Washington State Department of
Labor & Industries

Workers' Compensation Program

An Enterprise Fund of the State of Washington

Annual Comprehensive Financial Report

For the Fiscal Year Ended June 30, 2023

Olympia, Washington

November 2023

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Washington State Department of
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Keep Washington Safe and Working

Table of Contents

Table of Contents

Continued

Page

STATISTICAL SECTION

INDEPENDENT ACTUARIAL OPINION

Introductory Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

November 09, 2023

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

RE: Annual Comprehensive Financial Report

The Revised Code of Washington (RCW) 51.44.115 requires the Department of Labor & Industries (L&I) to publish an Annual Comprehensive Financial Report (ACFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2023.

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

The State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program's financial statements for the year ended June 30, 2023. The independent auditor's report is located at the front of the financial section of this report.

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

MAJOR INITIATIVES

L&I has implemented a number of major initiatives during the last several years that have significantly improved the way we partner with employers, workers, and providers to help keep Washington safe and working. Each of these changes has helped ensure that we are addressing both current and long-term needs in our state's workers' compensation system. Ultimately, L&I's focus remains on preventing injuries, when possible, and when that's not possible, helping injured workers heal and return to work. Our approach has reduced long-term disability and saved tens of millions of dollars.

L&I continues to build on the agency-wide initiatives launched in the last few years to align our people, processes, and technology, with a focus on meeting the needs of our customers. We made progress in the following areas during fiscal year 2023:

1. Workers' Compensation Systems Modernization (WCSM) – L&I is working to replace our antiquated workers' compensation computer systems, with the ultimate goal of reducing long-term disability and improving return-to-work outcomes for injured workers throughout Washington. Over the last two years, we worked on recommendations from a third-party review, partnered with L&I staff and vendors to revise our strategy (based on results of the review), and finished up a feasibility study to see what type of technology is out there to support us. Next year, we will focus on buying and testing the initial technology. The project's overall timeline will be updated in fall 2023.

2. Provider credentialing – As directed by the state Legislature, a partnership with the Health Care Authority (HCA) helped L&I replace our existing medical provider credentialing system with HCA's existing ProviderOne application. The project team added both new and existing providers to ProviderOne in phases during early 2023, and the project wrapped up in June 2023. Providers now use ProviderOne to apply for an L&I account and update account information, rather than filling out paperwork to make changes.

3. Promoting L&I's Stay at Work Program – The Stay at Work Program is one of L&I's financial incentive programs. The program, which began in 2011, allows reimbursement to employers for some of their costs when they provide temporary, light-duty jobs for injured workers while they heal. L&I launched an advertising campaign in fall 2022 to encourage employers to participate in the program. The campaign targeted employers and employees at small- and medium-sized businesses in construction, agriculture and farming, restaurants, and health care and it will wrap up in fall 2023.

4. Normalizing hybrid work – L&I's training program for claim managers shifted to fully remote at the beginning of COVID-19 and then successfully switched to a hybrid model. L&I examined how remote training can provide more flexibility for staff while still meeting the training goals. The Claims Training Hybrid Strategies and Delivery Enhancement Project researched best practices for training claim managers and developed recommendations to enhance the current learning environment with a focus on hybrid and remote training.

5. Hiring and retaining claim managers – L&I's Insurance Services Division needed to urgently fill numerous claim manager job openings. L&I developed a recruitment advertising campaign to attract job seekers to our website to learn more about the job openings, and the agency hosted a career fair to give potential applicants the opportunity to speak with the team. The campaign and career fair increased the number of website

views to more than 10,000 per month, and job applications jumped 30 percent during the campaign.

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system. The Workers' Compensation Program not only collects premiums and pays benefits to injured workers, but also funds the following: Insurance Services Division; Division of Occupational Safety and Health (DOSH); Safety and Health Assessment and Research for Prevention Program (SHARP); Washington State Apprenticeship Program; and Employment Standards and Workplace Rights.

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

The workers' compensation system has existed in Washington State for 112 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund, managed by L&I, until 1971, when the Legislature created an option for qualified employers to self-insure and expanded the scope of coverage to virtually all workers. The Self-Insurance Program allows employers with sufficient financial resources to pay the cost of claims for their injured workers from their own funds and assume significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund. As of June 30, 2023, 348 active employers were self-insured, covering over one-fourth of all workers in Washington.

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

The State Fund Workers' Compensation Program covers approximately 203,000 employers and 2.8 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2023, including both the employer and worker portions, were $2.6 billion. Over 84,000 claims were accepted in fiscal year 2023; about 81 percent of these claims were for medical treatment only and received no compensation for time off work or disability-related benefits. A monthly average of 35,104 claims were active during fiscal year 2023, and 14,532 of these claims, many of which involve long-term disability and complex medical issues, were receiving time-loss benefits. In fiscal year 2023, vocational rehabilitation retraining plans were completed by 153 injured workers who would not otherwise have been able to return to any type of work after injury.

BUDGET CYCLE

The Workers' Compensation Program operates as an enterprise fund made up of seven accounts that are financed and operated in a manner similar to private business entities. The budget operates on a two-year cycle beginning on July 1 of each odd-numbered year. The biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The final 2021-2023 appropriated budget for administering the Workers' Compensation Program was $857,639,000, which included $790,820,000 that was appropriated for L&I and the remainder for other state agencies. This budget included $19,688,000 of federal funds dedicated to the SHARP Program, DOSH, and the Washington State Apprenticeship Program. The appropriated administering budget for fiscal year 2023 for the Workers' Compensation Program was $421,797,500, and the portion for L&I was $387,605.500.

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

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES – FISCAL YEAR 2023[1]

Washington was the 13th-most-populous state in 2022 (calendar year), with an estimated population of 7.8 million,[2] and the 11th-largest state economy in the U.S. (seasonally adjusted annual rate of $761.42 billion in the third quarter of fiscal year 2023).[3] It is comprised of 11 major metropolitan areas and vast regions of wilderness and farmland. The Seattle/Tacoma/Bellevue metropolitan area alone accounts for 59.6 percent of the state's non-farm employment (May 2023)[4] and an even higher share of the state's gross domestic product (GDP) (72 percent).[5]

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[1] Unless otherwise indicated, all quarters and years mentioned in this report are fiscal quarters and fiscal years.
[2] "State Population Totals and Components of Change: 2020-2022", Census Bureau. https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html
[3] "Table 1, Gross Domestic Product by State and Personal Income by State: 1st Quarter 2023", BEA, June 30, 2023. https://www.bea.gov/sites/default/files/2023-06/stgdppi1q23.pdf.
[4] BLS: https://www.bls.gov/eag/eag.wa_seattle_msa.htm.
[5] BLS: https://www.bea.gov/data/gdp/gdp-metropolitan-area, and bea.gov/data/gdp/gdp-state. Based on the real GDP in 2021 (the latest data available for counties and metropolitan areas).

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including the world's second- and fifth-most valuable companies: Microsoft ($2.15 trillion) and Amazon ($1.06 trillion).[6] Other Washington-based Fortune 500 companies include Costco, Starbucks, Paccar, Coupang, Expeditors International, Nordstrom, Expedia, Weyerhaeuser, and Alaska Airlines.

Current Economic Situation and Outlook[7]

The U.S. economy rebounded from two consecutive quarters of contractions in the second half of 2022 and started the new fiscal year on a strong footing. However, the economy slowed somewhat as the year progressed in the environment of high inflation and increasingly tightening monetary policy. In the first quarter, the GDP rose 3.2 percent, indicating a robust economic expansion. The growth rate slowed down to 2.6 percent, 2.0 percent, and 2.4 percent in the subsequent three quarters.[8] There has been a discussion about another U.S. recession in the next 6-12 month period, but the "soft landing" scenario has gained more ground in recent months, with the labor market slowing but still robust and the Federal Reserve (Fed) nearing or already reaching the end of its tightening cycle.

Washington remains a top-ranking state in the nation for both its businesses and workforce. According to the 2023 Best States rankings by U.S. News & World Report, Washington holds second place overall. Additionally, WalletHub has recognized Washington's economy as the best in the entire nation.[9] The state's economy grew faster than the national average in each quarter of the year so far and demonstrated a commendable performance. In the first quarter, the state's economy expanded by a decent 3.5 percent, indicating a strong start to the year. This growth momentum continued into the following two quarters, where the state's economy saw a further increase of 3.7 percent and 3.2 percent, respectively.[10] Washington's ability to maintain such steady growth throughout 2023 bodes well for its economic prospects and regional development.

Washington's labor market outperformed most other states in this fiscal year. It was in fifth place for the year-over-year percent change (3.4 percent) and seventh in the number of jobs added (119,800 jobs).[11] Nonfarm payroll employment in Washington cooled off compared to the previous year, but was still strong in 2023, with employers adding an average of 9,858 jobs per month, as opposed to 13,125 monthly jobs in 2022.[12] The statewide seasonally adjusted unemployment rate was 3.8 percent in June 2023, slightly lower than the 3.9 percent in the same

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[6] Based on the market capitalization on March 31, 2023: https://www.pwc.com/gx/en/audit-services/publications/top100/pwc-global-top-100-companies-2023.pdf (May 2023).

[7] Unless otherwise indicated, the growth rates for GDP, personal income, and inflation measures in this section are all expressed as annualized or year-over-year percent change.

[8] BEA: https://www.bea.gov/data/gdp/gross-domestic-product.

[9] https://governor.wa.gov/issues/economy.

[10] BEA: https://www.bea.gov/data/gdp/gdp-state.

[11] BLS. "State Employment and Unemployment -June 2023." https://www.bls.gov/news.release/pdf/laus.pdf.

