Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Workers Compensation Program

For the period July 1, 2020 through June 30, 2021

Published November 24, 2021

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Office of the Washington State Auditor
Pat McCarthy

November 24, 2021

Joel Sacks, Director
Workers Compensation Program
Olympia, Washington

Report on Financial Statements

Please find attached our report on the Workers Compensation Program financial statements.

We are issuing this report in order to provide information on the Program's financial condition.

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

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Workers Compensation Program
July 1, 2020 through June 30, 2021

Joel Sacks, Director
Workers Compensation Program
Olympia, Washington

We have audited, 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, the financial statements of the Workers Compensation Program, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated November 18, 2021.

Our report includes a reference to other auditors who audited the financial statements of the Labor and Industries' Funds, as described in our report on the Program's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

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, 2021, 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of the Program's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy, State Auditor

Olympia, WA

November 18, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Workers Compensation Program
July 1, 2020 through June 30, 2021

Joel Sacks, Director
Workers Compensation Program
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers Compensation Program, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed on page 10.

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 35 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, 2021, and the changes in financial position and, where applicable, 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, 2021, 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 on page 10 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2021 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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

November 18, 2021

FINANCIAL SECTION

Workers Compensation Program
July 1, 2020 through June 30, 2021

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Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington's Workers' Compensation Program's Annual Comprehensive Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2021. The information included here should be considered along with the transmittal letter, which can be found on pages 3-13 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 $989 million from the prior fiscal year, mainly due to an increase in investments of $990 million.

- Total liabilities increased $1,816 million from the prior year. The increase is largely due to an increase in claims payable of $1,789 million.

- Total revenues earned decreased $855 million, mainly due to a $534 million decrease in earnings on investments and a $309 million decrease in premiums and assessments.

- Total expenses incurred decreased $1,882 million from the prior year, primarily due to a $1,788 million decrease in claims expense.

- Total net deficit increased $803 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, 2021, 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 101-104 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, 2021. It can be found on page 37 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 38 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 39 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 41-88 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position
(dollars in millions)

	June 30, 2021	June 30, 2020	$ Change	% Change*
Assets				
Current assets	$ 2,493	$ 2,471	$ 22	0.9%
DOE assets, noncurrent **	4	4	-	0.0%
Investments, noncurrent	19,723	18,754	969	5.2%
Capital assets, net	36	37	(1)	(3.2%)
Total Assets	22,256	21,266	989	4.7%
Deferred outflows of resources	52	48	4	8.3%
Liabilities				
Current liabilities	2,714	2,525	189	7.5%
Noncurrent liabilities	32,402	30,775	1,627	5.3%
Total Liabilities	35,116	33,300	1,816	5.5%
Deferred inflows of resources	59	79	(20)	(24.8%)
Net Position (Deficit)				
Investment in capital assets	36	37	(1)	(3.2%)
Unrestricted	(12,903)	(12,101)	(802)	6.6%
Total Net Position (Deficit)	$ (12,867)	$ (12,064)	$ (803)	6.7%

*% Change may not calculate across as a result of dollars rounded to the nearest million
**Noncurrent assets of the U.S. Department of Energy, held in trust

Current assets - Current assets increased by $22 million during fiscal year 2021, largely due to an increase in cash and cash equivalents of $12.7 million and current investments of $20.8 million. Cash and cash equivalents fluctuate depending on cash flow from operations and cash needs. Current investments consist of fixed income securities that mature in one year or less and will vary from year to year. The increase was partially offset by a decrease in receivables of $10 million, mainly due to premium rate decreases and the COVID-19 pandemic. Both the Accident and

Medical Aid Accounts' premium rates decreased 3.0 percent on January 1, 2020, and another 7.8 percent in the Medical Aid Account on January 1, 2021. Premium receivables estimates also decreased as a result of a reduction in reported hours of 2.9 percent for the year.

Noncurrent investments - Noncurrent investments increased by $968.8 million during fiscal year 2021, mainly due to increases in fixed income securities and equity investments. Fixed income securities increased due to the reinvestment of interest income, unrealized gains and a rebalancing by the Washington State Investment Board (WSIB) by selling $584.5 million equity securities to purchase fixed income securities. Equities increased due to a strong stock market.

Current liabilities - Current liabilities, other than claims payable, increased $25.9 million during fiscal year 2021, mainly due to an increase in retrospective rating refunds payable of $48.8 million. The increase was partially offset by a decrease in investment trades pending of $30.1 million, which changes based on the timing of trading activities.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $34,582 million at the end of fiscal year 2021, an increase of $1,789 million, or 5.5 percent, when compared to the previous fiscal year. The claims administration expense liability increased by $66.1 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 $1,723 million, as shown by the table below:

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

	June 30, 2021	June 30, 2020
Benefit liabilities, beginning of year	$ 31,950	$ 28,380
New liabilities incurred, current year	2,286	2,136
Development on prior years		
Reserve discount accretion	506	585
Change in discount rate**	391	465
Other development on prior liabilities	864	2,657
Claim payments	(2,324)	(2,273)
Change in benefit liabilities	1,723	3,570
Benefit liabilities, end of year	$ 33,673	$ 31,950

* Excludes claims administration expense liabilities
** Includes the non-pension discount rate changes from 5.9% to 5.8% (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 $995 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 state's average wages. The COLA for fiscal year 2021 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 $69,700 in 2019 to $74,649 in 2020, an increase of 7.1 percent.

- The liabilities in the Accident Account increased $711 million, partially 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 increase also includes $384 million in additional liability accrued to account for the anticipated reduction in the pension discount rate. It is anticipated that the pension discount rate will decrease from 4.5 percent to 4.0 percent during the fiscal year 2022 for the State Fund.

- The liabilities in the Medical Aid Account decreased $64.5 million, mainly due to the decrease in projected cost growth partially offset by an increase in projected private vocational rehabilitation services due to rising claim volume and changes in estimated costs.

