' compensation accounts are not included in the Statement of Revenues, Expenses, and Changes in Net Position.

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2020

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total	
CASH FLOWS FROM OPERATING ACTIVITIES										
Receipts from customers	$ 1,095,692,912	$ 803,846,242	$ 23,225,153	$ -	$ 1,922,764,307	$ 605,063,832	$ 57,547,820	$ 138,985	$ 2,585,514,944	
Payments to/for beneficiaries	(560,730,399)	(602,086,977)	(504,972,767)	-	(1,667,790,143)	(602,296,945)	(2,266,956)	(153,988)	(2,272,508,032)	
Payments to employees	(133,895,230)	(135,933,334)	-	-	(269,828,564)	-	-	-	(269,828,564)	
Payments to suppliers	(64,168,356)	(59,153,020)	18,102	-	(123,303,274)	(2,069)	-	-	(123,305,343)	
Other	39,736,437	158,884	33,726	-	39,929,047	10,552,671	13	-	50,481,731	
Net Cash Flows from Operating Activities	376,635,364	6,831,795	(481,695,786)	-	(98,228,627)	13,317,489	55,280,877	(15,003)	(29,645,264)	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES										
Transfers in (workers' compensation accounts)	625,981,089	368,417,717	1,610,833,367	370,613,900	2,975,846,073	(1,680,371)	27,481,973	-	3,001,647,675	*
Transfers out (workers' compensation accounts)	(1,547,311,674)	(367,078,875)	(653,399,000)	(370,613,900)	(2,938,403,449)	2,185,814	(65,430,040)	-	(3,001,647,675)	*
Transfers out (IT Tech Pool)	(1,880,000)	(1,484,000)	-	-	(3,364,000)	-	-	-	(3,364,000)	
Operating grants received	7,476,691	1,594,531	-	-	9,071,222	-	-	-	9,071,222	
License fees collected	95,148	16,750	-	-	111,898	-	-	-	111,898	
Net Cash Flows from Noncapital Financing Activities	(915,638,746)	1,466,123	957,434,367	-	43,261,744	505,443	(37,948,067)	-	5,819,120	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES										
Acquisitions of capital assets	3,072,495	3,731,814	-	-	6,804,309	-	-	-	6,804,309	
Net Cash Flows from Capital and Related Financing Activities	3,072,495	3,731,814	-	-	6,804,309	-	-	-	6,804,309	
CASH FLOWS FROM INVESTING ACTIVITIES										
Net sales (purchases) of trust investments	-	-	56,351	-	56,351	-	-	-	56,351	
Receipt of interest and dividends	189,519,119	156,485,872	162,803,415	-	508,808,406	3,116,554	-	-	511,924,960	
Investment expenses	(3,820,149)	(3,732,718)	(2,620,502)	-	(10,173,369)	(215,520)	-	-	(10,388,889)	
Proceeds from sale of investment securities	3,256,646,022	2,447,587,965	1,828,179,100	-	7,532,413,087	663,067,334	-	-	8,195,480,421	
Purchases of investment securities	(2,907,948,102)	(2,613,649,792)	(2,465,718,073)	-	(7,987,315,967)	(681,816,066)	-	-	(8,669,132,033)	
Net Cash Flows from Investing Activities	534,396,890	(13,308,673)	(477,299,709)	-	43,788,508	(15,847,698)	-	-	27,940,810	
Net Increase (Decrease) in Cash and Cash Equivalents										
Cash & cash equivalents, July 1 (includes trust cash of $405,134)	(1,533,997)	(1,278,941)	(1,561,128)	-	(4,374,066)	(2,024,766)	17,332,810	(15,003)	10,918,975	
Cash & cash equivalents, June 30 (includes trust cash of $461,485)	4,758,521	2,059,260	1,657,740	-	8,475,521	1,974,601	48,192,974	193,976	58,837,072	
	$ 3,224,524	$ 780,319	$ 96,612	$ -	$ 4,101,455	$ (50,165)	$ 65,525,784	$ 178,973	$ 69,756,047	**
Cash Flows from Operating Activities										
Operating income (loss)	$ (13,419,930)	$ (327,664,054)	$ (575,068,894)	$ -	$ (916,152,878)	$ (2,815,898,952)	$ 56,996,628	$ (55,721)	$ (3,675,110,923)	
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities										
Depreciation	2,527,063	4,980,479	-	-	7,507,542	-	-	-	7,507,542	
Change in Assets: Decrease (Increase)										
Receivables	19,204,104	13,388,226	(1,856,006)	-	30,736,324	(10,585,502)	(1,721,327)	(1,563)	18,427,932	
Inventories	23,977	23,976	-	-	47,953	-	-	-	47,953	
Prepaid expenses	1,561,269	1,239,749	-	-	2,801,018	-	-	-	2,801,018	
Change in Liabilities: Increase (Decrease)										
Claims and judgments payable	375,899,000	316,989,000	94,434,000	-	787,322,000	2,839,000,000	-	-	3,626,322,000	
Accrued liabilities	(9,160,119)	(2,125,581)	795,114	-	(10,490,586)	801,943	5,576	42,281	(9,640,786)	
Net Cash Flows from Operating Activities	$ 376,635,364	$ 6,831,795	$ (481,695,786)	$ -	$ (98,228,627)	$ 13,317,489	$ 55,280,877	$ (15,003)	$ (29,645,264)	
Non Cash Investing, Capital and Financing Activities										
Increase (decrease) in fair value of investments	$ 341,232,693	$ 318,927,463	$ 399,429,726	$ -	$ 1,059,589,882	$ 2,228,048	$ -	$ -	$ 1,061,817,930	

* Intrafund transfers between the workers' compensation accounts are not included in the Statement of Cash Flows.

** The discrepancy between the Statement of Net Position and Statement of Cash Flows is due to an accrued transfer out for the OFM IT Tech Pool of $75,000. Accrued cash is not represented on the Statement of Cash Flows.

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

This section of the state of Washington's Workers' Compensation Program's CAFR presents detailed information as a supplement to the information in the basic financial statements, note disclosures, and required supplementary information to assist readers in assessing the program's overall financial health.

Page

FINANCIAL TRENDS

These schedules contain trend information to help readers understand how the program's financial performance and fiscal health have changed over time.

REVENUE CAPACITY

These schedules contain information to help readers assess the program's most significant revenue sources.

DEBT CAPACITY

These schedules contain information to help readers assess the affordability of the program's current level of outstanding debt and major obligations.

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help readers understand the environment in which the program operates.