[12] As of July 19, 2023, Employment Security Department (ESD).

month last year,[13] but is expected to increase to 4.9 percent by 2025.[14] The jobless rate in the Seattle/Bellevue/Everett metropolitan area ticked up to 3.0 percent in June 2023 from 2.8 percent in June 2022.[15]

Real personal income in the U.S. rose 7.4 percent in the first quarter, influenced by various factors, including wage growth, government stimulus, and overall economic expansion. The personal income growth tapered off to a lower, but still healthy, pace of 5.0 percent and 5.1 percent in the second and third quarter, respectively.[16] This slowdown could be indicative of adjustments in economic conditions or shifts in income sources. Similarly, real personal income in Washington State also had a strong start early in the year, posting a 6.9 percent increase in the first quarter. However, the second quarter saw a noticeable slowdown in the state's income growth, at 3.5 percent. Washington managed to bounce back to a growth rate of 6.9 percent in the third quarter, indicating resilience in the state's economy.[17]

High inflation has been the dominant concern of the Fed since early 2021, as one of its major policy goals is price stability, or low and stable inflation at the rate of 2.0 percent per year.[18] Aimed at slowing down the overall level of demand for goods and services through higher borrowing costs, in order to battle the 40-year-high inflation, the Fed has increased its federal funds rate 11 times since March 2022, including seven hikes in this fiscal year. As a result, the target range was raised from near zero to 5.25 - 5.50 percent (the highest level in more than 22 years) in just a 17-month period (March 2022 to July 2023). The Fed's aggressive actions, including the interest rate hikes and the reversal of quantitative easing, have shown substantial progress in easing inflation. The annualized rate of inflation as measured by the change in the the U.S. Consumer Price Index (CPI) declined from 8.5 percent in July 2022 to as low as 3.0 percent in June 2023. The Personal Consumption Expenditures (PCE) price index increase that the Fed watches more closely also decelerated significantly from a 7.0 percent rate of inflation in the closing month of the last fiscal year to 3.0 percent in June 2023.[19] Inflation in Washington followed suit, with the Seattle area CPI increase dropping from 10.1 percent in June 2022 to 4.6 percent at the close of this fiscal year.[20]

On the flip side of the Fed's rate hikes, the national and state employment projections both show a slowdown in the coming years. Nationwide, employment is projected to grow only 0.2 percent in 2024, decline 0.3 percent in 2025, and achieve a modest recovery of 0.4 percent in the

[13] Nonfarm employment and unemployment rate, seasonally adjusted, ESD, June 2019.
[14] Washington State Economic and Revenue Forecast, ERFC, June 2019.
[15] Nonfarm employment and unemployment rate, seasonally adjusted, ESD, June 2019.
[16] BEA: https://www.bea.gov/data/income-saving/personal-income.
[17] BEA: https://www.bea.gov/data/income-saving/personal-income-by-state.
[18] Fed: https://www.federalreserve.gov/monetarypolicy/monetary-policy-what-are-its-goals-how-does-it-work.htm.
[19] BEA: https://www.bea.gov/news/2023/personal-income-and-outlays-june-2023.
[20] BLS: https://www.bls.gov/regions/west/news-release/consumerpriceindex_seattle.htm.

subsequent two years.[21] Washington is expected to fare relatively better, with employment growth projected at 0.9 percent, 0.2 percent, 1.0 percent, and 1.0 percent from 2024 to 2027.[22]

Another direct impact of the Fed's continuous rate hikes is the rise in mortgage rates, which surged to 7.08 percent in late October for 30-year fixed mortgages and remained at the 6.0 - 7.0 percent level through the rest of this fiscal year.[23] Projections also indicate that this rate will average 6.14 percent in fiscal year 2024,[24] which will dampen the demand for home purchases and slow down construction activities. The current projection data shows that construction employment in Washington will decline 0.3 percent and 0.6 percent in the next two fiscal years before returning to a growth rate of 1.2 percent and 1.9 percent in 2026 and 2027, respectively. Manufacturing is also expected to be weaker than the overall economy in the high-interest-rate environment, with Washington employment contracting 0.3 percent and 2.1 percent in 2024 and 2025, respectively, followed by weak growth of 0.4 percent and 0.7 percent in 2026 and 2027, respectively.[25]

Washington continues to uphold its strong credit rating, as reaffirmed by the latest assessments from Moody's, S&P, and Fitch on July 17 and 18, 2023. The state's General Obligation Bonds maintain their high-quality status, with ratings of AAA/AA+/AA+ and a stable outlook.[26] These rating agencies have expressed positive views on Washington's fiscal policies, which have contributed to the state's economic stability. They also highlighted the state's robust economic fundamentals and found no indications of any unusual short- or long-term risks that could jeopardize the state's credit rating stability.

In 2022, the stock market tumbled, but the degree of losses varied among major indexes. The Dow Jones Industrial Average (Dow) and S&P 500 lost 10.8 percent and 11.9 percent, compared to a 24.0 percent slide in the technology-heavy Nasdaq. Moving to 2023, the performance landscape has shifted. The Nasdaq has emerged as the top performer among the indexes, showcasing impressive returns of 25.0 percent. The S&P 500 has also shown a solid performance, with a return of nearly 18.0 percent. However, the Dow lagged with an 11.8 percent return.[27] Following a period of low yields and a harsh decline in prices throughout 2022, the fixed income markets are now showing signs of a potential rebound. The average rates for 1-year, 5-year, 10-year, and 30-year treasury constant maturity series closed 2023 with 260, 112, 83, and 71 basis points above those recorded on the final day of 2022.[28]

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[21] Washington State Economic and Revenue Forecast Council, Revised June 2023 Economic Forecast, https://erfc.wa.gov/sites/default/files/public/documents/forecasts/p0623.pdf.

[22] Table 2.1, "Washington Economic Forecast Summary", Washington State Economic and Revenue Forecast, ERFC, June 2023.

[23] Freddie Mac: https://www.freddiemac.com/pmms/docs/historicalweeklydata.xlsx.

[24] https://ofm.wa.gov/sites/default/files/public/budget/statebudget/highlights/budget23/02-Economic-Outlook.pdf

[25] ERFC, June 2023: Washington State Economic and Revenue Forecast, https://erfc.wa.gov/sites/default/files/public/documents/publications/jun23pub.pdf.

[26] https://www.tre.wa.gov/home/debt-management/debt-information/#toggle-id-5.

[27] FRED, St. Louis Fed: https://fred.stlouisfed.org/categories/32255.

[28] U.S. Department of Treasury: https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2023.

Washington has consistently been a national leader on the clean energy front. The 2023 Washington State Energy Report highlights significant progress toward a clean energy transition, showcasing key policy and funding opportunities. From the Climate Commitment Act to first-in-nation building performance standards to the adoption of a clean fuel standard, Washington's policies are spurring an ambitious clean energy transition.[29] Regarding energy prices, Seattle area consumers paid a 31.0 percent higher price for gasoline but a 25.0 percent lower rate for electricity, compared to the national averages in June 2023.[30]

Moving forward, the overall U.S. economy is projected to continue to slow in the first half of fiscal year 2024 and then pick up in the second half of the year and beyond.[31] The U.S. labor market will cool off substantially in the next few years as a result of the cumulative and lagging effect of tightening of monetary policy and other economic and financial developments. The outlook for Washington's labor market also predicts weak growth from 2024 through 2027, but the prospects are better than for the nation as a whole.[32]

Workers' Compensation Impacts

The sustained growth in Washington's economy is reflected in the growth of L&I's covered employer base, which exceeded 207,000 employers in the third quarter of fiscal year 2023. Growth has averaged 3.3 percent year-over-year in the first three quarters of fiscal year 2023.[33] Income growth and the subsequent increased consumer expenditures would help boost employment and the growth of insured businesses for L&I.

In calendar year 2022, Washington's average annual wage increased 2.0 percent to $84,167. This increase is in line with the historical average[34] and is far below the 7.5 percent wage growth seen in the year prior.[35] This wage growth rate is the basis for L&I's cost of living adjustment (COLA) increases on time-loss and pension benefit payments for eligible workers effective July 1, 2023, and a lower rate may positively affect L&I's financial conditions in terms of a smaller increase in benefit payments.

The state minimum wage increased from $14.49 per hour to $15.74 in calendar year 2023.[36] This update was based on the 8.6 percent increase from August 2021 to August 2022 in the U.S. CPI

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[29] Washington State Department of Commerce: https://www.commerce.wa.gov/news/washington-state-2023-energy-report-shows-significant-progress-toward-clean-energy-transition-notes-key-policy-and-funding-opportunities/.

[30] BLS: Average Energy Prices, Seattle-Tacoma-Bellevue – June 2023. https://www.bls.gov/regions/west/news-release/averageenergyprices_seattle.htm.

[31] https://www.cbo.gov/system/files/2023-07/59258-econ-outlook.pdf.

[32] ERFC, June 2023: Washington State Economic and Revenue Forecast, https://erfc.wa.gov/sites/default/files/public/documents/publications/jun23pub.pdf.

[33] Based on L&I employer data, July 2023.

[34] https://ofm.wa.gov/washington-data-research/statewide-data/washington-trends/economic-trends/washington-and-us-average-wages.

[35] https://esd.wa.gov/newsroom/2022-average-annual-wage.

[36] https://www.lni.wa.gov/workers-rights/wages/minimum-wage/history-of-washington-states-minimum-wage.

for Urban Wage Earners and Clerical Workers.[37] The increase in minimum wages will add some costs to the workers' compensation system in that the wage replacement benefit paid to eligible minimum wage earners will also increase.

Medical costs (based on the CPI for medical care) rose 4.5 percent in 2022 and peaked in September 2022. Since then, costs have fallen back. As a result, medical costs in 2023 were essentially flat, with only a 0.1 percent increase.[38] While the mix of medical services provided in the workers' compensation system is somewhat different, this meager growth in general medical care cost should help to keep medical expenses in Washington's workers' compensation system in check.