Total net position (deficit) - The Workers' Compensation Program deficit increased by $803 million during fiscal year 2021, ending with a deficit balance of $12,867 million. This deficit consists of an $18,750 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program accounts. Additional details 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, 2021	Fiscal Year Ended June 30, 2020	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,350	$ 2,659	$ (309)	(11.6%)
Miscellaneous revenues	41	53	(12)	(22.6%)
Total Operating Revenues	2,391	2,712	(321)	(11.8%)
Nonoperating Revenues				
Earnings on investments	1,303	1,837	(534)	(29.1%)
Other revenues	9	9	-	0.0%
Total Revenues	3,703	4,558	(855)	(18.8%)
Operating Expenses				
Salaries and wages	210	200	10	5.0%
Employee benefits	55	59	(4)	(6.8%)
Personal services	15	16	(1)	(6.3%)
Goods and services	103	101	2	2.0%
Travel	2	4	(2)	(50.0%)
Claims	4,113	5,901	(1,788)	(30.3%)
Depreciation	4	8	(4)	(50.0%)
Miscellaneous expenses	3	98	(95)	(96.9%)
Total Operating Expenses	4,505	6,387	(1,882)	(29.5%)
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	4,505	6,387	(1,882)	(29.5%)
Income (Loss) before Transfers	(802)	(1,829)	1,027	(56.2%)
Net Transfers	(1)	(3)	2	(66.7%)
Change in Net Position (Deficit)	(803)	(1,832)	1,029	(56.2%)
Net Position (Deficit) - Beginning of Year	(12,064)	(10,232)	(1,832)	17.9%
Net Position (Deficit) - End of Year	$ (12,867)	$ (12,064)	$ (803)	6.7%

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2021 were $2,350 million compared to $2,659 million for fiscal year 2020, a decrease of $309 million. The majority of this change derives from the decreases to the premium rates for the Accident and Medical Aid Accounts of 3.0 percent on January 1, 2020, and 7.8 percent for the Medical Aid Account on January 1, 2021, and a 2.95 percent reduction in reported hours. The decrease is slightly offset by the increase in the Supplemental Pension Account premium rate of 9.4 percent and 12.0 percent on January 1, 2020 and 2021, respectively.

Earnings on investments - The earnings on investments decreased by $534 million from the prior fiscal year, as explained below:

Significant Changes in Investment Activity*
(dollars in millions)

	June 30, 2021	June 30, 2020	$ Change	% Change
Fixed Income				
Interest earnings	$ 474	$ 506	$ (32)	(6.3%)
Realized gains (losses)	114	274	(160)	(58.4%)
Unrealized gains (losses)	(537)	896	(1,433)	(159.9%)
Fixed Income Total	51	1,676	(1,625)	(97.0%)
Equities				
Realized gains (losses)	194	3	191	6366.7%
Unrealized gains (losses)	1,065	166	899	541.6%
Equities Total	1,259	169	1,090	645.0%
Real Estate LP				
Realized gains (losses)	-	-	-	0.0%
Unrealized gains (losses)	-	(1)	1	(100.0%)
Equities Total	-	(1)	1	(100.0%)
Total Investments	$ 1,310	$ 1,844	$ (534)	(29.0%)

*The above does not include investment expenses.

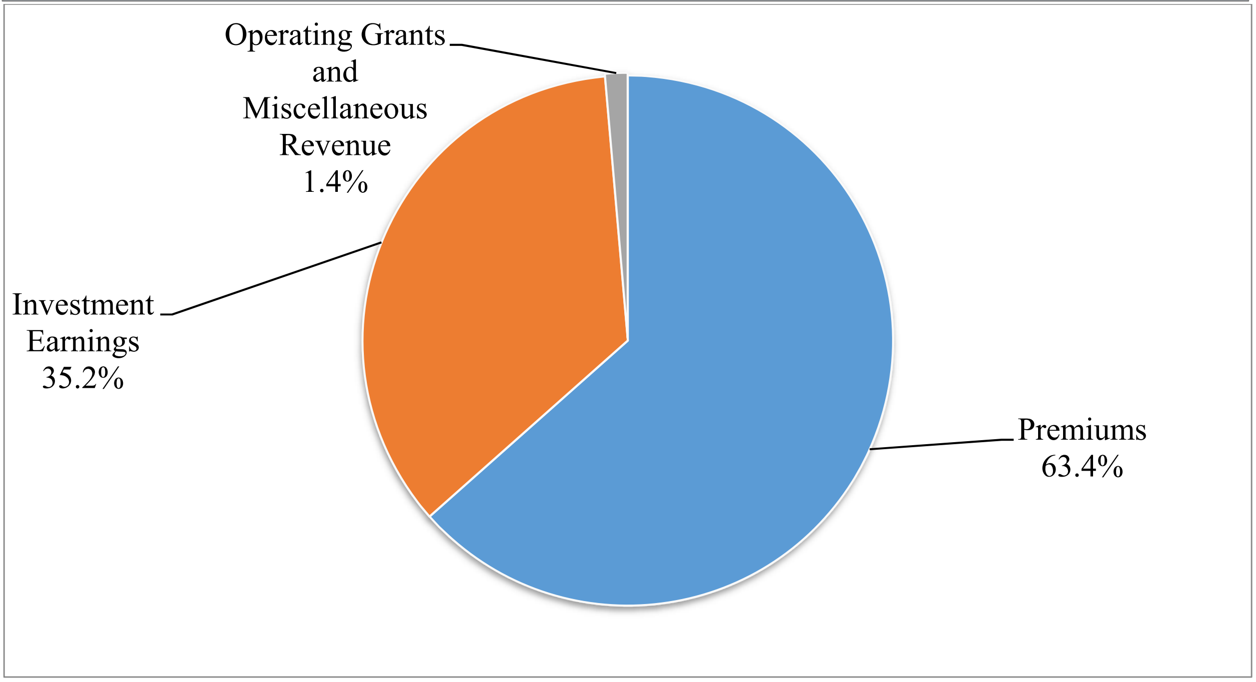
- Earnings on fixed income security investments decreased $1,625 million as compared to fiscal year 2020, mainly due to four federal interest rate cuts during fiscal year 2020. The rate cuts resulted in $32 million less in interest earnings for fiscal year 2021 compared to fiscal year 2020 and $1,433 million more in unrealized losses.

- The change in equity realized and unrealized gains during the fiscal year was an increase of $1,090 million. In fiscal year 2020, net equity realized and unrealized gains were $169 million versus $1,259 million in fiscal year 2021. Fiscal year 2021 gains were mainly the result of strong market conditions. In the second quarter of fiscal year 2021, the WSIB rebalanced the investment portfolio, selling equity investments and purchasing fixed income securities that resulted in $194 million in realized gains. This was a $191 million increase compared to fiscal year 2020.

- The change in real estate limited partnership realized and unrealized gains during the fiscal year was $1 million. In fiscal year 2020, net real estate realized and unrealized losses were $.767 million due to market volatility and COVID-19 effects on the economy. Fiscal year 2021 gains of $.268 million were the result of strong market conditions.

The following chart provides additional detail on the breakdown of revenues by source during fiscal year 2021:

Fiscal Year 2021 Revenues by Source



Claims expense - Claims expense for fiscal year 2021 decreased $1,788 million, or 30.3 percent, as compared to fiscal year 2020. Claims expense includes two main components: payments to beneficiaries, and the change year over year in claims payable.

Claims payable current year increases are previously explained above under the financial analysis section of this discussion. The change in claims payable in fiscal year 2021 was significantly lower than the change in claims payable in fiscal year 2020, causing a $1,837 million decrease in claims expense for the year. The change resulted from a reduction in actuarial assumptions on future wage increases, which were significantly lower than prior year projections. Claim payments to beneficiaries increased by $46 million, or two 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 $26.9 million decrease in claim payments to beneficiaries stemmed from one less medical provider payment run, which occur every other week, in fiscal year 2021 compared to fiscal year 2020.