OPERATING INFORMATION

These schedules offer operating data to help readers understand how the information in the program's financial report relates to the services it provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the state of Washington's and the Workers' Compensation Program's Comprehensive Annual Financial Reports.

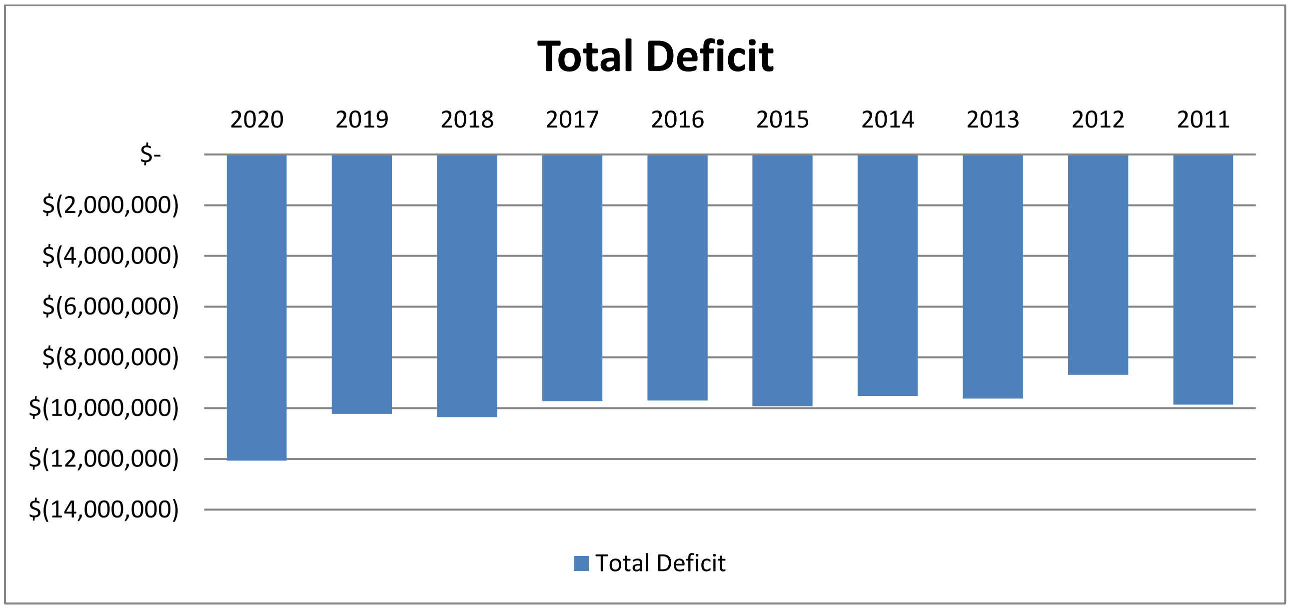
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Schedule 1 - Net Position (Deficit) by Component
Last Ten Fiscal Years
(in thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net investment in capital assets	$ 37,155	$ 51,440	$ 58,076	$ 65,149	$ 67,452	$ 67,595	$ 58,781	$ 57,687	$ 52,708	$ 51,101
Unrestricted[1]	(12,101,355)	(10,283,722)	(10,415,584)	(9,791,167)	(9,764,441)	(9,987,396)	(9,577,704)	(9,682,379)	(8,741,896)	(9,911,590)
Total Net Position (Deficit) [1]	$ (12,064,200)	$ (10,232,282)	$(10,357,508)	$ (9,726,018)	$ (9,696,989)	$ (9,919,801)	$ (9,518,923)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)

[1] Fiscal years 2012, 2014, 2016, and 2017 are restated amounts.



Schedule 2 - Changes in Net Position
Last Ten Fiscal Years
(in thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,658,958	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348
Miscellaneous revenues	52,706	53,646	49,833	61,239	57,682	56,714	53,986	47,354	47,964	51,411
Total Operating Revenues	2,711,664	2,666,399	2,774,729	2,758,974	2,573,938	2,394,197	2,254,396	2,170,837	2,062,805	2,034,759
Operating Expenses										
Salaries and wages	200,115	186,678	177,028	160,503	159,686	150,278	145,431	140,203	136,406	135,979
Employee benefits	59,563	59,203	64,793	68,547	62,966	55,397	58,367	54,367	54,379	51,397
Personal services	15,829	13,072	14,968	5,686	7,457	11,304	5,661	8,895	8,013	6,366
Goods and services	100,992	93,809	86,737	82,025	82,424	82,416	76,389	79,315	69,194	72,443
Travel	4,381	4,597	4,576	3,867	4,106	4,145	4,047	4,068	3,779	3,401
Claims	5,900,718	3,588,197	3,286,636	2,887,424	2,873,993	2,666,452	2,810,658	3,014,796	1,594,192	888,159
Depreciation	7,508	7,407	8,499	9,851	10,206	7,184	7,228	8,428	6,634	8,037
Miscellaneous	97,669	44,777	23,841	51,548	37,450	41,041	33,954	28,486	45,946	52,463
Total Operating Expenses	6,386,775	3,997,740	3,667,078	3,269,451	3,238,288	3,018,217	3,141,735	3,338,558	1,918,543	1,218,245
Operating Income (Loss)	(3,675,111)	(1,331,341)	(892,349)	(510,477)	(664,350)	(624,020)	(887,339)	(1,167,721)	144,262	816,514
Nonoperating Revenues (Expenses)										
Earnings on investments	1,836,909	1,446,193	249,354	551,367	857,707	215,557	1,119,761	223,875	1,009,688	981,927
Other revenues	9,722	10,374	11,505	9,186	8,909	7,840	8,329	8,998	8,421	9,294
Interest expense	-	-	-	-	(37)	(255)	(461)	(656)	(839)	(1,064)
Total Nonoperating Revenues (Expenses)	1,846,631	1,456,567	260,859	560,553	866,579	223,142	1,127,629	232,217	1,017,270	990,157
Income (Loss) Before Transfers	(1,828,480)	125,226	(631,490)	50,076	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671
Transfers in [1]	-	-	-	-	-	-	325,015	371,670	303,273	311,777
Transfers out [1]	(3,439)	-	-	(192)	-	-	(325,015)	(371,670)	(303,273)	(311,777)
Net Transfers	(3,439)	-	-	(192)	-	-	-	-	-	-
Changes in Net Position	(1,831,919)	125,226	(631,490)	49,884	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671
Net Position (Deficit), July 1 [2]	(10,232,282)	(10,357,508)	(9,726,018)	(9,696,989)	(9,919,801)	(9,518,923)	(9,624,691)	(8,689,188)	(9,860,489)	(11,667,160)
Net Position (Deficit), June 30	$ (12,064,201)	$ (10,232,282)	$ (10,357,508)	$ (9,647,105)	$ (9,717,572)	$ (9,919,801)	$ (9,384,401)	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)

[1] Starting in fiscal year 2015, intrafund transfers should not be reported, per GFOA comments. The balance of $3,439 is related to the IT Transfer Pool, and the $192 is related to a one-time transfer for the Moore Settlement.
[2] Fiscal years' 2013, 2015, 2017, and 2018 deficits at beginning of year are restated amounts.