L&I has only 16.8 percent of its investments in equities,[39] but the stock market still has a disproportionately large impact on its overall rate of return, given the level of market volatility. Although the U.S. stock market was extremely volatile in the first half of 2023, it did post a strong rally in the second half, and all the three major indexes ended up with at least a 12.0 percent gain for the whole year.[40] This should enhance the agency's overall investment performance and help build up a healthy contingency reserve that the agency needs to protect against unexpected large rate fluctuations in the future.

Washington's workers' compensation rates rose 4.8 percent in calendar year 2023. On average, the composite base premium rate in 2023 is still lower than that in 2017.[41] In the current fiscal year, reported worker hours increased 7.7 percent, 0.3 percent, and 7.8 percent in the first through third quarters compared to the same quarter of last year, respectively.[42] Although inflation is forecasted to fall to 2.5 percent in 2024 and down to 2.0 percent by 2027,[43] Washington's employment growth is projected to be lower. These developments will weigh on L&I's rate-setting decisions for the next few years.

LONG-TERM FINANCIAL PLANNING

The Workers' Compensation Program discounts benefit and claims administration expense reserves to reflect the time value of money. The discount rate for non-pension (Accident and Medical Aid Accounts) liabilities is based on the 20-year U.S Treasury yield, because this benchmark is closest to the Industrial Insurance Fund's liability duration. Specifically, the non-pension discount rate is based upon a benchmark rate, the five-year average of the 20-year U.S.

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[37] https://www.bls.gov/cpi/tables/supplemental-files/cpi-w-202208.xlsx.
[38] Data Source: Consumer Price Index for All Urban Consumers: Medical Care, Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/CPIMEDSL.
[39] Washington State Investment Board, 41st Annual Report, 2022: https://www.sib.wa.gov/docs/reports/annual/ar22.pdf.
[40] Data Source: Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/categories/32255.
[41] L&I, https://lni.wa.gov/insurance/_docs/avgstdpremrates.pdf.
[42] Based on L&I payroll data, July 2023.
[43] Congressional Budget Office, Overall Inflation and Price Growth for Various Categories of Goods and Services, https://www.cbo.gov/publication/58957.

Treasury yield, less a risk adjustment, and then rounded to the nearest one-half percent. The risk adjustment is two percentage points when the benchmark rate is over four percent and half the benchmark rate when the benchmark is under four percent. The five-year average is 2.504 percent as of June 30, 2023, so the indicated non-pension discount rate is 1.5 percent. The impact of changing the discount rate from 1.0 percent to 1.5 percent is a reduction of $137 million in the Accident Fund benefit liabilities and an increase of $3 million Medical Aid Account benefit liabilities. The last time L&I changed the discount rate was on June 30, 2020, when it was decreased from 1.5 percent to 1.0 percent.

The Self-Insured pension liabilities are discounted at a rate of 5.6 percent per annum. This discount rate was decreased from 5.7 percent to 5.6 percent as of June 30, 2023, and the change increased the Self-Insured pension liabilities by approximately $6 million.

RELEVANT FINANCIAL POLICIES

L&I has an established investment policy designed to maintain solvency of the Workers' Compensation Program's accounts and to keep premium rates stable. The Washington State Investment Board (WSIB) manages the L&I portfolio and meets regularly to make decisions on improving investment results while striking a balance between risk and return.

On December 17, 2020, the investment policy was updated, adjusting the range allowed from the duration target for the Accident, Pension, and Medical Aid Accounts from 20.0 percent to 25.0 percent. Then, again, on June 17, 2021, the investment policy was updated to adjust the duration targets. The Accident Account duration target was changed from six to seven years; the Pension Reserve Account was changed from eight to ten years; and the Medical Aid Account was changed from five to six years. Duration targets are used to manage the interest rate risk on the fixed asset portfolio.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its ACFR for the fiscal year ended June 30, 2022. A copy of the Certificate of Achievement is included in the introductory section of this ACFR. This was the 13th consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently organized ACFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

As in the work and service we provide every day, this ACFR represents our commitment to maintain excellence in financial reporting, and the financial statements are in conformance with the highest standards of financial accountability. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of L&I, the Washington State Office of Financial Management, and the Washington State Investment Board.

Sincerely,

Joel Sacks

Joel Sacks
Director

Randi Warick

Randi Warick
Deputy Director for
Strategy and Financial Management

Michael Ratko
Assistant Director for
Insurance Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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Presented to

Washington State Department of Labor & Industries

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

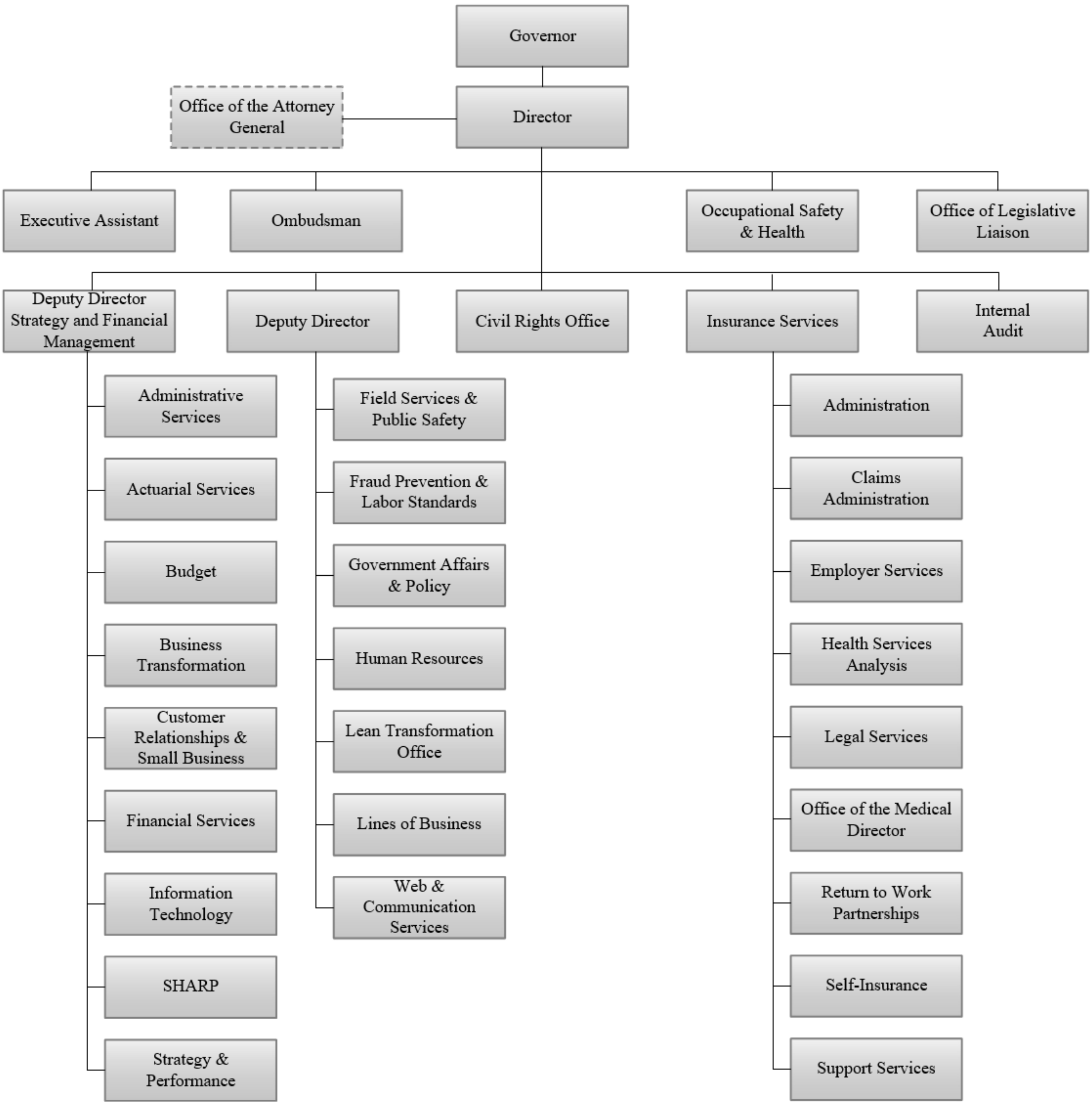
Executive Director/CEO

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart
June 30, 2023



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
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Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Joel Sacks, Director
Workers Compensation Program
Olympia, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, as of and for the year then ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Workers Compensation Program, as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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/loss, that represent 93 percent of the assets of the Workers Compensation 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 Workers Compensation Program, are based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2022, 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.

As discussed in Note 2 to the financial statements, in 2023, the Program adopted new accounting guidance, Governmental Accounting Standards Board No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The combining financial statements and individual account financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The other information comprises Introductory and Statistical Sections and the Independent Actuarial Opinion but does not include the basic financial statements and our auditor's report thereon. Management is responsible for the other information included in the financial statements. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or provide any assurance thereon.

In connection with the audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated November 9, 2023, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

November 9, 2023

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, 2023. 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 $556 million from the prior fiscal year, mainly due to an increase in investments of $560 million.
- Total liabilities increased $1,060 million from the prior year. The increase is largely due to an increase in claims payable of $969 million.
- Total revenues earned increased $3,401 million, mainly due to a $3,175 million increase in earnings on investments and a $215 million increase in premiums and assessments.
- Total expenses incurred decreased $2,916 million from the prior year, primarily due to a $3,003 million decrease in claims expense.
- Total net position increased $6,315 million from prior year, mainly due to decreased actual and estimated claims costs and a $3,174 million increase in earnings on investments.