- The Pension Reserve Account's claim payments to beneficiaries increased $6.2 million, mostly because of higher average monthly benefits. New pensions have higher wages than the pensions that have dropped off through mortality.

- The Accident Account's $1.3 million increase in claim payments to beneficiaries resulted primarily from increases in duration and wage growth.

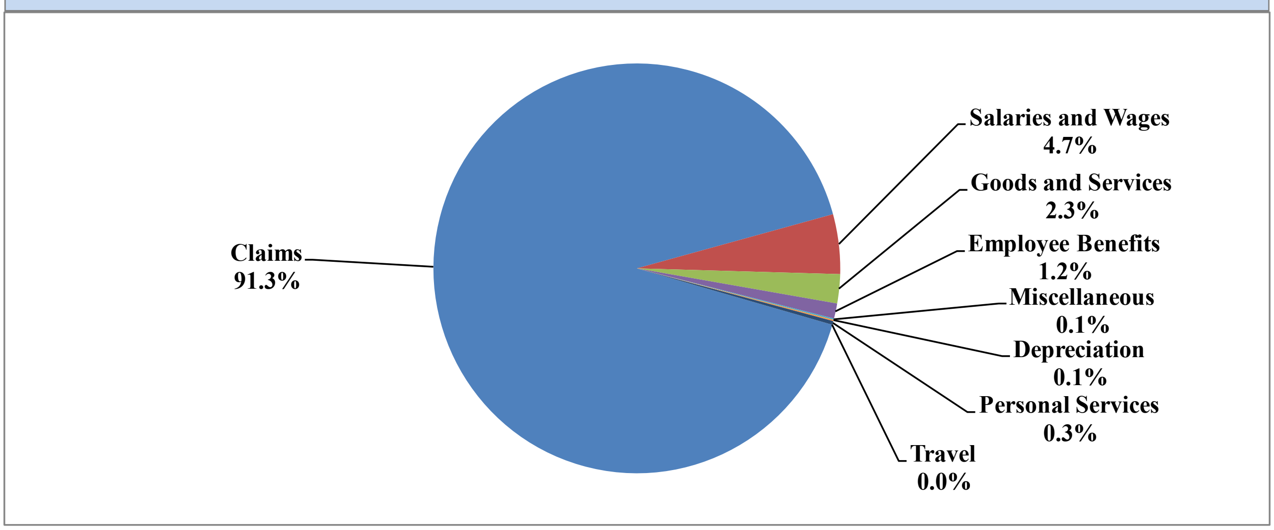
- The Supplemental Pension Account's $65.3 million increase in claim payments to beneficiaries resulted mainly from an increase in the state's average annual wage.

Operating expenses - Operating expenses for fiscal year 2021, other than claims expense, were $392 million, as compared to $486 million in fiscal year 2020. The decrease in operating expenses from the prior year mostly resulted from a significant decrease in bad debt expense. Bad debt expense is the difference recorded from changes in the allowance for doubtful accounts, a contra account to receivables, as well as any accounts that were officially written off during the year. In fiscal year 2021, the agency recorded dramatically lower receivables mainly due to the reduction in worker hours of 2.95 percent or 116,033 hours. Additionally, receivables declined due to the rate reductions in the Accident Account of 3.0 percent on January 1, 2020, and the Medical Aid Account of 3.0 percent on January 1, 2020, and 7.8 percent on January 1, 2021, as previously mentioned.

State employee salaries increased by $10 million due to pay increases for Washington General Services (WGS) employees of 3 percent effective July 1, 2020. Employee benefits decreased by $4 million compared to prior year due to an increase in the deferred current year pension contributions. For more information on pensions, please see Note 9.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2021:

Fiscal Year 2021 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2021, were $36.5 million. This is a $.625 million decrease from the previous year. Construction began on the new Division of Safety and Health (DOSH) lab, resulting in an increase to capital assets of $3.1 million. This increase was offset by the depreciation expense for the year of $3.7 million. 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 agency requested $53 million from the Accident and Medical Aid Accounts to design and construct a 53,925 square foot co-located laboratory and training center as a 2021-2023 capital request. The current facility restricts L&I's ability to achieve its mission of making Washington's workplaces safe and to meet federal mandates to equal or exceed U.S. Occupational Safety & Health Act (OSHA) requirements. The laboratory is used to conduct chemical analyses of hazardous substances that were collected during inspection and consultation visits. The training center works in conjunction with the lab in order to train inspectors and consultants to be able to identify hazards in the workplace and is required per OSHA training mandates. Construction on the new facility began in September 2021 and is expected to be completed in January 2023.

One Washington (OneWA) is an Office of Financial Management (OFM) project, pursuant to Executive Order 19-04, that will modernize the state's core administrative functions for Finance, Procurement, Budget, Human Resources (HR), and Payroll. All executive level agencies are required to transition to the new system, WorkDay, starting October 2022. The OneWA project started in the 2013-2015 biennium and is expected to be fully implemented by the year 2025. The statewide cost to modernize and implement the new system is projected to be $303.9 million, of which $20.1 million was provided in the 2021 supplemental budget. After deployment, agencies will be responsible for maintenance and operational costs for the system, as well as any costs incurred to modify other systems to integrate with WorkDay.

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 2021-2023 biennial budget that included $17 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 paperwork processes with electronic features, and free up staff time to focus on further improving services to injured workers and employers.

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. We know much more now than we did last year at this time, however, with the Delta and Mu variants, the ultimate impact to the Worker's Compensation Program is still unknown. We expect that the COVID-19 variants will have further influence on the agency's premium revenues and benefit liabilities in 2022.

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's Annual Comprehensive 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/insurance/state-fund-financial-reports.

Statement of Net Position

June 30, 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	81,918,888
Investments, current		1,582,343,542
DOE trust cash and investments		487,669
Receivables, net of allowance		825,848,708
Receivables from other state accounts and agencies		229,837
Receivables from other governments		1,454,687
Inventories		87,700
Prepaid expenses		158,892
Total Current Assets		2,492,529,923
Noncurrent Assets		
DOE trust receivable		3,781,829
Investments, net of current portion		19,723,137,557
Capital assets, net of accumulated depreciation and amortization		36,529,650
Total Noncurrent Assets		19,763,449,036
Total Assets		22,255,978,959
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		34,993,347
Deferred outflow of resources on OPEB		17,536,806
Total Deferred Outflows of Resources		52,530,153
Total Assets and Deferred Outflows of Resources	$	22,308,509,112
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
Current Liabilities		
Accounts payable	$	10,187,526
Accrued liabilities		297,940,470
Total OPEB liability, current		2,361,578
Payable to other state accounts and agencies		6,040,356
Due to other governments		495,769
Unearned revenues		3,111,122
DOE trust liabilities, current		489,970
Claims payable, current		2,393,303,000
Total Current Liabilities		2,713,929,791
Noncurrent Liabilities		
Claims payable, net of current portion		32,189,006,000
Other long-term liabilities		9,861,024
DOE trust liabilities, net of current portion		3,779,528
Total OPEB liability, net of current portion		131,900,683
Net pension liability, net of current portion		67,653,468
Total Noncurrent Liabilities		32,402,200,703
Total Liabilities		35,116,130,494
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		20,268,671
Deferred inflow of resources on OPEB		39,113,069
Total Deferred Inflows of Resources		59,381,740
NET POSITION (DEFICIT)		
Investment in capital assets		36,529,650
Unrestricted		(12,903,532,772)
Total Net Position (Deficit)		(12,867,003,122)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	22,308,509,112