Schedule 3 - Revenues by Source
Last Ten Fiscal Years
(dollars in thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,328,685	$ 1,344,650	$ 1,420,464	$ 1,395,147	$ 1,299,794	$ 1,231,128	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514
Medical Aid	794,066	825,943	870,331	855,218	820,177	779,315	695,460	624,913	596,421	614,714
Supplemental Pension	471,113	427,669	391,670	367,623	340,034	321,967	316,448	302,915	318,328	318,835
Net retrospective rating refunds	(202,909)	(240,184)	(195,578)	(169,105)	(156,378)	(188,302)	(174,854)	(136,404)	(171,509)	(75,011)
Ceded premiums reinsurance[1]	(12,039)	(5,175)	-	-	-	-	-	-	-	-
Total State Fund Premiums	2,378,916	2,352,903	2,486,887	2,448,883	2,303,627	2,144,108	2,002,192	1,897,327	1,803,910	1,775,052
Self-Insurance Assessments	280,042	259,850	238,009	248,852	212,629	193,375	198,218	226,156	210,931	208,296
Total Premiums and Assessments	$ 2,658,958	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348
Investments[2]										
Investment income (interest and dividend)	$ 508,842	$ 506,216	$ 479,112	$ 482,427	$ 503,057	$ 493,679	$ 479,457	$ 466,299	$ 488,831	$ 501,382
Investment balances	$20,315,855	$18,514,794	$16,769,383	$16,406,236	$15,587,449	$14,634,116	$14,502,551	$13,381,566	$13,321,822	$12,512,715
Average rate of return	2.5%	2.7%	2.9%	2.9%	3.2%	3.4%	3.3%	3.5%	3.7%	4.0%

CALENDAR YEAR	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Average Standard Premium Rates[3] (Per Hour Worked) - Effective from January 1 to December 31										
Accident	0.3235	0.3305	0.3564	0.3739	0.3691	0.3597	0.3601	0.3601	0.3601	0.3530
Medical Aid	0.1893	0.1959	0.2113	0.2179	0.2179	0.2179	0.2107	0.1905	0.1905	0.1897
Supplemental Pension	0.1223	0.1116	0.1026	0.0958	0.0950	0.0894	0.0909	0.0928	0.0932	0.1077
Stay At Work[4]	0.0049	0.0047	0.0045	0.0046	0.0055	0.0073	0.0073	0.0080	0.0076	N/A
Total Average Standard Premium Rates (Composite Rate)	0.6400	0.6427	0.6748	0.6922	0.6875	0.6743	0.6690	0.6514	0.6514	0.6504
Employer portion	0.4433	0.4484	0.4739	0.4871	0.4907	0.4734	0.4600	0.4578	0.4626	0.4588
Worker portion	0.1583	0.1561	0.1592	0.1592	0.1592	0.1573	0.1545	0.1457	0.1457	0.1487
State Fund Average Hourly Wage	$ 36.85	$ 36.11	$ 34.55	$ 30.76	$ 30.01	$ 28.64	$ 27.91	$ 26.79	$ 26.26	$ 25.40
Composite Net of Retro Rate per $100 Payroll[5]	$ 1.63	$ 1.67	$ 1.83	$ 2.10	$ 2.17	$ 2.20	$ 2.20	$ 2.25	$ 2.32	$ 2.39

[1] The Workers' Compensation Program first purchased reinsurance in calendar year 2019.
[2] These amounts reflect only investments managed by the Washington State Investment Board.
[3] These rates are for State Fund firms. Past average standard premium rates change annually to reflect the current distribution of risk by class.
[4] Stay at Work rate started in calendar year 2012.
[5] This figure equals the composite net of Retro rate divided by State Fund average hourly wage.

Sources: Washington State Agency Financial Reporting System
Washington State Department of Labor & Industries Actuarial Services

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employers insured	184,000	182,000	178,000	176,000	177,000	174,000	169,000	168,000	166,000	163,000
Workers covered	2,607,000	3,049,000	2,993,000	2,914,000	2,800,000	2,690,000	2,577,000	2,487,000	2,420,000	2,360,000
Hours reported	3,976,000,000	4,008,000,000	3,935,000,000	3,824,000,000	3,678,000,000	3,538,000,000	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000
Self-insured employers	351	349	351	356	355	355	355	363	365	360
Workers covered under self-insured employers	933,731	910,318	949,963	909,405	872,000	865,000	884,000	846,000	845,000	821,000
Industry Classifications - NAICS Sector										
Construction	27,000	27,200	26,100	25,309	23,562	22,460	21,998	21,229	21,191	21,631
Prof., scientific, and technical services	27,000	26,200	25,100	24,500	22,801	22,074	21,474	20,035	19,960	19,278
Other services (except public administration)	17,000	17,200	17,000	17,103	16,749	16,541	16,511	16,353	16,613	16,391
Health care and social assistance	15,400	15,400	15,100	15,158	15,009	14,672	14,611	14,538	14,754	14,642
Accomodation and food services	15,400	15,600	15,300	15,215	15,147	15,007	15,013	14,843	14,929	14,579
Retail trade	14,600	15,000	15,300	15,654	15,645	15,796	16,146	16,219	16,627	16,385
Administrative and support services	13,300	13,100	12,600	12,454	11,706	11,399	11,138	10,458	10,459	10,018
Wholesale trade	11,200	11,300	11,200	11,383	10,483	10,832	10,652	10,189	10,450	10,218
Real estate, rental and leasing	7,090	7,130	7,000	7,033	6,828	6,765	6,721	6,642	6,627	6,719
Agriculture, forestry, fishing, and hunting	6,580	6,830	7,000	7,151	7,202	7,069	6,980	7,141	7,238	7,258
Manufacturing	6,510	6,650	6,620	6,722	6,559	6,603	6,604	6,670	6,717	6,694
Finance and insurance	5,230	5,190	5,140	5,078	4,873	4,997	5,017	5,003	5,073	5,110
Transportation and warehousing	4,300	4,280	4,240	4,189	5,636	6,130	6,106	5,753	5,569	4,095
Education services	3,380	3,370	3,210	3,089	2,991	2,907	2,769	2,653	2,618	2,487
Arts, entertainment, and recreation	3,050	3,010	2,930	2,934	2,866	2,742	2,715	2,624	2,655	2,568
Unclassified establishments	2,890	470	480	1,024	1,025	1,027	1,028	1,026	1,030	1,040
Information	2,350	2,400	2,390	2,159	2,090	2,144	2,147	2,114	2,107	1,836
Public administration	990	990	1,010	1,059	5,387	2,265	985	3,816	382	1,512
Utilities	350	350	350	357	356	359	357	355	352	344
Mgmt. of companies and enterprises	230	220	200	193	169	158	150	144	133	118
Mining	150	150	150	156	159	167	172	177	180	178
Total Employer Accounts	184,000	182,040	178,420	177,920	177,243	172,114	169,294	167,982	165,664	163,101