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, 2023, 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 115-118 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, 2023. It can be found on page 39 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 40 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 41 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 44-95 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position (dollars in millions)				
	June 30, 2023	June 30, 2022	$ Change	% Change*
Assets				
Current assets	$ 2,511	$ 2,174	$ 337	15.5%
DOE assets, noncurrent **	3	4	(1)	(25.0%)
Investments, noncurrent	17,621	17,322	299	1.7%
Restricted net pension assets	61	168	(107)	(63.7%)
Capital assets, net	113	85	28	32.9%
Total Assets	20,309	19,753	556	2.8%
Deferred outflows of resources	90	50	40	80.0%
Liabilities				
Current liabilities	2,707	2,810	(103)	(3.7%)
Noncurrent liabilities	37,529	36,366	1,163	3.2%
Total Liabilities	40,236	39,176	1,060	2.7%
Deferred inflows of resources	141	207	(66)	(31.9%)
Net Position (Deficit)				
Investment in capital assets	82	58	24	41.4%
Restricted Pension	71	36	35	97.2%
Unrestricted	(20,131)	(19,674)	(457)	2.3%
Total Net Position (Deficit)	$ (19,978)	$ (19,580)	$ (398)	2.0%

*% 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 $337 million during fiscal year 2023, largely due to an increase in current investments of $261 million. Current investments consist of fixed income securities that mature in one year or less and will vary from year to year. Receivables increased $111 million, and cash and cash equivalents decreased $35 million. Premium receivable estimates increased because of an increase in reported hours of 4.6 percent for the year and an increase in the average annual wage of 2.0 percent. Additionally, premium rate increases in the Accident, Medical Aid, and Supplemental Pension Accounts of 5.9 percent, 1.0 percent, and 7.2 percent, respectively, on January 1, 2023, contributed to the increase. Cash and cash equivalents fluctuate depending on cash flow from operations and cash needs.

Noncurrent investments - Noncurrent investments increased by $299 million during fiscal year 2023, mainly due to increases in both fixed income securities and equity investments. The increase was due to unrealized gains in the market, reinvestment of interest income, and realized gains from sales.

Current liabilities - Current liabilities, other than claims payable, increased $125 million during fiscal year 2023, mainly due to an increase in investment trades pending of $95 million, which changes based on the timing of trading activities, and an increase in retrospective rating refunds payable of $6 million. In addition, there was an increase of $2 million in the actuarial experting for cash-funded self-insured employers with account excesses; an increase in salaries, fringe benefits, vacation and sick leave liabilities of $3 million; and an increase of $2 million for lease liabilities. Additional details regarding leases can be found in Note 9 of this report.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $39,671 million at the end of fiscal year 2023, an increase of $969 million, or 2.5 percent, when compared to the previous fiscal year. The claims administration expense liability increased by $13 million, due to increases in benefit liabilities and the corresponding expenses to process the increased benefits. The remaining increase was due to a net increase in benefit liabilities. Benefit liabilities increased $956 million, as shown by the table below:

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

	June 30, 2023	June 30, 2022
Benefit liabilities, beginning of year	$ 37,771	$ 33,673
New liabilities incurred, current year	2,561	2,455
Development on prior years		
Reserve discount accretion	557	527
Change in discount rate**	(822)	80
Other development on prior liabilities	1,262	3,491
Claim payments	(2,602)	(2,455)
Change in benefit liabilities	956	4,098
Benefit liabilities, end of year	$ 38,727	$ 37,771

***** Excludes claims administration expense liabilities

****** Includes the pension discount rate changes from 5.7% to 5.6% (Self-Insurance Program) and the non-pension discount rate change from 1.0% to 1.5%

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 $457 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 the 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 2023 is based on the change in the State's Average Annual Wage from the preceding calendar year, as published by the Washington State Employment Security Department. The state's average annual wage increased from $82,508 in 2021 to $84,167 in 2022, an increase of 2.0 percent.

- The liabilities in the Accident Account increased $396 million, primarily due to an increase in total permanent disability (TPD) estimates.

- The liabilities in the Medical Aid Account decreased $7 million, mainly due to a decrease in medical hearing loss estimates of $53 million, offset by increases in medical-only estimates of $43.

- The liabilities in the Pension Account increased $110 million, mainly due to the addition of new pensions. Additionally, liability has been accrued for the Self-Insurance discount rate reduction from 5.7 percent to 5.6 percent, resulting in a $6 million increase.

Total net position (deficit) - The Workers' Compensation Program deficit increased by $397 million during fiscal year 2023, ending with a deficit balance of $19,978 million. This deficit consists of a $23,065 million deficit in the Supplemental Pension Account, offset by combined net position balances in the other Workers' Compensation Program accounts. Additional details regarding the Supplemental Pension Account deficit can be found in Note 10 of this report.

Changes in Net Position (dollars in millions)				
	Fiscal Year Ended June 30, 2023	Fiscal Year Ended June 30, 2022	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,982	$ 2,767	$ 215	7.8%
Miscellaneous revenues	56	44	12	27.3%
Total Operating Revenues	3,038	2,811	227	8.1%
Nonoperating Revenues				
Earnings on investments	594	(2,580)	3,174	(123.0%)
Other revenues	9	9	-	0.0%
Total Revenues	3,641	240	3,401	1417.1%
Operating Expenses				
Salaries and wages	224	210	14	6.7%
Employee benefits	49	14	35	250.0%
Personal services	20	12	8	66.7%
Goods and services	96	84	12	14.3%
Travel	4	3	1	33.3%
Claims	3,583	6,586	(3,003)	(45.6%)
Depreciation	14	12	2	16.7%
Miscellaneous expenses	49	34	15	44.1%
Total Operating Expenses	4,039	6,955	(2,916)	(41.9%)
Total Expenses	4,039	6,955	(2,916)	(41.9%)
Income (Loss) before Transfers	(398)	(6,715)	6,317	(94.1%)
Net Transfers	-	2	(2)	(100.0%)
Change in Net Position (Deficit)	(398)	(6,713)	6,315	(94.1%)
Net Position (Deficit) - Beginning of Year	(19,580)	(12,867)	(6,713)	52.2%
Net Position (Deficit) - End of Year	$ (19,978)	$ (19,580)	$ (398)	2.0%

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2023 were $2,982 million, compared to $2,767 million for fiscal year 2022, an increase of $215 million. The majority of this change is derived from the increase in reported hours of 4.6 percent and the premium rate increases for fiscal year 2023. Premium rates increased in the Accident and Medical Aid Accounts 5.9 percent and 1.0 percent, respectively, on January 1, 2023. There were no rate changes on January 1, 2022. Increases in the Supplemental Pension Account premium rate were 13.9 percent and 7.2 percent, respectively, on January 1, 2022 and 2023.

Earnings on investments - The earnings on investments increased by $3,174 million from the prior fiscal year, as explained below:

Significant Changes in Investment Activity*
(dollars in millions)

	June 30, 2023	June 30, 2022	$ Change	% Change
Fixed Income				
Interest earnings	$ 512	$ 466	$ 46	9.9%
Realized gains (losses)	(18)	75	(93)	(124.0%)
Unrealized gains (losses)	(409)	(2,525)	2,116	(83.8%)
Fixed Income Total	85	(1,984)	2,069	(104.3%)
Equities				
Realized gains (losses)	164	67	97	144.8%
Unrealized gains (losses)	344	(654)	998	(152.6%)
Equities Total	508	(587)	1,095	(186.5%)
Real Estate LP				
Realized gains (losses)	-	-	-	N/A
Unrealized gains (losses)	8	(2)	10	(500.0%)
Equities Total	8	(2)	10	(500.0%)
Total Investments	$ 601	$ (2,573)	$ 3,174	(123.4%)

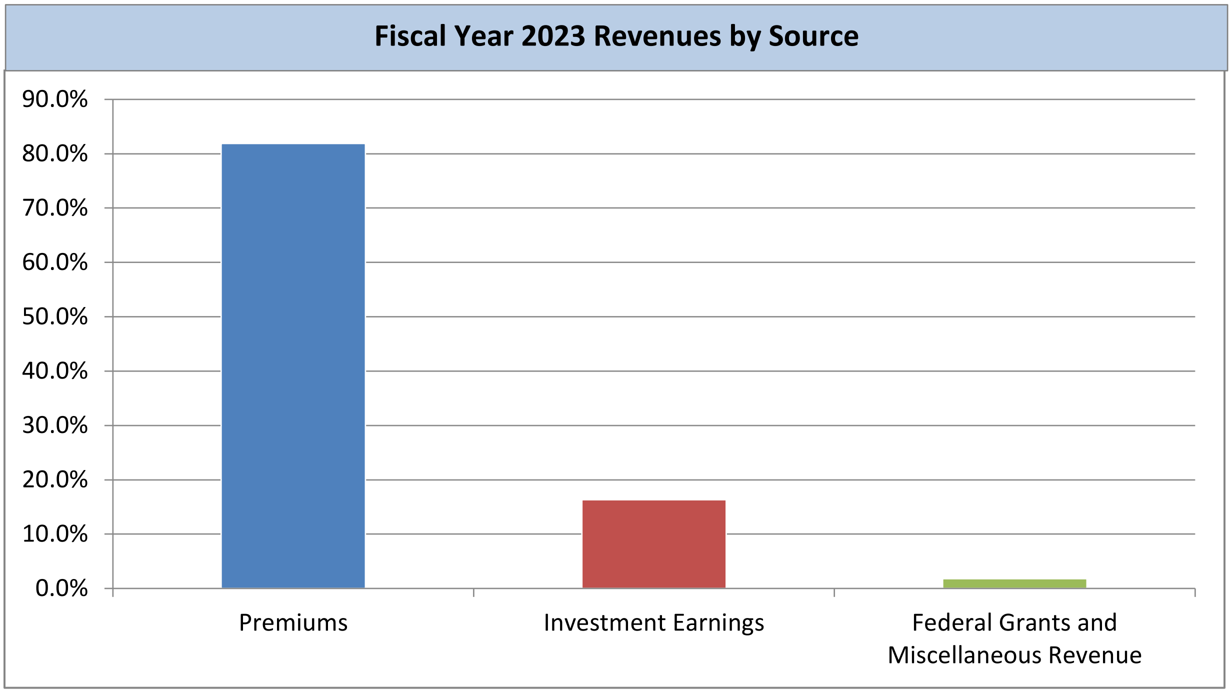
*The above does not include investment expenses.