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, 2021

OPERATING REVENUES		
Premiums and assessments, net of refunds and reinsurance	$	2,349,954,649
Miscellaneous revenues		41,282,405
Total Operating Revenues		2,391,237,054
OPERATING EXPENSES		
Salaries and wages		209,818,249
Employee benefits		55,083,066
Personal services		14,773,523
Goods and services		103,283,723
Travel		2,285,627
Claims		4,112,609,074
Depreciation and amortization		4,370,912
Miscellaneous expenses		3,118,071
Total Operating Expenses		4,505,342,245
Operating Income (Loss)		(2,114,105,191)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		1,303,002,380
Other revenues		9,551,174
Total Nonoperating Revenues (Expenses)		1,312,553,554
Income (Loss) Before Transfers		(801,551,637)
Transfers in*		75,000
Transfers out		(1,326,000)
Net Transfers*		(1,251,000)
Change in Net Position		(802,802,637)
Net Position (Deficit) at July 1		(12,064,200,485)
Net Position (Deficit) at June 30	$	(12,867,003,122)

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

*In fiscal year 2020, $75,000 was accrued (transfers out) but was liquidated (transfers in) in fiscal year 2021. Accrued cash is not represented on the Statement of Cash Flows. The transfers in and net transfers will not match the Statement of Cash Flows.

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$	2,409,855,110	
Payments to/for beneficiaries		(2,318,340,122)	
Payments to employees		(285,799,561)	
Payments to suppliers		(117,945,606)	
Other		34,123,859	
Net Cash Flows from Operating Activities		(278,106,320)	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in (IT Tech Pool)		-	*
Transfers out (IT Tech Pool)		(1,326,000)	
Operating grants received		9,975,480	
License fees collected		99,556	
Net Cash Flows from Noncapital Financing Activities		8,749,036	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisitions of capital assets		(3,748,550)	
Net Cash Flows from Capital and Related Financing Activities		(3,748,550)	
CASH FLOWS FROM INVESTING ACTIVITIES			
Net sales (purchases) of trust investments		26,184	
Receipt of interest and dividends		476,988,575	
Investment expenses		(7,770,567)	
Proceeds from sale of investment securities		8,703,666,685	
Purchases of investment securities		(8,887,154,534)	
Net Cash Flows from Investing Activities		285,756,343	
Net increase in cash and cash equivalents		12,650,509	
Cash & cash equivalents, July 1 (includes trust cash of $461,485)		69,756,048	*
Cash & cash equivalents, June 30 (includes trust cash of $487,669)	$	82,406,557	
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$	(2,114,105,191)	
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities			
Depreciation and amortization		4,370,912	
Change in Assets: Decrease (Increase)			
Receivables		3,096,222	
Inventories		27,791	
Prepaid expenses		1,410,249	
Change in Liabilities: Increase (Decrease)			
Claims and judgments payable		1,789,168,000	
Accrued liabilities		37,925,697	
Net Cash Flows from Operating Activities	$	(278,106,320)	
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Increase (decrease) in fair value of investments	$	528,400,581	

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

*In fiscal year 2020, $75,000 was accrued (transfers out) but was liquidated (transfers in) in fiscal year 2021. Accrued cash is not represented on the Statement of Cash Flows. To reflect the accurate beginning balance and the correct amount of transfers that happened in fiscal year 2021, the subsequent transfers in have been removed. The transfers in and net transfers will not match the Statement of Revenues, Expenses, and Changes in Net Position.

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 Annual Comprehensive 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/accounting/financial-audit-reports/annual-comprehensive-financial-report.

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, 2021, trust cash and investments of $487,669, 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, 2021 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 2.67 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-Insured portion is discounted 5.8 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, 2021, prepaid expenses amounted to $158,892.

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
- Infrastructure with a cost of $100,000 or greater
- Buildings, building improvements, improvements other than buildings, and leasehold improvements 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
- Leased assets with total payments over the lease term of $500,000 or greater
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted
- All capital assets acquired with a Certificate of Participation

Capital assets are recorded at cost. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of capital assets are not capitalized.

The 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.

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
• Infrastructure	20 to 50 years

- Intangible assets with definite useful lives 3 to 50 years
- Other improvements 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 $14,800,000 for the coverage period January 2021 through December 2021. Premiums ceded of $13,601,262 for reinsurance coverage have been recorded in the accompanying basic financial statements for the year ended June 30, 2021, for the coverage period from July 2020 to June 2021.

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 2021 and 2020 (expressed in millions):

	Fiscal Year 2021	Fiscal Year 2020
Premiums and assessments, net of refunds	$ 2,365	$ 2,671
Ceded premiums	(15)	(12)
Total premium and assessment income, net of refunds and ceded premiums	$ 2,350	$ 2,659

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, 2021, $82.2 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $237,669 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 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 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 2021 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 5 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 5 percent of total fair value of the funds.

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

- Generate a 6 percent annual investment return over a rolling 10-year period. This objective also serves as the total net return benchmark for the portfolio.
- 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.
- 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 2 to 5 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, 2021:

Schedule of Fair Value Measurement
June 30, 2021
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 1,010,390		$ 1,010,390	
Corporate bonds	12,081,992		12,081,992	
U.S. and foreign government and agency securities	4,123,730		4,123,730	
Total Investments by Fair Value Level	$ 17,216,112		$ 17,216,112	
Investments Measured at Net Asset Value (NAV)				
Commingled equity investment trusts	3,829,399			
Real Estate	10,715			
Total investments measured at the NAV	3,840,114			
Total Investments Measured at Fair Value*	$ 21,056,226			

*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 $10.7 million as of June 30, 2021. 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, 2021, 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 10 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, 2021, the Workers' Compensation Program had no securities on loan and no cash on hand.

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.

When debt securities are loaned during the fiscal year, they are 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.

No securities were lent by the Workers' Compensation Program during the current fiscal year and, accordingly, no collateral was held at June 30, 2021. 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 are lent with the agreement that they will 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 2021, no securities were lent and, accordingly, 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 2021 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 2021, 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, 2021, the fair value of securities on loan for the Workers' Compensation Program totaled $984,483.