Note: The data is a snapshot of the fiscal year July 1 - June 30, using data through September 30 following fiscal year close.

Sources: Washington State Department of Labor & Industries Actuarial Services
Washington State Department of Labor & Industries Self-Insurance Certification Services

Schedule 5 - Ratios of Outstanding Debt
Last Ten Fiscal Years
(dollars in thousands, except per covered worker)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Outstanding Debt										
General obligation bonds [1]	$ -	$ -	$ -	$ -	$ -	$ 4,050	$ 7,870	$ 11,475	$ 14,875	$ 18,080
Debt Ratios										
Principal paid on total debt	$ -	$ -	$ -	$ -	$ 4,050	$ 3,820	$ 3,605	$ 3,400	$ 3,205	$ 4,030
Ratio of principal paid to total prior year debt	0.0%	0.0%	0.0%	0.0%	100.0%	48.5%	31.4%	22.9%	17.7%	18.2%
Interest paid on total debt	$ -	$ -	$ -	$ -	$ 110	$ 325	$ 527	$ 717	$ 897	$ 1,143
Ratio of interest paid to total prior year debt	0.0%	0.0%	0.0%	0.0%	2.7%	4.1%	4.6%	4.8%	5.0%	5.2%
Premiums and assessments earned	$2,658,958	$2,612,753	$2,724,896	$2,697,735	$2,516,256	$2,337,483	$2,200,410	$2,123,483	$2,014,841	$1,983,348
Ratio of total debt to premiums and assessments earned	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%	0.5%	0.7%	0.9%
Total debt per covered worker [2]	$ -	$ -	$ -	$ -	$ -	$ 1.51	$ 3.05	$ 4.61	$ 6.15	$ 7.66

[1] Bonds were paid in full during fiscal year 2016.
[2] Covered worker data can be found in Schedule 4.

Source: Washington State Agency Financial Reporting System

Schedule 6 - Schedule of Changes in Claims Payable
Last Ten Fiscal Years
(in thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 29,166,819	$ 27,774,303	$ 26,640,538	$25,852,326	$25,066,149	$24,437,534	$23,627,560	$22,596,350	$22,943,311	$24,025,832
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,347,952	2,105,190	2,111,642	2,062,195	2,048,491	2,102,923	1,910,196	1,924,011	1,823,525	1,950,485
Increase (decrease) in provision for insured events of prior fiscal years	3,744,191	1,658,960	1,333,719	968,518	975,846	711,211	1,043,312	1,226,506	(92,184)	(933,553)
Total incurred claims and claim adjustment expenses	6,092,143	3,764,150	3,445,361	3,030,713	3,024,337	2,814,134	2,953,508	3,150,517	1,731,341	1,016,932
Less payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	326,927	321,422	325,933	309,490	303,784	300,862	296,885	296,347	283,763	288,812
Insured events of prior fiscal years	2,138,894	2,050,212	1,985,663	1,933,011	1,934,376	1,884,657	1,846,649	1,822,960	1,794,539	1,810,641
Total payments	2,465,821	2,371,634	2,311,596	2,242,501	2,238,160	2,185,519	2,143,534	2,119,307	2,078,302	2,099,453
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 32,793,141	$ 29,166,819	$ 27,774,303	$26,640,538	$25,852,326	$25,066,149	$24,437,534	$23,627,560	$22,596,350	$22,943,311

[1] Claims payable liabilities are reported net of recoveries.

Source: Washington State Department of Labor & Industries Actuarial Services

Schedule 7 - Washington State Population and Components of Change
Last Ten Calendar Years
(in thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Population	7,656.2	7,546.4	7,427.6	7,310.3	7,183.7	7,061.4	6,968.2	6,882.4	6,817.8	6,767.9
Net increase	109.8	118.8	117.3	126.6	122.3	93.2	85.8	64.6	49.9	43.4
Percent change	1.5%	1.6%	1.6%	1.8%	1.7%	1.3%	1.3%	1.0%	0.7%	0.6%
Components of change										
Births	85.1	86.3	87.3	89.7	89.8	88.5	87.0	87.3	87.1	86.4
Deaths	58.8	57.6	56.4	56.1	54.7	52.8	50.7	51.1	49.2	48.8
Net migration	83.4	90.2	86.3	93.0	87.1	57.6	49.5	28.5	12.0	5.8

Note: Washington State population estimates are as of April 1 of each year. Intercensal estimates are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2011 through 2020 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Sources: Washington State Office of Financial Management
U.S. Census Bureau, Population Division

Schedule 8 - Washington State Personal Income
Last Ten Calendar Years
(dollars in billions, except per capita)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Personal income	$ 494	$ 467	$ 435	$ 408	$ 386	$ 363	$ 336	$ 329	$ 305	$ 288
Percent change	14%	7%	7%	6%	6%	8%	2%	8%	6%	3%
Per capita	$ 64,898	$ 62,122	$ 58,566	$ 55,883	$ 53,840	$ 51,502	$ 48,296	$ 47,739	$ 44,676	$ 42,676

Note: The Bureau of Economic Analysis periodically revises its personal income data for periods up to 10 years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Schedule 9 - Washington State Unemployment Rate
Last Ten Calendar Years
(in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Civilian labor force	3,913	3,807	3,719	3,644	3,545	3,488	3,457	3,463	3,482	3,515
Less Employed	3,746	3,637	3,544	3,451	3,346	3,275	3,217	3,185	3,162	3,167
Total unemployed	167	170	175	193	199	213	240	278	320	348
Unemployment rate	4.3%	4.5%	4.7%	5.3%	5.6%	6.1%	6.9%	8.0%	9.2%	9.9%

Note: The Washington State Economic and Revenue Forecast Council periodically revises its civilian labor force and employment data for periods up to five years.