- Earnings on fixed income security investments increased $2,069 million as compared to fiscal year 2022, mainly due to $2,116 million in unrealized gains.

- The change in equity realized and unrealized gains during the fiscal year was an increase of $1,095 million. In fiscal year 2023, net equity realized and unrealized gains were $508 million versus net equity realized and unrealized losses of $587 million in fiscal year 2022. In the fourth quarter of fiscal year 2023, the Washington State Investment Board (WSIB) rebalanced the investment portfolio, selling equity investments and purchasing fixed income securities that resulted in $164 million in realized gains.

- The change in real estate limited partnership realized and unrealized gains (losses) during the fiscal year was an $8 million gain. This gain is a result of unrealized gains in the market. The real estate program remains in its early stages and has investments in two European and two U.S. residential properties.

The following chart provides additional detail on the breakdown of revenues by source during fiscal year 2023:



Claims expense - Claims expense for fiscal year 2023 decreased $3,003 million, or 45.6 percent, as compared to fiscal year 2022. Claims expense includes two main components: payments to beneficiaries and the change year-over-year in claims payable.

The change in claims payable in fiscal year 2023 was significantly lower than the change in claims payable in fiscal year 2022, causing a $3,140 million decrease in claims expense for the year. Claims payable current year increases are previously explained above under the financial analysis section of this discussion.

Claim payments to beneficiaries increased by $137 million, or 5.5 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 $26.5 million increase in claim payments to beneficiaries is primarily due to a 5.9 percent higher average amount paid per active claim in fiscal year 2023 than in fiscal year 2022 for medical-only claims.

- The Accident Account's $18.0 million increase in claim payments to beneficiaries resulted primarily from an increase in average compensation rates for time-loss payments. The increase was slightly offset by a decrease in settlement payments due to a decrease in the number of settlements.

- The Pension Reserve Account's claim payments to beneficiaries increased $5.2 million, mostly due to an increase in Department of Energy (DOE) payments. The DOE increase is a result of granted death pensions based on a recent law change. Additionally, COVID fatal pension and presumption claims and the fact that active pensions are decreasing but new presumption claims are increasing the average size of benefits added to the overall increase.

- The Supplemental Pension Account's $87.6 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 2023, other than claims expense, were $456 million, as compared to $369 million in fiscal year 2022.

Salaries and Employee benefits increased by $49 million compared to prior year due to:

- Salaries increased seven percent in fiscal year 2023. This was due to a 3.25 percent wage increase and a lump sum payment for employees making $99,000 or less. Additionally, the full time employee (FTE) count increased, mostly due to a four percent improvement in our vacancy rate from June 2022 to June 2023 and 18 FTE's in the DOSH program due to new legislation.

- The cost per employee for health, life, and disability insurance benefits increased by 20 percent.

- The employer retirement contribution rate for PERS, effective July 1, 2022, increased from 10.25 percent to 10.37 percent, an increase of 1.17 percent.

- Pension expenses increased mainly due to the actuarially determined amortization of differences between projected and actual earnings on plan investments for the fiscal year. For more information on pensions, please see Note 11.

- OPEB expenses decreased mainly due to the actuarially determined amortization of changes in assumptions for the fiscal year. For more information on OPEB, please see Note 12.

Additional items that affected the change in operating expenses:

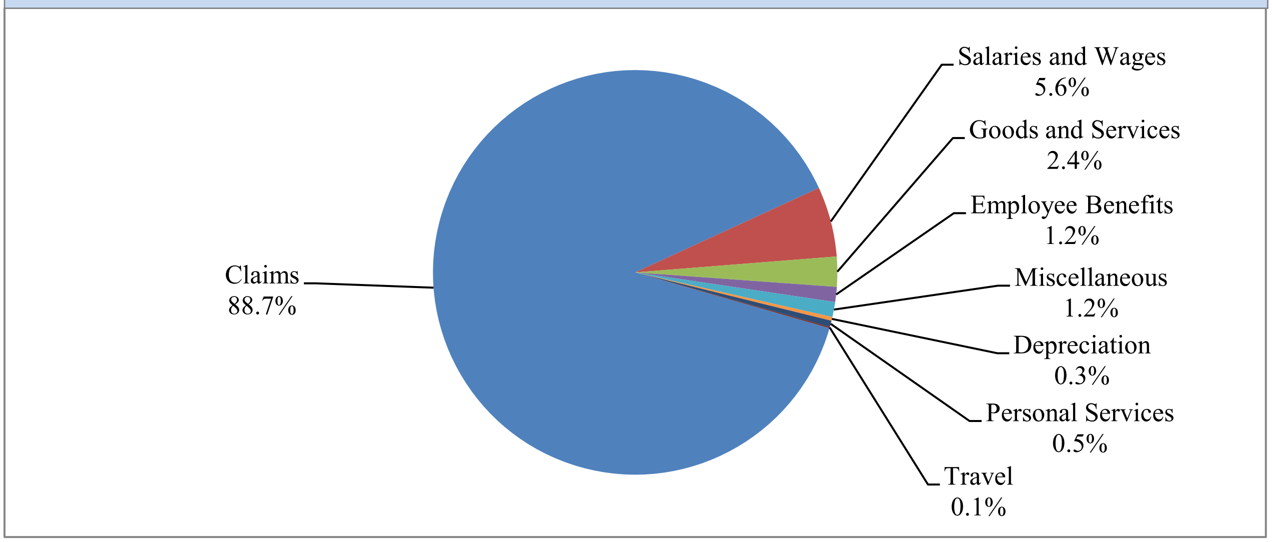
- Miscellaneous expenses increased mainly due to Bad Debt expenses. Bad Debt expense is the difference recorded from changes in the allowance for doubtful accounts, a contra account to receivables, as well as any accounts that were officially written off during the year. In fiscal year 2023, the agency recorded higher receivables, mainly due to the increase in worker hours of 4.6 percent, or 190,430 hours.

- Personal services increased due to additional consulting expenditures for the WCSM project.

- Goods and services increased mainly as a result of an increase in total billable hours for services from the Attorney General's office, new expenditures for the IT Air Handler Retrofit & Cooling Tower project, and non-capital assets purchased for the Tumwater building redesign and the new DOSH lab.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2023:

Fiscal Year 2023 Operating Expenses by Type



Capital Asset

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2023, were $112.6 million. This is a $27.3 million increase from the previous year. The increase was mainly due to the continued construction on the new Division of Safety and Health (DOSH) lab, resulting in an increase to capital assets of $24.4 million. Additionally, the implementation of GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs), which defines SBITAs as a contract that conveys control of the right to use another party's IT software and requires the recognition of an intangible right-to-use asset for an increase of $8.0 million. The increase was partially offset by current year depreciation and amortization. Each year, capital and intangible assets are expensed over their useful lives. Additional information on capital assets can be found in Note 1.D.7 and Note 7 of this report.

Potentially Significant Matters with Future Impacts

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. 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. 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.

There are several Worker's Compensation 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 and modernize these systems. The legislature approved a 2023-2025 biennial budget that included $13.5 million out of the total estimated cost of $361.5 million to replace the old computer systems that support the Workers' Compensation System. The WCSM 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.

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.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position

June 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	114,409,576
Investments, current		1,345,191,049
DOE trust cash and investments		565,395
Receivables, net of allowance		1,049,211,453
Receivables from other state accounts and agencies		366,648
Receivables from other governments		1,326,458
Prepaid expenses		164,891
Total Current Assets		2,511,235,470
Noncurrent Assets		
DOE trust receivable		3,037,413
Investments, net of current portion		17,621,246,202
Restricted net pension asset		61,120,887
Capital assets, net of accumulated depreciation and amortization		112,586,202
Total Noncurrent Assets		17,797,990,704
Total Assets		20,309,226,174
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		74,472,102
Deferred outflow of resources on OPEB		15,474,406
Total Deferred Outflows of Resources		89,946,508
Total Assets and Deferred Outflows of Resources	$	20,399,172,682
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
Current Liabilities		
Accounts payable		20,908,572
Accrued liabilities		364,079,856
Leases and subscriptions payable, current		9,729,464
Total OPEB liabilities, current		2,350,056
Payable to other state accounts and agencies		7,927,290
Due to other governments		6
Unearned revenues		2,047,955
DOE trust liabilities, current		422,353
Claims payable, current		2,299,042,000
Total Current Liabilities		2,706,507,552
Noncurrent Liabilities		
Claims payable, net of current portion		37,372,418,000
Leases and subscriptions payable, net of current portion		20,462,889
Other long-term liabilities		6,269,363
DOE trust liabilities, net of current portion		3,180,455
Total OPEB liabilities, net of current portion		90,764,290
Net pension liability		36,131,437
Total Noncurrent Liabilities		37,529,226,434
Total Liabilities		40,235,733,986
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		62,214,641
Deferred inflow of resources on OPEB		78,898,972
Total Deferred Inflows of Resources		141,113,613
NET POSITION (DEFICIT)		
Investment in capital assets		82,393,849
Restricted pension		70,776,217
Unrestricted		(20,130,844,983)
Total Net Position (Deficit)		(19,977,674,917)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	20,399,172,682