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 2021, 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, 2021, 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, 2021. 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, 2021
(in thousands)

		Maturity				Effective
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Duration (years)****
Mortgage and other asset-backed securities	$ 1,010,390	$ 60,573	$ 838,682	$ 111,135	$ -	3.8
Corporate bonds	12,081,992	1,000,565	5,069,532	2,688,657	3,323,238	7.3
U.S. government and agency securities	2,616,989	65,736	1,420,864	635,182	495,207	6.9
Foreign government and agencies	1,506,741	206,325	831,414	381,277	87,725	4.8
Total investments categorized	$ 17,216,112	$ 1,333,199	$ 8,160,492	$ 3,816,251	$ 3,906,170	6.8
Investments Not Required to be Categorized						
Commingled investment trusts	3,829,399					
Cash and cash equivalents	249,145					
Real estate	10,715					
Total investments not categorized	4,089,259					
Total*	$ 21,305,371					

*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, 2021, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2021
(in thousands)

	Investment Type			
Moody's Equivalent Credit Rating	**Mortgage and Other Asset-Backed Securities**	**Corporate Bonds**	**Foreign Government and Agency Securities**	**Total Fair Value**
Aaa	$ 1,010,390	$ 596,588	$ 276,426	$ 1,883,404
Aa1	-	177,752	270,882	448,634
Aa2	-	234,962	170,074	405,036
Aa3	-	959,986	251,045	1,211,031
A1	-	1,612,819	343,578	1,956,397
A2	-	2,471,058	30,563	2,501,621
A3	-	2,125,921	-	2,125,921
Baa1	-	1,762,477	-	1,762,477
Baa2	-	1,568,969	119,901	1,688,870
Baa3	-	441,752	39,112	480,864
Ba1 or lower	-	129,708	5,160	134,868
Total Fair Value	$ 1,010,390	$ 12,081,992	$ 1,506,741	$ 14,599,123

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, 2021, 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 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2021.

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, 2021, consisted of $1,567 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:

Foreign Currency Exposure by Country
June 30, 2021
(in thousands)

Foreign Currency Denomination		Equity Securities
Australia - Dollar	$	75,726
Brazil - Real		26,458
Canada - Dollar		111,441
China - Yuan Renminbi		19,789
Denmark - Krone		24,555
E.M.U. - Euro		315,526
Hong Kong - Dollar		148,082
India - Rupee		52,937
Japan - Yen		241,027
New Taiwan - Dollar		72,661
South Africa - Rand		17,307
South Korea - Won		67,378
Sweden - Krona		43,712
Switzerland - Franc		90,789
United Kingdom - Pound		149,493
Miscellaneous Foreign Currencies		109,619
Total	$	1,566,500

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, 2021, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $382.6 million.

Note 4 - Receivables

Receivables at June 30, 2021, consisted of the following:

Receivables June 30, 2021		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	193,104,735
Estimated premiums receivable[1]		615,063,000
Estimated self-insurance premiums receivable[2]		85,686,686
Total Premiums Receivable		893,854,421
Other receivables		
Receivable from overpayments		824,567
Investment interest receivable		113,356,285
Safety fines & penalties receivable		31,597,762
Miscellaneous receivables		5,080,634
Total Current Receivables, Gross		1,044,713,669
Less: Allowance for uncollectible receivables		218,864,961
Total Current Receivables, Net of Allowance	$	825,848,708

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2021. 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, 2021, 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, 2021, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2021		
General Fund	$	1,674
L&I accounts*		6,821
Other state agencies		221,342
Total Receivables From Other State Accounts and Agencies	$	229,837

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

All receivables 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, 2021.

Payables to other state accounts and agencies as of June 30, 2021, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2021		
General Fund	$	208
L&I accounts*		122,970
Other state agencies		5,917,178
Total Payables To Other State Accounts and Agencies	$	6,040,356

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

All payables 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, 2021, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

Capital Assets Activity
For the Fiscal Year Ended June 30, 2021

	Beginning Balance July 1, 2020	Increases	Decreases	Ending Balance June 30, 2021
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,204,301	$ -	$ -	$ 3,204,301
Construction in progress	916,274	3,136,078	-	4,052,352
Total Capital Assets Not Being Depreciated	4,120,575	3,136,078	-	7,256,653
Capital Assets Being Depreciated:				
Buildings and building components	65,110,518	-	-	65,110,518
Accumulated depreciation	(37,104,972)	(1,353,042)	-	(38,458,014)
Net Buildings and Building Components	28,005,546	(1,353,042)	-	26,652,504
Furnishings, equipment, and collections	57,904,413	615,368	(600,643)	57,919,138
Accumulated depreciation	(56,422,344)	(621,156)	595,178	(56,448,322)
Net Furnishings, Equipment, and Collections	1,482,069	(5,788)	(5,465)	1,470,816
Other improvements	1,289,263	-	-	1,289,263
Accumulated depreciation	(829,624)	(20,433)	-	(850,057)
Net Other Improvements	459,639	(20,433)	-	439,206
Total Capital Assets Being Depreciated, Net	29,947,254	(1,379,263)	(5,465)	28,562,526
Intangible assets - definite useful lives	47,208,593	-	-	47,208,593
Accumulated amortization	(44,121,840)	(2,376,282)	-	(46,498,122)
Total Capital Assets Being Amortized, Net	3,086,753	(2,376,282)	-	710,471
Total Capital Assets, Net of Depreciation and Amortization	$ 37,154,582	$ (619,467)	$ (5,465)	$ 36,529,650

For fiscal year 2021, the total depreciation and amortization expense was $4,370,912.

Increases of $3.1 million in construction in progress are attributed to the preliminary construction phase of the new Division of Occupational Safety and Health (DOSH) laboratory. Physical construction began in September 2021 and is expected to be completed around January 2023.

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, 2021 and 2020

Claims Payable	June 30, 2021	June 30, 2020
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 32,793,141,000	$ 29,166,819,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,511,881,000	2,347,952,000
Increase in provision for insured events of prior fiscal years	1,792,880,000	3,744,191,000
Total Incurred Claims and Claim Adjustment Expenses	4,304,761,000	6,092,143,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	328,384,000	326,927,000
Insured events of prior fiscal years	2,187,209,000	2,138,894,000
Total payments	2,515,593,000	2,465,821,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year-End	$ 34,582,309,000	$ 32,793,141,000
Current portion	$ 2,393,303,000	$ 2,230,385,000
Noncurrent portion	$ 32,189,006,000	$ 30,562,756,000

At June 30, 2021, $43,864 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $34,582 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 $34,582 million as of June 30, 2021, include $19,051 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 $15,531 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, 2021 was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2021