Source: Washington State Economic and Revenue Forecast, June 2020

Schedule 10 - Washington State Principal Employers by Industry
Last Calendar Year and Nine Years Ago

Industry [1]	2019 Annual Averages Number of Employees [2]	2019 Percent of Total	2019 Number of Employers	2010 Annual Averages Number of Employees [2]	2010 Percent of Total	2010 Number of Employers
Government	567,299	16.5%	2,128	525,475	18.7%	2,092
Healthcare and social assistance [3]	432,825	12.6%	57,529	322,215	11.5%	14,229
Retail trade	384,579	11.2%	14,051	303,095	10.8%	14,065
Manufacturing	290,243	8.4%	7,502	254,843	9.1%	6,884
Accommodation and food services	287,568	8.4%	14,712	218,179	7.8%	12,766
Professional, scientific, and technical services	208,518	6.1%	26,452	157,181	5.6%	18,400
Construction	205,712	6.0%	26,209	130,705	4.7%	21,517
Administrative and support services [4]	171,769	5.0%	12,365	130,267	4.6%	9,402
Information	144,037	4.2%	4,385	102,199	3.6%	2,412
Wholesale trade	133,813	3.9%	12,472	118,244	4.2%	12,945
Transportation and warehousing	104,944	3.0%	4,618	78,681	2.8%	3,945
Agriculture, forestry, fishing, and hunting	103,166	3.0%	6,842	87,643	3.1%	7,218
Other services [3]	102,625	3.0%	18,770	130,636	4.6%	64,868
Finance and insurance	94,801	2.7%	5,867	88,153	3.1%	5,610
Real estate, rental and leasing	55,304	1.6%	6,901	43,854	1.6%	6,286
Arts, entertainment, and recreation	53,774	1.6%	2,889	44,600	1.6%	2,421
Education services	45,246	1.3%	3,425	33,752	1.2%	2,396
Management of companies and enterprises	44,980	1.3%	651	31,761	1.1%	603
Utilities	5,174	0.1%	231	4,815	0.2%	231
Mining	2,248	0.1%	136	2,148	0.1%	165
Total average employment [5]	3,438,625	100%	228,135	2,808,446	100%	208,455

[1] Industry classifications are based on North American Industry Classification System (NAICS) codes. The state of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's employment base.

[2] The number of employees is based on annual averages and represents only employees covered by unemployment insurance.

[3] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as "other services". Effective January 2014, these were classified correctly as "healthcare and social assistance". This reclassification caused the annual average number of employees to increase. Employees classified as "other services" do not include public administration.

[4] Employment classified under "administrative and support services" includes waste management and remediation services.

[5] Total employment is based on annual averages and may not include private firms or disclosure of individual employers.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 11 - Washington State Annual Average Wages by Industry
Last Ten Calendar Years

Industry [2]	2019 [3]	2018	2017	2016	2015	2014	2013	2012	2011	2010
	Annual Average Wages [1]									
Information	$ 207,030	$ 194,863	$ 172,592	$ 159,236	$ 150,503	$ 148,429	$ 135,304	$ 131,872	$ 119,968	$ 109,777
Management of companies and enterprises	123,434	118,097	111,942	109,462	108,447	106,518	105,501	105,535	102,009	95,731
Utilities	105,295	99,718	93,057	88,789	85,644	87,212	86,373	84,024	82,058	77,591
Professional, scientific, and technical services	104,013	101,410	92,323	88,223	85,968	84,883	81,893	79,972	77,178	75,376
Finance and insurance	100,969	95,089	90,869	88,308	92,790	82,102	79,587	77,455	73,154	70,137
Wholesale trade	82,404	80,439	76,856	73,903	72,523	70,169	68,230	68,481	65,831	63,348
Manufacturing	81,301	79,377	76,301	74,641	73,860	74,303	70,798	69,306	68,065	64,925
Mining	74,890	71,083	71,120	67,389	67,425	63,404	62,444	60,231	58,871	55,654
Construction	67,818	64,470	61,227	58,887	56,925	55,037	53,735	53,056	52,304	51,127
Government	66,946	63,832	61,187	58,945	57,274	55,603	53,733	52,871	52,174	51,394
Transportation and warehousing	64,690	60,374	58,058	56,173	54,344	52,293	51,967	50,876	49,628	47,743
Retail trade	62,264	58,866	52,542	45,930	38,300	36,127	34,084	32,364	30,917	30,021
Real estate, rental and leasing	58,426	55,188	51,553	48,965	47,459	45,181	43,426	42,040	39,816	38,359
Healthcare and social assistance [4]	54,654	52,690	50,971	49,337	46,986	44,245	47,733	47,067	45,852	44,673
Administrative and support services [5]	53,117	50,370	48,484	47,050	45,934	44,382	43,261	43,381	42,942	41,466
Other services [4]	42,585	40,410	38,832	37,557	37,437	35,571	26,717	25,651	24,549	24,227
Education services	40,242	39,008	38,455	37,667	36,414	36,918	36,775	36,226	35,576	35,158
Agriculture, forestry, fishing, and hunting	33,736	32,405	31,154	29,971	28,398	27,758	26,880	26,295	25,097	24,034
Arts, entertainment, and recreation	33,191	32,522	32,074	30,908	30,509	29,725	27,771	25,276	25,023	25,121
Accommodation and food services	25,319	24,003	22,766	21,301	20,451	19,561	19,136	18,698	18,062	17,632

[1] Wages include only employment covered by unemployment insurance. The state of Washington is legally prohibited from disclosing the names of individual employers. The information in this table is intended to assist readers in understanding the degree of concentration in the state's wage base.

[2] Industry classifications and wages are based on North American Industry Classification System (NAICS) codes.

[3] 2019 data is preliminary.

[4] A number of state-funded programs that provide nonmedical, home-based services for the elderly and persons with disabilities were incorrectly classified as "other services". Effective January 2014, these were classified correctly as "healthcare and social assistance". This reclassification caused the average annual wage for other services to increase. Wages classified as other services do not include public administration.

[5] Wages classified under "administrative and support services" include waste management and remediation services.