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, 2023

OPERATING REVENUES		
Premiums and assessments, net of refunds and reinsurance	$	2,982,041,653
Miscellaneous revenues		55,542,317
Total Operating Revenues		3,037,583,970
OPERATING EXPENSES		
Salaries and wages		224,115,462
Employee benefits		49,073,322
Personal services		19,842,432
Goods and services		95,719,514
Travel		4,345,634
Claims		3,582,759,447
Depreciation		13,613,088
Miscellaneous expenses		49,215,868
Total Operating Expenses		4,038,684,767
Operating Income (Loss)		(1,001,100,797)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		594,480,214
Other revenues		9,686,969
Total Nonoperating Revenues (Expenses)		604,167,183
Income Before Transfers		(396,933,614)
Transfers out		(385,000)
Net Transfers		(385,000)
Change in Net Position		(397,318,614)
Net Position (Deficit) - July 1		(19,580,356,303)
Net Position (Deficit) - June 30	$	(19,977,674,917)

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

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,850,691,163
Payments to/for beneficiaries		(2,608,541,292)
Payments to employees		(303,820,415)
Payments to suppliers		(105,726,626)
Other		48,602,929
Net Cash Flows from Operating Activities		(118,794,241)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out (IT Tech Pool)		(385,000)
Operating grants received		9,863,974
License fees collected		37,013
Net Cash Flows from Noncapital Financing Activities		9,515,987
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets		(38,815,567)
Net Cash Flows from Capital and Related Financing Activities		(38,815,567)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales (purchases) of trust investments		38,217
Receipt of interest and dividends		497,382,460
Investment expenses		(7,262,768)
Proceeds from sale of investment securities		7,319,418,656
Purchases of investment securities		(7,696,613,682)
Net Cash Flows from Investing Activities		112,962,883
Net increase in cash and cash equivalents		(35,130,938)
Cash & cash equivalents, July 1 (includes trust cash of $527,178)		150,105,909
Cash & cash equivalents, June 30 (includes trust cash of $565,395)	$	114,974,971
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	(1,001,100,797)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities		
Depreciation		13,613,088
Change in Assets: Decrease (Increase)		
Receivables		(135,014,906)
Inventories		63,306
Prepaid expenses		(1,750)
Other assets		106,869,406
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		968,704,000
Accrued liabilities		(71,926,588)
Net Cash Flows from Operating Activities	$	(118,794,241)
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	$	(56,852,911)

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Index

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 RCW Title 51 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 (ACFR) 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 https://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 14 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, ordered from least to most liquid. 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 expenses 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, 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. 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 (DOE) 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, 2023, trust cash and investments of $565,395, 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, 2023, 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 administration expense liabilities are discounted to reflect the time value of money using an average discount rate of 1.97 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 1.5 percent; the Pension Reserve Account is discounted at two different rates: the State Fund portion is discounted at 4.0 percent and the Self-Insured portion is discounted at 5.6 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 4.0 percent, and the transfer payments and all other liabilities are discounted at 1.5 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, 2023, prepaid expenses amounted to $164,891.

1.D.7. Capital Assets

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

- All land
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or greater
- Intangible assets other than lease 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, including subscription-based information technology arrangements
- 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 (COP)

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 or the lease or subscription terms. The cost and related accumulated depreciation/amortization 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
- Intangibles 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 interfund transfers and reimbursements.

Note 2 - Accounting and Reporting Changes

Reporting Changes

Effective for fiscal year 2023 reporting, the Workers' Compensation Program adopted the following new standard issued by the Governmental Accounting Standards Board (GASB):

Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs)

This statement establishes accounting and financial reporting guidance for SBITAs. A SBITA is defined as a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible underlying IT assets, in an exchange or exchange-like transaction for a period exceeding 12 months. The government is required to recognize a subscription liability and an intangible right-to-use (ROU) subscription asset. Cash outlays necessary to place the subscription asset in service can be capitalized during the initial project implementation stage.

GASB Statement No. 96 is required to be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. All the Workers' Compensation Program's active SBITA contracts commenced in fiscal year 2023, thus prior period adjustments are not applicable.

Note 3 – 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 that occurred 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 $15.5 million for the January 2023 through December 2023 coverage period. Premiums ceded of $15.2 million for reinsurance coverage have been recorded in the accompanying basic financial statements for the year ended June 30, 2023, for the July 2022 through June 2023 coverage period.

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 2023 and 2022 (expressed in millions):

		Fiscal Year 2023		Fiscal Year 2022
Premiums and assessments, net of refunds	$	2,997	$	2,782
Ceded premiums		(15)		(15)
Total premium and assessment income, net of refunds and ceded premiums	$	2,982	$	2,767

Note 4 - Deposits and Investments

4.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 RCW chapter 39.58, 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. On June 30, 2023, $114.7 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $315,395 uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

4.B. Investments

4.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, RCW chapter 42.52, 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 RCW chapter 43.33A. 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 Global Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Bloomberg Global Family of Fixed Income Indices
- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Global Family of Fixed Income Indices

- Investment grade non-U.S. dollar bonds

- Real estate

Investment Policies and Restrictions

To meet stated objectives, investments of the Workers' Compensation Program are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.110 and RCW 43.33A.140.

- No corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's 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 Targets 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.

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

Total fair value of below-investment-grade mortgage-backed, asset-backed, and commercial mortgage-backed securities should not exceed five percent of total fair value of the funds.

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

- Generate a six percent annual investment return over a rolling 10-year period. This objective also serves as the total net return benchmark for the portfolio.
- The majority of 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 long-term target allocation for the real estate portfolio will be invested in the equity position for a single property at the time of acquisition.

4.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 Accounting and Administration 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 Valuation Service and Interactive Data Corporation. The custodian bank performs the following tolerance and review checks on the fixed income pricing data on a daily basis:

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

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

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

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

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

The table below presents fair value measurements as of June 30, 2023:

Schedule of Fair Value Measurements
June 30, 2023
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 616,407		$ 616,407	
Corporate bonds	10,674,076		10,674,076	
U.S. and foreign government and agency securities	3,908,756		3,908,756	
Total Investments by Fair Value Level	$ 15,199,239		$ 15,199,239	
Investments Measured at Net Asset Value (NAV)				
Commingled equity investment trusts	3,127,235			
Real Estate	73,315			
Total investments measured at the NAV	3,200,550			
Total Investments Measured at Fair Value*	$ 18,399,789			

*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) – Investments measured at net asset value in the Workers' Compensation Fund include collective investment trust funds and alternative investments. The fund is passively managed to track the investment return 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 underlying holdings within each fund 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; when the purchase, sale, or pricing of the fund's investments would not be reasonably practicable or advisable; or when 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 $73.3 million as of June 30, 2023. Because of the inherent uncertainties in estimating fair values, it is possible that these estimates will change in the near-term or the subsequent sale of assets will be different than the June 30, 2023, 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. L&I currently holds four real estate investments. 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.

4.B.3. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. On June 30, 2023, 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 have collateral denominated in the same currency, the collateral requirement is 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities are 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 on June 30, 2023. 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 2023, 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 2023 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 as a lending agent, and Northern Trust 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 2023, 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. On June 30, 2023, the fair value of securities on loan for the Workers' Compensation Program totaled $2,601,844.

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 2023, 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.

4.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, 2023, 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, 2023. The schedules display various asset classes held by years until maturity and effective duration and by 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, 2023
(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	$ 616,407	$ 6,635	$ 526,507	$ 83,265	$ -	3.8
Corporate bonds	10,674,076	356,550	3,488,730	3,377,417	3,451,379	7.3
U.S. government and agency securities	2,700,917	338,485	1,175,090	28,925	1,158,417	8.5
Foreign government and agencies	1,207,839	76,177	491,049	400,551	240,062	6.1
Total investments categorized	$ 15,199,239	$ 777,847	$ 5,681,376	$ 3,890,158	$ 4,849,858	7.3
Investments Not Required to be Categorized						
Commingled investment trusts	3,127,235					
Cash and cash equivalents	567,344					
Real estate	73,315					
Total investments not categorized	3,767,894					
Total*	$ 18,967,133					

*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 on June 30, 2023, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2023
(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	$ 616,407	$ 366,301	$ 67,965	$ 1,050,673
Aa1	-	200,197	202,742	402,939
Aa2	-	111,674	162,604	274,278
Aa3	-	893,701	142,624	1,036,325
A1	-	1,533,695	336,725	1,870,420
A2	-	1,641,556	77,270	1,718,826
A3	-	1,994,357	-	1,994,357
Baa1	-	1,987,375	-	1,987,375
Baa2	-	1,388,682	152,032	1,540,714
Baa3	-	380,755	23,364	404,119
Ba1 or lower	-	175,783	42,513	218,296
Total Fair Value	$ 616,407	$ 10,674,076	$ 1,207,839	$ 12,498,322

4.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, 2023, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program's policy states that no corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2023.

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.

4.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 on June 30, 2023, consisted of $1,150 million (includes U.S. dollar-denominated securities) invested in international commingled equity index funds.

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

Workers' Compensation Program Foreign Currency Exposure by Country June 30, 2023 (in thousands)		
Foreign Currency Denomination		**Equity Securities**
Australia - Dollar	$	60,278
Brazil - Real		18,778
Canada - Dollar		90,893
China - Yuan Renminbi		13,718
Denmark - Krone		23,505
E.M.U. - Euro		253,079
Hong Kong - Dollar		87,502
Japan - Yen		187,026
Mexico - Peso		9,322
New Taiwan - Dollar		55,946
Saudi Arabia - Riyal		14,120
Singapore - Dollar		10,499
South Africa - Rand		10,869
South Korea - Won		42,893
Sweden - Krona		28,004
Switzerland - Franc		72,890
United Kingdom - Pound		116,326
Miscellaneous Foreign Currencies		53,824
Total	$	1,149,472

4.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, options, and interest rate and equity swaps.

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.

On June 30, 2023, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $213.6 million.