Current and Noncurrent Liabilities	Beginning Balance June 30, 2020	Additions	Reductions	Ending Balance June 30, 2021	Due Within One Year[2]	Noncurrent Balance June 30, 2021
Claims payable, current & noncurrent	$ 32,793,141,000	$ 4,304,761,000	$ (2,515,593,000)	$ 34,582,309,000	$ 2,393,303,000	$ 32,189,006,000
Other current and noncurrent liabilities						
Compensated absences[1]	20,100,488	19,587,701	(16,731,209)	22,956,980	13,095,956	9,861,024
DOE trust liabilities	4,687,914	-	(418,416)	4,269,498	489,970	3,779,528
Other postemployment benefits	132,237,129	2,559,110	(533,978)	134,262,261	2,361,578	131,900,683
Net pension liability	69,094,285	49,796,340	(51,237,157)	67,653,468	-	67,653,468
Total Other Current and Noncurrent Liabilities	226,119,816	71,943,151	(68,920,760)	229,142,207	15,947,504	213,194,703
Total Current and Noncurrent Liabilities	$ 33,019,260,816	$ 4,376,704,151	$ (2,584,513,760)	$ 34,811,451,207	$ 2,409,250,504	$ 32,402,200,703

[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, 2021:

Future Minimum Payments for Operating Leases
June 30, 2021

Fiscal Year Ending June 30,	
2022	$ 8,334,027
2023	8,096,471
2024	6,475,044
2025	5,557,300
2026	3,231,004
Total Future Minimum Lease Payments	$ 31,693,846

The total operating lease rental expense for fiscal year 2021 was $15,760,393.

Note 8 - Deficit

At June 30, 2021, the Workers' Compensation Program had a deficit of $12,867 million. This is the result of an $18,750 million deficit in the Supplemental Pension Account at June 30, 2021, offset by a combined $5,883 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 cost-of-living adjustments (COLAs) 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, 2021, noncurrent claims payable in the Supplemental Pension Account totaled $18,220 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2021:

Supplemental Pension Account Net Position (Deficit)		
Balance, July 1, 2020	$	(17,740,381,469)
Fiscal year 2021 activity		(1,009,778,955)
Balance, June 30, 2021	$	(18,750,160,424)

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 inflows of resources, and pension expense reported on June 30, 2021, 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, 2021

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERS 1	$ 46,020,552	$ 10,068,011	$ (256,229)	$ (8,271,493)
PERS 2/3	21,154,035	24,198,666	(18,175,461)	(13,735,181)
TRS 1	52,574	13,271	(338)	(215,198)
TRS 2/3	33,970	42,545	(4,175)	(7,040)
Higher Ed	392,337	670,854	(1,832,468)	(582,172)
Total	$ 67,653,468	$ 34,993,347	$ (20,268,671)	$ (22,811,084)

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 Plans 2 and 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 2021 for each of Plans 1, 2, and 3 was 12.97 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, 2021, 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, 2019, with the results rolled forward to June 30, 2020, 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 developed using the Society of Actuaries' Pub.H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

The 7.40 percent long-term expected rate of return on pension plan investments was determined using a building-block method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the WSIB. Refer to the 2019 Report on Financial Condition and Economic Experience Study report located on the OSA website for additional information and background on the development of the long-term rate of return assumption.

The WSIB's Capital Market Assumptions (CMAs) contain the following three pieces of information for each class of assets that the WSIB currently invests in:

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

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

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, 2020, 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 the 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.

For purposes of the OSA's June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the OSA introduced temporary method changes to produce asset and liability measures as of the valuation date. A high-level summary of those changes is outlined in the following paragraph. The OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, the OSA relied on the same data, assets, methods, and assumptions as the 2019 AVR. The OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. June 30, 2020 assets were estimated by relying on the fiscal year-end 2019 assets, reflecting actual investment performance over fiscal year 2020, and reflecting assumed contribution amounts and benefit payments during fiscal year 2020. The actual June 30, 2020, participant and financial data was reviewed to determine if any material changes to projection assumptions were necessary. Any material impacts to the plans from 2021 legislation were also considered.

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.

Based on the assumptions in the OSA's Certification Letter, 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	$ 57,643,380	$ 131,626,043
Current Discount Rate	$ 46,050,552	$ 21,154,035
1% Increase	$ 35,884,273	$ (69,819,730)

Net Pension Liability

At June 30, 2021, the Workers' Compensation Program reported a liability of $46,050,552 for its proportionate share of the collective net pension liability for PERS 1 and $21,154,035 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.10 percent, a decrease of 0.05 percent since the prior reporting period, and 3.27 percent for PERS 2/3, no change 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, 2021, the Workers' Compensation Program recognized a pension expense of ($8,271,493) for PERS 1, and a pension expense of ($13,735,181) for PERS 2/3.

At June 30, 2021, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2021			
	PERS 1	**PERS 2/3**	**Total**
Difference between expected and actual experience	$ -	$ 7,572,838	$ 7,572,838
Changes of assumptions	-	301,293	301,293
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	379,979	379,979
Contributions subsequent to measurement date	10,068,011	15,910,310	25,978,321
Total	$ 10,068,011	$ 24,164,420	$ 34,232,431

At June 30, 2021, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2021						
	PERS 1		PERS 2/3		Total	
Difference between expected and actual experience	$	-	$	2,651,106	$	2,651,106
Changes of assumptions		-		14,450,036		14,450,036
Net difference between projected and actual earnings on pension plan investments		256,226		1,074,319		1,330,545
Change in proportionate share of contributions		-		-		-
Contributions subsequent to measurement date		-		-		-
Total	$	256,226	$	18,175,461	$	18,431,687

Pension contributions made subsequent to the measurement date in the amount of $10,068,011 and $15,910,310 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2021, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

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) as follows:

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ending June 30,	PERS 1		PERS 2/3	
2022	$	(1,162,754)	$	(8,741,498)
2023	$	(36,571)	$	(2,062,003)
2024	$	354,789	$	560,228
2025	$	588,310	$	2,018,308
2026	$	-	$	(749,813)
Thereafter	$	-	$	(946,573)

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 helps to minimize 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 2021 for each of Plans 1, 2, and 3 was 15.74 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, 2021, 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, 2019, with the results rolled forward to June 30, 2020, 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 developed using the Society of Actuaries' Pub.H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the WSIB. The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The WSIB's CMAs contain the following three pieces of information for each class of assets that the WSIB currently invests in:

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

The 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, the 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 the WSIB. Refer to the 2019 Report on Financial Condition and Economic Experience Study report located on the OSA website for additional information and background on the development of the long-term rate of return assumption.

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, 2020, 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 the 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.

Based on the assumptions in the OSA's Certification Letter, 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	$ 66,611	$ 100,116
Current Discount Rate	$ 52,574	$ 33,970
1% Increase	$ 40,325	$ (19,986)

Net Pension Liability

At June 30, 2021, the Workers' Compensation Program reported a liability of $52,574 for its proportionate share of the collective net pension liability for TRS 1 and $33,970 for TRS 2/3. Workers' Compensation Program's proportion for TRS 1 was 0.18 percent, a decrease of 0.92 percent since the prior reporting period, and 0.19 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, 2021, a pension expense of ($215,198) was recognized for TRS 1, and a pension expense of ($7,040) was recognized for TRS 2/3.