Source: Washington State Employment Security Department, Quarterly Census of Employment and Wages

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Male injured workers	65%	66%	67%	67%	67%	67%	67%	67%	67%	66%
Female injured workers	35%	34%	33%	33%	33%	33%	33%	33%	33%	34%
Average age of injured workers	38	38	38	38	38	38	38	38	38	38
Injured workers younger than 30	30%	31%	31%	29%	29%	29%	28%	27%	27%	28%
Injured workers 30 to 50	44%	43%	44%	44%	45%	45%	46%	46%	46%	47%
Injured workers older than 50	24%	24%	24%	25%	24%	24%	24%	24%	24%	23%
Injured workers age unknown	1%	1%	1%	1%	2%	2%	2%	2%	2%	2%

Notes:
Because of rounding, some columns may not add up to 100%.
The data is a snapshot of the fiscal year ended June 30 as of the following September. Before fiscal year 2012, the data is as of the first week of the following October.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 13 – L&I Number of Employees by Division
Last Ten Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Administrative Services	160	160	134	131	136	132	127	122	121	169
Communications & Web Services	63	60	61	54	54	51	47	N/A	N/A	N/A
Director's Office	34	26	28	35	32	31	31	141	87	92
DOSH	361	367	361	345	349	355	356	344	341	330
Field Services & Public Safety	8	7	6	6	7	4	4	N/A	N/A	N/A
Financial Management	55	54	50	53	54	53	50	N/A	N/A	N/A
Fraud Prevention & Labor Standards	143	144	144	125	132	131	122	86	85	83
Human Resources	60	57	56	52	54	54	46	44	46	45
Information Technology	214	213	213	199	208	201	194	175	173	171
Insurance Services	1,102	1,123	1,119	1,090	1,101	1,076	1,048	955	990	945
New legislation	1	N/A	N/A	2	6	12	6	93	58	N/A
Region 1	59	57	56	58	58	60	60	61	59	56
Region 2	101	100	102	96	100	102	101	100	102	102
Region 3	54	52	50	51	52	54	55	55	54	56
Region 4	71	72	68	70	70	70	70	71	74	70
Region 5	73	72	68	70	72	72	68	71	71	71
Region 6	39	38	39	40	39	39	38	39	40	41
Specialty Compliance Services	N/A	N/A	N/A	N/A	N/A	N/A	N/A	37	38	37
Workers' Compensation System Modernization	51	28	18	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	2,649	2,630	2,573	2,477	2,524	2,497	2,423	2,394	2,339	2,268

Notes:
The above number of employees is based on Full-Time Equivalents. A Full-Time Equivalent (FTE) is one full calendar year of paid employment, or the equivalent of 2,080 hours (the number of available work hours in a year). It is not the number of employees on the payroll, nor is it the number of positions in the Department of Labor & Industries. It is a computed average number of employees based upon cumulative FTE staff months during one fiscal year or cumulative hours paid during one fiscal year.

In fiscal year 2014, the Department of Labor & Industries reorganized some divisions. Communications & Web Services and Financial Management were separated from the Director's Office, and Specialty Compliance Services was split and merged into Fraud Prevention & Labor Standards and Field Services & Public Safety.

In fiscal year 2018, Business Transformation was added in order to align employees, processes, and technology with a focus on meeting the needs of customers. Business Transformation will simplify and standardize processes and systems across the agency and provide training and support to deliver the highest quality service. This will make it easier for customers to do business with L&I and easier for our employees to do their jobs. In fiscal year 2020, the Business Transformation project was renamed, "Workers' Compensation System Modernization".

Source: Washington State Fiscal Interactive Reporting System

Schedule 14 - Capital Asset Indicators – Business Locations
Last Ten Calendar Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	18	18	18	18	18	19
Warehouses	1	1	1	1	1	1	1	1	1	1
Labs	1	1	1	1	1	1	1	1	1	1
Other offices	1	2	2	2	2	2	2	2	2	1

*Field offices do not include Tumwater Region 4 field office in Tumwater headquarters.

Source: Washington State Department of Labor & Industries Facilities Services

Schedule 15 - Claim Statistics and Five Most Frequent Injuries
Last Ten Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Claim Statistics										
Number of Claims Filed [1]	99,984	111,837	111,604	109,965	110,498	109,359	106,903	103,328	101,524	100,690
Number of Claims Accepted [1, 2]	86,316	94,681	95,213	94,128	95,277	82,707	86,968	84,064	84,863	81,274
Number of Claims Denied [1, 2]	15,678	16,814	16,504	15,981	16,760	14,098	14,593	14,077	13,857	12,762
Fatal Pensions Awarded	44	44	36	50	48	61	51	44	35	59
Total Permanent Disability Pensions Granted	832	890	886	1,062	1,047	1,063	1,085	1,614	925	1,036
Permanent Partial Disability Awards Granted	8,151	8,784	9,312	10,038	10,280	10,769	10,431	10,760	11,524	11,782
New Time-loss (Wage Replacement) Claims [3]	16,790	16,498	17,812	18,782	19,065	19,509	20,049	19,740	20,205	21,377
Medical-only Claims Accepted	72,000	80,494	79,888	78,054	78,816	66,411	69,752	67,171	67,539	63,308
Retraining Plans Completed [4]	248	313	347	411	438	474	501	1,740	1,665	1,667
Total Days Paid for Lost Work	5,505,732	5,519,390	5,732,712	6,102,780	6,475,281	6,841,091	7,054,849	7,521,311	7,850,982	8,099,675
Five Most Frequent Injuries										
Back, spine, and spinal cord: traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	9,758	10,820	11,187	10,930	11,652	10,624	10,466	10,247	10,829	10,227
Finger(s): open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	9,315	11,114	11,076	10,809	11,068	9,429	9,459	8,665	8,761	7,974
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	4,187	4,148	-	-	-	-	-	-	-	3,314
Shoulder(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., including clavicle, scapula (includes injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	3,981	4,241	4,265	4,133	4,126	3,728	3,646	3,441	3,457	-
Leg(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	3,950	4,289	4,148	4,083	3,939	3,696	3,802	3,614	3,484	3,362
Face: surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	-	-	3,824	3,724	4,056	3,473	3,611	3,723	3,775	3,320

Note: The data is a snapshot of the fiscal year ended June 30 as of the following September. Before fiscal year 2012, the data is as of the first week of the following October.

[1] Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed, as there are claims in "provisional" status where the decision to accept or deny has yet to be made.
[2] Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.
[3] Counts of new time-loss (wage replacement) claims reflect actions in that year regardless of when claim was filed.
[4] Beginning in fiscal year 2014, the statistics reported are only for retraining plans successfully completed. The previous years include all training plans whether successfully completed or not.