Note 5 - Receivables

Receivables on June 30, 2023, consisted of the following:

Receivables June 30, 2023		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	242,136,800
Estimated premiums receivable[1]		756,662,000
Estimated self-insurance premiums receivable[2]		146,274,298
Total Premiums Receivable		1,145,073,098
Other receivables		
Receivable from overpayments		1,951,277
Investment interest receivable		131,969,105
Safety fines & penalties receivable		31,381,475
Miscellaneous receivables		4,973,948
Total Current Receivables, Gross		1,315,348,903
Less: Allowance for uncollectible receivables		266,137,450
Total Current Receivables, Net of Allowance	$	1,049,211,453

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2023. 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, 2023, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and accounts receivable balances.

Note 6 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2023, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2023		
General Fund	$	674
L&I accounts*		115,262
Other state agencies		250,712
Total Receivables From Other State Accounts and Agencies	$	366,648

*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, 2023. Payables to other state accounts and agencies as of June 30, 2023, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2023		
General Fund	$	845
L&I accounts*		142,507
Other state agencies		7,783,938
Total Payables To Other State Accounts and Agencies	$	7,927,290

*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, 2023, and paid after the fiscal year ended.

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

Capital Asset Activity For the Fiscal Year Ended June 30, 2023	Beginning Balance July 1, 2022	Increases	Decreases	Ending Balance June 30, 2023
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,204,301	$ 127,338	$ -	$ 3,331,639
Construction in progress	27,703,703	24,410,523	-	52,114,226
Total Capital Assets Not Being Depreciated	30,908,004	24,537,861	-	55,445,865
Capital Assets Being Depreciated:				
Buildings and building components	65,110,518	-	-	65,110,518
Accumulated depreciation	(39,811,055)	(1,353,040)	-	(41,164,095)
Net Buildings and Building Components	25,299,463	(1,353,040)	-	23,946,423
Furnishings, equipment, and collections	57,378,199	2,610,520	(512,854)	59,475,865
Accumulated depreciation	(56,165,627)	(653,375)	507,747	(56,311,255)
Net Furnishings, Equipment, and Collections	1,212,572	1,957,145	(5,107)	3,164,610
Other improvements	1,289,263	-	-	1,289,263
Accumulated depreciation	(870,440)	(20,408)	-	(890,848)
Net Other Improvements	418,823	(20,408)	-	398,415
Total Capital Assets Being Depreciated, Net	26,930,858	583,697	(5,107)	27,509,448
Intangible Assets Being Amortized:				
Intangible assets - definite useful lives	47,208,593	-	-	47,208,593
Accumulated amortization - definite useful lives	(47,208,593)	-	-	(47,208,593)
Net Intangible Assets - Definite Useful Lives	-	-	-	-
Lease asset - building	52,465,028	5,718,875	(8,542,814)	49,641,089
Accumulated amortization - lease asset - building	(25,012,337)	(8,817,209)	8,542,814	(25,286,732)
Net Lease Asset - Building	27,452,691	(3,098,334)	-	24,354,357
Subscription IT assets	-	8,045,590	-	8,045,590
Accumulated amortization - Subscription IT assets	-	(2,769,058)	-	(2,769,058)
Net Subscription IT Assets	-	5,276,532	-	5,276,532
Total Intangible Assets Being Amortized, Net	27,452,691	2,178,198	-	29,630,889
Total Capital Assets, Net of Depreciation and Amortization	$ 85,291,553	$ 27,299,756	$ (5,107)	$ 112,586,202

For fiscal year 2023, the total depreciation and amortization expense was $13,613,088.

Increases of $24.4 million in Construction in Progress are attributed to the construction phase of the new Division of Occupational Safety and Health (DOSH) laboratory. Physical construction began in September 2021 and will be completed in November 2023.

Note 8 - Noncurrent Liabilities

8.A. Changes in Current and Noncurrent

Current and noncurrent liability activity for the fiscal year ended June 30, 2023, was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2023

Current and Noncurrent Liabilities	Beginning Balance June 30, 2022	Additions	Reductions	Ending Balance June 30, 2023	Due Within One Year[2]	Noncurrent Balance June 30, 2023
Claims payable, current & noncurrent	$ 38,702,756,000	$ 1,272,974,000	$ (304,270,000)	$ 39,671,460,000	$ 2,299,042,000	$ 37,372,418,000
Other current and noncurrent liabilities						
Compensated absences[1]	22,807,965	20,506,020	(19,948,022)	23,365,963	17,096,600	6,269,363
DOE trust liabilities	3,919,329	-	(316,521)	3,602,808	442,353	3,180,455
Other postemployment benefits	145,381,943	50,054,812	(102,322,409)	93,114,346	2,350,056	90,764,290
Lease and subscription liabilites	27,893,673	26,686,648	(24,387,968)	30,192,353	9,729,464	20,462,889
Net pension liability	17,074,255	53,652,222	(34,595,040)	36,131,437	-	36,131,437
Total Other Current and Noncurrent Liabilities	217,077,165	150,899,702	(181,569,960)	186,406,907	29,618,473	156,808,434
Total Current and Noncurrent Liabilities	$ 38,919,833,165	$ 1,423,873,702	$ (485,839,960)	$ 39,857,866,907	$ 2,328,660,473	$ 37,529,226,434

[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.

8.B. 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, 2023 and 2022

Claims Payable	June 30, 2023	June 30, 2022
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 38,702,756,000	$ 34,582,309,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,789,562,000	2,686,881,000
Increase in provision for insured events of prior fiscal years	978,905,000	4,077,006,000
Total Incurred Claims and Claim Adjustment Expenses	3,768,467,000	6,763,887,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	(339,476,000)	(324,088,000)
Insured events of prior fiscal years	(2,460,287,000)	(2,319,352,000)
Total payments	(2,799,763,000)	(2,643,440,000)
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year-End	$ 39,671,460,000	$ 38,702,756,000
Current portion	$ 2,299,042,000	$ 2,528,276,000
Noncurrent portion	$ 37,372,418,000	$ 36,174,480,000

At June 30, 2023, $53,797 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $39,671 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 $39,671 million as of June 30, 2023, include $23,460 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 $16,211 million are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

Note 9 – Leases and Subscription-Based IT Arrangements

The Workers' Compensation Program leases office facilities under a variety of 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 Workers' Compensation Program also has noncancellable subscription-based information technology arrangements (SBITAs) for the right-to-use information technology hardware and software. The right-to-use lease assets activity for the year ended June 30, 2023, is presented in Note 7 – Capital Assets.

The following schedule presents future annual lease payments for right-to-use lease agreements as of June 30, 2023:

Future Annual Payments for Right-To-Use Lease Agreements
June 30, 2023

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	$ 8,083,991	$ 188,961	$ 8,272,952
2025	6,793,494	120,669	6,914,163
2026	4,621,084	68,001	4,689,085
2027	2,346,883	38,292	2,385,175
2028	1,196,129	21,423	1,217,552
2029-2033	1,845,130	16,274	1,861,404
Thereafter	-	-	-
Total Future Minimum Lease Payments	$ 24,886,711	$ 453,620	$ 25,340,331

The following schedule presents future annual SBITA payments as of June 30, 2023:

Future Annual Payments for Subscription-Based IT Arrangements (SBITAs)
June 30, 2023

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	$ 1,645,473	$ 140,125	$ 1,785,598
2025	838,198	124,129	962,327
2026	468,376	109,705	578,081
2027	354,208	95,791	449,999
2028	368,625	81,375	450,000
2029-2033	1,630,762	169,238	1,800,000
Thereafter	-	-	-
Total Future Minimum SBITAs Payments	$ 5,305,642	$ 720,363	$ 6,026,005

Variable payments, other than those payments that depend on an index or rate or are fixed in substance, and other payments that are not known or certain to be exercised are excluded from the measurement of the lease and subscription IT liabilities.

During the fiscal year ended June 30, 2023, the Workers' Compensation Program had no variable and other lease payments not included in the measurement of the lease liability and the subscription IT liability.

Note 10 - Deficit

At June 30, 2023, the Workers' Compensation Program had a deficit of $19,978 million. This is the result of a $23,065 million deficit in the Supplemental Pension Account, offset by a combined $3,087 million net position in the total Basic Plan, Second Injury Account, and 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, 2023, noncurrent claims payable in the Supplemental Pension Account totaled $22,591 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2023:

Supplemental Pension Account Net Position (Deficit)		
Balance, July 1, 2022	$	(22,680,897,633)
Fiscal year 2023 activity		(383,734,154)
Balance, June 30, 2023	$	(23,064,631,787)

Note 11 - Retirement Plans

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) and the 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/(asset), deferred outflows of resources, deferred inflows of resources, and pension expense reported on June 30, 2023, for the Workers' Compensation Program's proportionate share of the liabilities/(assets) 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, 2023				
	Net Pension Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERS 1	$ 35,791,212	$ 8,920,284	$ (5,931,656)	$ 6,187,912
PERS 2/3	(61,114,944)	65,094,547	(55,485,165)	(34,427,201)
TRS 1	56,570	17,731	(10,137)	22,342
TRS 2/3	(5,943)	88,242	(42,294)	(24,299)
Higher Ed	283,655	351,298	(745,389)	(706,389)
Total	$ (24,989,450)	$ 74,472,102	$ (62,214,641)	$ (28,947,635)

The 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/news/.

11.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 2.

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. 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 RCW chapters 41.40 and 41.45.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2023 for each of Plans 1, 2, and 3 was 10.39 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, 2023, was 6.36 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, 2021, with the results rolled forward to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25%
Investment rate of return	7.00%

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, 2021, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report.

The 7.00 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Refer to the 2021 Report on Financial Condition and Economic Experience Study 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 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 allocation 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 allocation as of June 30, 2022, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
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.