At June 30, 2021, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2021			
	TRS 1	**TRS 2/3**	**Total**
Difference between expected and actual experience	$ -	$ 21,469	$ 21,469
Changes of assumptions	-	4,381	4,381
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	2,115	2,115
Contributions subsequent to measurement date	13,271	14,816	28,087
Total	$ 13,271	$ 42,781	$ 56,052

At June 30, 2021, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2021			
	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ -	$ -
Changes of assumptions	-	122	122
Net difference between projected and actual earnings on pension plan investments	338	3,723	4,061
Change in proportionate share of contributions	-	330	330
Contributions subsequent to measurement date	-	-	-
Total	$ 338	$ 4,175	$ 4,513

Pension contributions made subsequent to the measurement date in the amount of $13,271 and $14,816 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2021, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

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
2022	$ (1,486)	$ (466)
2023	$ (43)	$ 2,827
2024	$ 452	$ 4,012
2025	$ 739	$ 4,982
2026	$ -	$ 2,950
Thereafter	$ -	$ 9,485

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. House Bill 1661, effective fiscal year 2021, created separate Supplemental Retirement Plan (SRP) funds by institution that met the definition of a trust or equivalent arrangements. As a result, this is the first year these plans will be reported under GASB Statement No. 67/68. Prior to this, the SRPs were reported under GASB Statement No. 73.

There are University of Washington employees paid from Workers' Compensation Program funds that are members of the Higher Education Retirement Plans. The University of Washington promotes health and helps to minimize 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, 2020, with the results rolled forward to June 30, 2021, 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	N/A

Mortality rates were developed using the Society of Actuaries' Pub.H-2010 mortality rates which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most actuarial assumptions used in the June 30, 2020, valuation were based on the results of the August 2021 Supplemental Plan Experience Study. Additional assumptions related to salary growth were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes. Some significant changes in plan provisions and actuarial assumptions from the prior fiscal year impacted the Total Pension Liability (TPL).

House Bill 1661 (Chapter 103 Laws of 2020) created dedicated funds to pay SRP benefits that mimic the trust arrangements for the rest of the State Retirement Systems. The change results in the SRP reporting under GASB 67/68 instead of GASB 73. As a result of this change:

- The discount rate is based on the long-term expected rate of return on the pension plan investments. This resulted in an increase in the discount rate used to measure the TPL from 2.21 percent as of June 30, 2020, to 7.40 percent.

- The TPL is now compared against the plan's fiduciary net position to determine the NPL.

Additionally, the OSA recently completed an experience study which modified multiple assumptions to estimate future plan experience.

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Index, or 7.40 percent, for the June 30, 2021, measurement date.

Plan Membership

Membership of the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2020, 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	16	19

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, 2021:

Changes in Total Pension Liability/(Asset) June 30, 2021		
Changes in Pension Liability		
Service cost	$	67,158
Interest		51,892
Changes of benefit terms		-
Differences between expected and actual experience		(1,093,970)
Changes in assumptions		(655,608)
Benefit payments		(28,573)
Other		-
Net Change in Total Pension Liability		(1,659,101)
Total Pension Liability - Beginning		2,051,438
Total Pension Liability - Ending	$	392,337

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

For the year ended June 30, 2021, the Higher Education Supplemental Retirement Plans reported a pension expense of ($29,591).

The following table presents the total pension liability/(asset), calculated using the discount rate of 7.40 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 (6.40 percent) or one percentage point higher (8.40 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
1% Decrease	$	464,816
Current Discount Rate	$	392,337
1% Increase	$	330,094

At June 30, 2021, 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, 2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 270,586	$ 1,133,617
Changes of assumptions	400,268	655,360
Net difference between projected and actual earnings on pension plan investments	-	43,491
Total	$ 670,854	$ 1,832,468

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,	
2021	$ (202,939)
2022	$ (202,939)
2023	$ (202,939)
2024	$ (160,766)
2025	$ (131,827)
Thereafter	$ (260,204)

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 Pensions* 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, 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 Plan 2.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium.

In calendar year 2020, the average weighted implicit subsidy was valued at $372 per adult unit per month. In calendar year 2021, the average weighted implicit subsidy is projected to be $384 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 year 2021, the explicit subsidy was up to $183 per member per month, and it will remain $183 per member per month in calendar year 2022.

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 $34,594,202 during fiscal year 2020.

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	June 30, 2020
Actuarial Measurement Date	June 30, 2020
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 rate	2.75%
Projected salary increases	3.50% plus service-based salary increases

Healthcare trend rates	Initial trend rate ranges from 2-11%, reaching an ultimate rate of approximately 4.3% in 2075.
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	$	112,229,616
Current Healthcare Cost Trend Rate	$	134,262,261
1% Increase	$	162,558,488

Mortality rates were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2013-2018 Demographic Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2019 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 3.50 percent, for the June 30, 2019, measurement date, and 2.21 percent for the June 30, 2020, measurement date.

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

The following presents the Workers' Compensation Program's proportionate share of the total OPEB liability, calculated using the discount rate of 2.21 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 (1.21 percent) or one percentage point higher (3.21 percent) than the current rate:

Sensitivity of the Discount Rate OPEB Liability		
1% Decrease	$	167,581,955
Current Discount Rate	$	134,262,261
1% Increase	$	109,409,481

Total OPEB Liability

As of June 30, 2021, the Workers' Compensation Program reported a total OPEB liability of $134,262,261. This liability was determined based on a measurement date of June 30, 2020.

The following table shows changes in the Workers' Compensation Program's total OPEB liability as of the June 30, 2021, reporting date.

Changes in Total OPEB Liability For the Fiscal Year Ended June 30, 2021		
Total OPEB Liability - Beginning	$	132,237,129
Changes for the year		
Service cost		5,571,484
Interest cost		4,660,633
Changes of assumptions*		(5,987,988)
Benefit payments		(2,218,997)
Net Changes in Total OPEB Liability		2,025,132
Total OPEB Liability - Ending	$	134,262,261

*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 ($1.4) million.

For fiscal year 2021, 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, 2021				
		Outflows		**Inflows**
Difference between expected and actual experience	$	2,945,498	$	634,843
Changes of assumptions		9,232,324		31,664,616
Changes in proportionate share of contributions		2,997,406		6,813,610
Transactions subsequent to the measurement date		2,361,578		-
Total	$	17,536,806	$	39,113,069

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 the total OPEB liability in the fiscal year ended June 30, 2022.

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,		
2022	$	(4,522,584)
2023	$	(4,522,584)
2024	$	(4,522,584)
2025	$	(4,522,584)
2026	$	(4,522,584)
Thereafter	$	(1,324,920)

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Annual Comprehensive 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 https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

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 2021 was $9.43 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 21, 2021, the director announced a proposed 3.1 percent increase in the average premium rate for 2022. This rate increase will raise the overall hourly rate from $0.6375 to $0.6573, or $0.0198 per hour, which equates to an average cost increase of $38 per year per employee.