Source: Washington State Department of Labor & Industries Research and Data Services

Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims
Last Ten Fiscal Years

Risk Class	Risk Class Description	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
3905	Restaurants and Taverns	6,529	8,047	7,786	7,671	7,675	7,517	7,192	6,935	6,709	6,437
4803	Orchards	3,400	3,532	3,847	3,204	3,361	3,396	3,079	2,866	2,653	2,152
6109	Physicians & Medical Clinics	2,337	2,340	2,305	2,289	2,121	2,110	2,217	2,140	2,178	2,263
6509	Boarding Homes and Retirement Centers	2,246	2,285	2,351	2,326	2,429	2,370	2,501	2,407	2,482	2,398
6108	Nursing Homes	1,851	1,536	1,584	1,630	1,817	1,872	2,040	2,077	2,080	2,187
1101	Parcel and Package Delivery Service	1,673	1,344	1,208	1,236	1,104	985	968	957	966	957
6107	Veterinary Services	1,535	1,493	1,319	1,168	1,059	996	950	894	832	756
4906	Colleges & Universities	1,469	1,459	1,525	1,538	1,750	1,715	1,757	1,708	1,816	1,773
3411	Automobile Dealers, Rentals and Service Shops	1,411	1,664	1,726	1,638	1,666	1,580	1,539	1,560	1,492	1,592
2102	Warehouses, N.O.C., Grocery Dist, & Recycle Centers	1,383	1,298	1,338	1,178	889	746	668	563	594	609
0510	Wood Frame Building Construction	1,370	1,621	1,727	1,603	1,542	1,508	1,342	1,283	1,136	1,207
2104	Fruit & Vegetable Packing - Fresh	1,341	1,509	1,749	1,559	1,691	1,865	1,564	1,483	1,307	1,248
0516	Carpentry, N.O.C.	1,323	1,617	1,434	1,358	1,358	1,265	1,051	959	868	766
4910	Property and Building Management Services	1,300	1,423	1,298	1,353	1,281	1,277	1,241	1,273	1,292	1,240
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,247	1,490	1,437	1,415	1,388	1,300	1,338	1,345	1,392	1,432
0601	Electrical Wiring: Buildings and Structures	1,150	1,250	1,221	1,116	1,091	1,063	929	923	873	936
4905	Motels and Hotels	982	1,110	1,102	1,170	1,174	1,135	1,143	1,122	994	1,020
3402	Machine Shops and Machinery Mfg., N.O.C.	970	1,147	1,156	1,107	1,348	1,305	1,324	1,260	1,327	1,228
0307	HVAC Systems, Installation, Service and Repair	963	1,129	1,068	1,016	934	856	857	784	733	800
6402	Supermarkets	960	1,041	986	960	956	1,020	1,015	886	794	824
6511	Chore Services	959	1,059	905	976	948	887	977	924	921	962
6602	Janitorial Service	936	1,044	1,072	1,059	1,002	1,004	971	935	987	945
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	921	898	885	832	1,009	961	784	740	729	749
0518	Non Wood Frame Building Construction	910	1,036	1,087	865	1,007	915	756	691	609	642
6309	Hardware, Auto Parts and Sporting Good Stores	864	902	1,009	1,066	1,059	1,056	1,067	1,092	1,084	1,038
0306	Plumbing	846	839	901	923	818	885	758	728	768	765
1102	Trucking, N.O.C.	822	952	1,011	1,139	1,029	1,044	1,026	1,036	1,103	1,151
6406	Retail Stores, N.O.C.	814	931	989	1,010	946	985	1,017	931	1,011	1,009
5307	State Government - All Other Employees, N.O.C.	768	946	933	977	891	852	921	943	1,079	1,232
0507	Roofing Work - Construction and Repair	750	808	865	849	829	790	694	687	642	699
2903	Wood Products Manufacturing, N.O.C.	678	774	825	860	796	824	820	727	735	681
4904	Clerical Office, N.O.C.	537	656	785	739	823	883	1,014	1,012	1,113	1,163

Notes:

N.O.C. stands for "not otherwise classified".

These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of June 30, 2020.

The Risk Class is that which is assigned to the claim. Per Washington Administrative Code (WAC) 296-17-31002, a "Risk Class" is defined as, "A grouping of businesses or industries having common or similar exposure to loss without regard to the separate employments, occupations or operations which are normally associated with the business or industry. Basic classifications describe a specific type of business operation or industry such as mechanical logging, sawmills, aircraft manufacturing, or restaurants. In most business operations, some workers are exposed to very little hazard, while others are exposed to greater hazard. Since a basic classification reflects the liability (exposure to hazard) of a given business or industry, all the operations and occupations that are common to an industry are blended together and included in the classification."

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplemental Audit Report

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Deloitte Consulting LLP
555 W 5th Street
Suite 2700
Los Angeles, CA 90013
USA
Tel: 1 213 688 0800
www.deloitte.com

October 14, 2020

June 30, 2020 Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

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 Workers' Compensation Program's ("the Program") carried Generally Accepted Accounting Principles ("GAAP") 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 Program is comprised of four Workers' Compensation Program Accounts: the Accident Account, the Medical Aid Account, the Pension Reserve Account, and the Supplemental Pension Account. The Program is currently administered by 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 loss and loss adjustment expense reserves as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2020. I have reviewed the June 30, 2020 loss and loss adjustment expense reserves recorded under U.S. Governmental Accounting Standard GAAP. 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 the loss and loss adjustment expense reserves listed below and did not include an analysis of any other balance sheet items. I have not examined the Program's assets and I have formed no opinion as to the validity or value of these assets.

Opinion

A summary of the Program's recorded loss and loss adjustment expense reserves by account in its Comprehensive Annual Financial Report as of June 30, 2020 is as follows:

Accident Account	$ 4,917,771,000
Medical Aid Account	4,420,664,000
Pension Reserve Account	5,398,706,000
Total Basic Plan Loss and LAE Reserves	$14,737,141,000
Supplemental Pension Account	18,056,000,000
Total Program Loss and LAE Reserves	$32,793,141,000

In my opinion, the loss and loss adjustment expense reserves listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2020:

(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 Program 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 reserves recorded in the Comprehensive Annual Financial Report.

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 Program'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 Program'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 Program'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 1.78%. Changes to the interest rate used for discounting could result in material changes to the reserves. We note that the current risk free interest rate matching the duration of these liabilities (approximately 16.2 years) was 0.98% as of June 30, 2020 and 2.19% as of June 30, 2019.

A major assumption in the analysis of the Supplemental Pension Account and Pension Reserve Account is future cost of living adjustments and the implicit assumption 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 different from those anticipated or 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 loss and loss adjustment expense reserves.