The proposed rate increase is driven by cost-of-living adjustments (COLAs) for pensions, which were triggered by an increase in the state's average wage. This is an average, meaning some employers will see their rates go down while others will see larger increases.

The final rates will be adopted in November 2021 and go into effect on January 1, 2022.

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, 2021, Statutory Financial Information Report for the Industrial

Insurance Fund, the combined contingency reserve is 29.18 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).

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2021 and 2020
(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		Pension Plan		Total	
Claims Payable	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 14,737,141	$ 13,949,819	$ 18,056,000	$ 15,217,000	$ 32,793,141	$ 29,166,819
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	2,116,462	1,939,609	395,419	408,343	2,511,881	2,347,952
Increase (decrease) in provision for insured events of prior fiscal years	516,443	708,666	1,276,437	3,035,525	1,792,880	3,744,191
Total incurred claims and claim adjustment expenses	2,632,905	2,648,275	1,671,856	3,443,868	4,304,761	6,092,143
Less payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	328,384	326,927	-	-	328,384	326,927
Insured events of prior fiscal years	1,510,353	1,534,026	676,856	604,868	2,187,209	2,138,894
Total payments	1,838,737	1,860,953	676,856	604,868	2,515,593	2,465,821
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 15,531,309	$ 14,737,141	$ 19,051,000	$ 18,056,000	$ 34,582,309	$ 32,793,141
Current portion	$ 1,562,514	$ 1,552,756	$ 830,789	$ 677,629	$ 2,393,303	$ 2,230,385
Noncurrent portion	$ 13,968,795	$ 13,184,385	$ 18,220,211	$ 17,378,371	$ 32,189,006	$ 30,562,756

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

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.10%	3.15%	3.15%	3.10%	3.22%	3.26%	3.24%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 46,050,552	$ 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	$ 1,361,179	$ 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 employers' covered payroll*	$ 194,385,551	$ 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 payroll*	3380.93%	2936.83%	2699.95%	2330.66%	2183.33%	1804.35%	1483.82%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	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.
*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

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.27%	3.27%	3.24%	3.18%	3.31%	3.34%	3.30%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 21,154,035	$ 16,053,547	$ 27,874,638	$ 55,546,159	$ 82,761,762	$ 58,566,959	$ 32,912,727
Workers' Compensation Program's employers' covered 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 employers' proportionate share of the net pension liability as a percentage of its covered payroll*	10.96%	8.98%	16.43%	35.44%	53.78%	40.19%	23.66%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	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.
*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

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.180%	1.110%	0.200%	0.190%	0.210%	0.380%	0.800%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 52,574	$ 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	$ 2,576	$ 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	158,034	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's employers' covered payroll*	$ 160,610	$ 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 payroll*	2041.08%	1736.89%	1705.07%	1257.24%	584.57%	700.00%	497.30%
Plan fiduciary net position as a percentage of the total pension liability	70.55%	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.
*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

	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.190%	0.200%	0.210%	0.210%	0.250%	0.480%	1.100%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 33,970	$ 12,948	$ 10,164	$ 18,413	$ 29,456	$ 29,388	$ 21,139
Workers' Compensation Program's employers' covered payroll*	$ 158,034	$ 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 payroll*	21.50%	15.03%	7.90%	16.69%	28.19%	17.90%	7.45%
Plan fiduciary net position as a percentage of the total pension liability	91.72%	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.
*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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contributions	$ 10,010,861	$ 9,450,964	$ 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	141,422	175,618	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	9,869,439	9,275,346	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	10,010,861	9,450,964	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	$ 1,088,658	$ 1,361,179	$ 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	201,161,048	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 payroll	$ 202,249,706	$ 194,385,551	$ 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 payroll	4.95%	4.86%	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.
*Unfunded Actuarial Accrued Liability

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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 15,875,033	$ 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	15,875,033	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 payroll	$ 201,161,048	$ 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 payroll	7.89%	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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 12,928	$ 11,187	$ 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	317	405	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	12,611	10,782	57,666	8,621	6,236	5,399	5,822	8,690
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	12,928	11,187	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	$ 2,394	$ 2,576	$ 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	181,423	158,034	86,164	128,713	110,321	104,508	161,784	282,403
Worker's Compensation Program's covered payroll	$ 183,817	$ 160,610	$ 103,447	$ 132,499	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's contributions as a percentage of covered payroll	7.03%	6.97%	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.
*Unfunded Actuarial Accrued Liability

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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 14,710	$ 12,788	$ 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	14,710	12,788	11,084	9,868	7,439	7,069	9,233	15,989
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll	$ 181,423	$ 158,034	$ 86,164	$ 128,713	$ 110,321	$ 104,508	$ 161,784	$ 282,403
Workers' Compensation Program's contributions as a percentage of covered payroll	8.11%	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

	2021	2020	2019	2018
Changes in Pension Liability				
Service cost	$ 67,158	$ 27,955	$ 53,040	$ 33,074
Interest	51,892	35,543	73,022	36,072
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(1,093,970)	52,609	460,792	(292,464)
Changes in assumptions	(655,608)	212,184	261,223	(110,437)
Benefit payments	(28,573)	(13,921)	(33,566)	(13,710)
Other	-	-	-	-
Net Change in Total Pension Liability	(1,659,101)	314,370	814,511	(347,465)
Total Pension Liability - Beginning	2,051,438	1,737,068	922,557	1,270,022
Total Pension Liability - Ending	$ 392,337	$ 2,051,438	$ 1,737,068	$ 922,557
Covered payroll	$ 49,913	$ 1,953,750	$ 2,302,582	$ 1,699,122
Total Pension Liability/(Asset) as a Percentage of Covered Payroll	12.72%	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, the 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)

	2020	2019	2018	2017
Changes in OPEB Liability				
Service Cost	$ 5,571	$ 5,354	$ 7,258	$ 8,764
Interest Cost	4,661	4,645	4,990	4,105
Difference between expected and actual experience	(714)	-	4,555	-
Changes in benefit terms	-	-	-	-
Changes in assumptions	(527)	8,268	(27,871)	(20,024)
Benefit Payments	(2,219)	(2,125)	(2,108)	(2,092)
Other*	(4,747)	-	-	-
Net Change in Total OPEB Liability	2,025	16,142	(13,176)	(9,247)
Total OPEB Liability - Beginning	132,237	116,095	129,271	138,518
Total OPEB Liability - Ending	$ 134,262	$ 132,237	$ 116,095	$ 129,271
Covered-employee payroll	$ 202,434	$ 194,546	$ 180,672	$ 172,011
Total OPEB Liability as a Percentage of Covered-Employee Payroll	66.3%	68.0%	64.3%	75.2%

This schedule is to be built prospectively until it contains ten years of data.
*Impact of removing trends that include excise tax. Legislation under H.R. 1865 repealed the excise tax after the previous measurement date.
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.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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