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 our analysis is small and immature. In our analysis we have incorporated estimated adjustments to our actuarial assumptions in consideration of the effects of the pandemic. However, we caution that the volatility and uncertainty of our projections are increased due to the lack of sufficiently credible data.

B. Other Disclosures

Pension Liabilities for State Employees

Statutory Accounting Principles ("SAP") do not require the Program to record a separate liability for the unfunded State employee pensions. However, the Program under SAP recognizes a portion of the unfunded state employee pension in the claims administrative expense ("CAE") liability for the portion pertaining to its claims administration.

GAAP requires the Program to record a liability for the total unfunded state employee pensions in its Comprehensive Annual Financial Report ("CAFR") as of June 30, 2020. The CAE liability in the CAFR does not include any of the unfunded State employee pensions so as to not double count the liability. This difference in accounting results in a GAAP CAE liability that is approximately $17.5 million less than the SAP CAE liability.

Therefore, the GAAP reserve shown above upon which I am expressing an opinion excludes the liabilities for the unfunded State employee pensions for staff administering claims. The amounts excluded total $17,465,000 ($5,284,000 for the Accident Account and $12,181,000 for the Medical Aid Account).

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 Program pensions" within the Pension Reserve Account, the Department's selected interest rate is 4.5%.
- For "self-insured pre-Programed 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-Programed pensions is allowed to be different from the rate selected for state Program 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%.
- For the Supplemental Pension Account, the Department's selected interest rate is 1.0%.

The average combined interest rate for the Program is approximately 1.78% with a total discount amount of $9.72 billion. The interest rates were selected by the Department, and I make no opinion regarding the appropriateness of the selected rates. We note that the current risk free interest rate matching the duration of these liabilities was 0.98% as of June 30, 2020 and 2.19% 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, Medical Aid Account, and Supplemental Pension 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 $1.778 billion.

Underwriting Pools or Associations

The Program 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 Program pays assessments to WARP and participates in any underwriting losses or surpluses incurred by WARP. Based on discussions with the Department, we understand that WARP is not currently in a deficit position. Therefore, the Program has not booked a reserve to account for any unpaid claims related to WARP.

We understand that the Program does not participate in any other voluntary or involuntary pools.

Asbestos Exposures and Environmental Exposures

I have reviewed the Program'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 Program 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 Program 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 Program 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 Program 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).

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 Program 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 Program retains 5.1126% of the losses in the layer. All reinsurers are rated A or better by AM Best. As of June 30, 2020, Program 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 Program.

Retroactive Reinsurance, Financial Reinsurance

Based on discussions with Department management and its description of the Program'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.

Major Assumption Changes and Other Comments

The Supplemental Pension Account COLA adjustment for fiscal year 2021 of 6.74% was obtained from the Employment Security Department's State Average Annual Wage data and represents the change in calendar year 2019 wages. By statute, the COLAs are based on the annual calendar year change to the states' average wages and are somewhat lagged (e.g. the annual COLA change for fiscal year 2021 is based on the change in calendar year 2019 wages). This year, the Department used the Washington Economic Forecast Council's estimates for calendar years 2020 through 2025 as a proxy for COLA adjustments for fiscal years 2022 through 2027. The COLA adjustments for fiscal years 2028 through 2037 are projected by using a linear interpolation between the fiscal year 2027 COLA adjustment (3.30%) and a long-term constant COLA adjustment assumption of 1.0%. For projected COLA adjustments subsequent to fiscal year 2037, the Department uses the long-term assumption of 1.0% per year. The effect of updating the future COLA assumptions from those used last year was an increase of $0.844 billion in the Supplemental Pension Account discounted liability at 1.0%.

During our review of the Supplemental Pension Account, we considered the Department's selection of future COLA adjustments. The Department's selections are lower than the most recent or long-term historical average of COLA adjustments. For example, the simple average of the most recent 15 years of COLA adjustments is 3.94% with annual changes varying between 3.41% (at the 30th percentile) and 4.93% (at the 70th percentile). These COLA adjustments have been at this level while interest rate and/or inflation rate changes have been declining during this same time period. The materiality of this assumption is significant given that selecting the most recent 15-year historical average COLA adjustment of 3.94% would increase the Supplemental Pension Account discounted liability by $10.919 billion (keeping the discount rate at 1.0%). The Department has assumed that there will be a significant correlation between changes in the future COLA adjustments and changes in the interest rates in the future even though the correlation between the two has been weak at best in the past.

It is difficult to determine the reasonableness of this future correlation considering it has not occurred in the past. Therefore, we have decided to consider the reasonableness of the Supplemental Pension Account liability assuming the historical average COLA adjustments. In doing so, we believe that the selection of the COLA adjustment should not be considered in isolation but in conjunction with the selection of the interest rate used to discount the liabilities.

The Department's average interest rate used to discount the liabilities is 1.0%. The risk-free interest rate that matches the duration of these liabilities (approximately 17.6 years) as of June 30, 2020 is 1.05% which is very close to the Department's selected 1.0%.

We do agree with the Department that wages long-term (and thus COLA adjustments) will move in the same direction as inflation and the risk-free interest rates. In addition, we believe that there are alternative approaches to calculating the risk-free interest rate used to discount the liabilities that would be high enough to offset the low future COLA assumptions the Department is currently using. Therefore, we conclude that the Supplemental Pension Account liabilities are reasonable overall.

An implicit assumption in the Department's actuarial review is that the cost of living adjustments granted to the claimants in the State of Washington are going to be similar to the cost of living adjustments approved by the Federal Government for Social Security retirement benefit payments. The estimate of unpaid claims could be different, perhaps significantly, if these two cost of living adjustment rates were to diverge in the future.

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 Program 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.

C. 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 Program's historical database or which are not yet quantifiable.

This Statement of Actuarial Opinion regarding GAAP loss and loss adjustment expense reserves is solely for the use of assessing the reasonableness of the GAAP loss and loss adjustment expense reserves and is only to be relied upon by the Program and the State of Washington.

Rod Morris

____

Rod Morris, FCAS, FSA, MAAA
Deloitte Consulting LLP
555 West 5th Street, Suite 2700
Los Angeles, CA 90013
(213) 688-3374
rmorris@deloitte.com
October 14, 2020

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Workers' Compensation Program
Comprehensive Annual Financial Report

Upon request, foreign language support and formats for persons with disabilities are available. Call 1-800-547-8367. TDD users, call 711. L&I is an equal opportunity employer.

FY21-160 [11-2020]