The discount rate of 7.00 percent was also used to measure the total pension liability. 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 7.00 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	PERS 1	PERS 2/3
1% Decrease	$ 47,816,553	$ 71,970,830
Current Discount Rate	$ 35,791,212	$ (61,114,944)
1% Increase	$ 25,295,890	$ (170,453,311)

Net Pension Liability/Asset

At June 30, 2023, the Workers' Compensation Program reported a liability of $35,791,212 for its proportionate share of the collective net pension liability for PERS 1 and a net pension asset of $61,114,944 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.05 percent, a decrease of 0.04 percent since the prior reporting period, and 3.23 percent for PERS 2/3, a decrease of 0.06 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, 2023, the Workers' Compensation Program recognized a pension expense of $6,187,912 for PERS 1, and a pension expense of ($34,427,201) for PERS 2/3.

At June 30, 2023, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2023

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 15,142,853	$ 15,142,853
Changes of assumptions	-	34,063,144	34,063,144
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	1,331,557	1,331,557
Contributions subsequent to measurement date	8,920,284	14,556,993	23,477,277
Total	$ 8,920,284	$ 65,094,547	$ 74,014,831

At June 30, 2023, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2023

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 1,383,486	$ 1,383,486
Changes of assumptions	-	8,918,950	8,918,950
Net difference between projected and actual earnings on pension plan investments	5,931,656	45,182,729	51,114,385
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 5,931,656	$ 55,485,165	$ 61,416,821

Pension contributions made subsequent to the measurement date in the amount of $8,920,284 and $14,556,993 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2023, and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2024.

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 as follows:

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ending June 30,		**PERS 1**		**PERS 2/3**
2024	$	(2,510,153)	$	(13,708,381)
2025	$	(2,279,869)	$	(12,039,293)
2026	$	(2,860,026)	$	(14,766,466)
2027	$	1,718,392	$	20,886,363
2028	$	-	$	7,422,976
Thereafter	$	-	$	7,257,189

11.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 the 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, are Plan 3 members. 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 2.

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. 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 RCW chapters 41.32 and 41.45.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2023 for each of Plans 1, 2, and 3 was 14.69 percent.

The member contribution rate for Plan 1 is established by statute at 6.0 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, 2023, was 8.05 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, 2021, with the results rolled forward to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25%
Investment rate of return	7.00%

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, 2021, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report.

The 7.00 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. Refer to the 2021 Report on Financial Condition and Economic Experience Study 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 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 allocation 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 allocation as of June 30, 2022, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
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 7.00 percent was also used to measure the total pension liability. 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 7.00 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	TRS 1	TRS 2/3
1% Decrease	$ 76,815	$ 107,685
Current Discount Rate	$ 56,570	$ (5,943)
1% Increase	$ 38,872	$ (98,322)

Net Pension Liability/Asset

At June 30, 2023, the Workers' Compensation Program reported a liability of $56,570 for its proportionate share of the collective net pension liability for TRS 1 and a net pension asset of $5,943 for TRS 2/3. The Workers' Compensation Program's proportion for TRS 1 was 0.23 percent, an increase of 0.06 percent since the prior reporting period, and 0.23 percent for TRS 2/3, an increase of 0.05 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, 2023, a pension expense of $22,342 was recognized for TRS 1, and a pension expense of ($24,299) was recognized for TRS 2/3.

At June 30, 2023, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2023

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 29,611	$ 29,611
Changes of assumptions	-	33,480	33,480
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	2,904	2,904
Contributions subsequent to measurement date	17,731	22,247	39,978
Total	$ 17,731	$ 88,242	$ 105,973

At June 30, 2023, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2023

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 597	$ 597
Changes of assumptions	-	3,641	3,641
Net difference between projected and actual earnings on pension plan investments	10,137	31,432	41,569
Change in proportionate share of contributions	-	6,623	6,623
Contributions subsequent to measurement date	-	-	-
Total	$ 10,137	$ 42,293	$ 52,430

Pension contributions made subsequent to the measurement date in the amount of $17,731 and $22,247 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2023, and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2024.

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**
2024	$ (4,298)	$ (6,482)
2025	$ (3,907)	$ (5,158)
2026	$ (4,914)	$ (7,939)
2027	$ 2,983	$ 17,174
2028	$ -	$ 6,852
Thereafter	$ -	$ 19,253

11.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, fiscal year 2021 was the first year these plans were reported under GASB Statements No. 67 and 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 RCW chapter 28B.10, the plans cover faculty and other positions as designated by each participating employer.

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

Benefits Provided

The Higher Education Supplemental Retirement Plans (SRP) 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 that a member's goal income exceeds their assumed income. The goal income is equal to two percent of the member's highest two-year average annual salary multiplied by the number of years of service. Benefit service is capped at 25 years. The member's assumed income is an annuity benefit the retired member would receive had they invested their contribution equally between a fixed income and a variable income annuity investment. Plan members have the option to retire early with reduced benefits.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation measurement date of June 30, 2023, using the following actuarial assumptions:

Salary increases	3.50% - 4.00%
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, 2023, 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 fiscal year 2021 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 and 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 as of June 30, 2021.

- 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, which was 7.00 percent for the June 30, 2023, measurement date.

Plan Membership

The Workers' Compensation Program's proportionate share of the membership in the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2023, 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	7	10

Net Pension Liability

The following table presents the changes in net pension liability/(asset) of Higher Educational Supplemental Retirement Plans for the fiscal year ended June 30, 2023:

Changes in Net Pension Liability/(Asset) June 30, 2023		
Net Pension Liability		
Service cost	$	35,065
Interest		152,949
Changes of benefit terms		-
Differences between expected and actual experience		(216,977)
Changes in assumptions		(184,340)
Benefit payments		(76,032)
Other		-
Change in Net Pension Liability		(289,335)
Net Pension Liability - Beginning		981,772
Net Pension Liability - Ending	$	692,437
Plan Fiduciary Net Postion		
Contributions - Employer	$	57,828
Contributions - Member		-
Net investment income		49,740
Benefit payments, including refunds of member contributions		-
Administrative expense		-
Net Change in Plan Fiduciary Net Position		107,568
Plan Fiduciary Net Position - Beginning		301,214
Plan Fiduciary Net Position - Ending		408,782
Plan's Net Position Liability/(Asset) - Ending	$	283,655

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

For the year ended June 30, 2023, the Higher Education Supplemental Retirement Plans reported a proportionate share pension expense of ($706,389).

The following table presents the net pension liability/(asset), calculated using the discount rate of 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
1% Decrease	$	337,945
Current Discount Rate	$	283,655
1% Increase	$	237,187

At June 30, 2023, 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, 2023				
	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	176,478	$	454,177
Changes of assumptions		167,642		278,779
Net difference between projected and actual		7,178		12,435
Total	$	351,298	$	745,391

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,		
2024	$	(105,040)
2025	$	(81,228)
2026	$	(64,890)
2027	$	(125,045)
2028	$	(14,610)
Thereafter	$	(3,281)

Note 12 - 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

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 note 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 a 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 2022, the average weighted implicit subsidy was valued at $392 per adult unit per month. In calendar year 2023, the average weighted implicit subsidy is projected to be $421 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 2023, the explicit subsidy was up to $183 per member per month, and it will remain $183 per member per month in calendar year 2024.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits. Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis. L&I contributed $33,999,900 during fiscal year 2022.

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: https://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, 2022
Actuarial Measurement Date	June 30, 2022
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), including 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	2.35%
Projected salary increases	3.25% plus service-based salary increases
Healthcare trend rates	Initial trend rate ranges from 2 to 11%, reaching an ultimate rate of approximately 3.8% in 2080.
Post-retirement participation	60.00%
Percentage with spouse coverage	45.00%

In projecting the growth of the explicit subsidy after 2023, 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	$	78,838,426
Current Healthcare Cost Trend Rate	$	93,114,346
1% Increase	$	111,377,971

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 2021 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 which was 2.16 percent for the June 30, 2021, measurement date, and 3.54 percent for the June 30, 2022, measurement date.

The decrease 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 3.54 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.54 percent) or one percentage point higher (4.54 percent) than the current rate:

Sensitivity of the Discount Rate OPEB Liability		
1% Decrease	$	109,107,274
Current Discount Rate	$	93,114,346
1% Increase	$	80,245,260

Total OPEB Liability

As of June 30, 2023, the Workers' Compensation Program reported a total OPEB liability of $93,114,346. This liability was determined based on a measurement date of June 30, 2022.

The following table shows changes in the Workers' Compensation Program's total OPEB liability as of the June 30, 2023, reporting date.

Changes in Total OPEB Liability For the Fiscal Year Ended June 30, 2023		
Total OPEB Liability - Beginning	$	145,381,943
Changes for the year:		
Service cost		6,868,996
Interest cost		3,187,123
Changes of assumptions*		(59,982,125)
Benefit payments		(2,341,591)
Net Changes in Total OPEB Liability		(52,267,597)
Total OPEB Liability - Ending	$	93,114,346

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

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

The Workers' Compensation Program will recognize OPEB expense of ($3.1) million.

For fiscal year 2023, 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, 2023				
		Outflows		Inflows
Difference between expected and actual experience	$	1,941,095	$	3,276,251
Changes of assumptions		7,631,757		67,504,723
Changes in proportionate share of contributions		3,551,498		8,117,998
Transactions subsequent to the measurement date		2,350,056		-
Total	$	15,474,406	$	78,898,972

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 ending June 30, 2024.

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,		
2024	$	(10,808,844)
2025	$	(10,808,844)
2026	$	(10,808,844)
2027	$	(8,091,851)
2028	$	(5,678,504)
Thereafter	$	(19,577,731)

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 13 - Commitments and Contingencies

13.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 2023 was $9.83 million.

13.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.

13.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 14 - Subsequent Events

14.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 19, 2023, the director announced a proposed 4.9 percent increase in the average premium rate for 2024. This rate increase will raise the overall hourly rate from $0.6830 to $0.7168, or $0.0338 per hour, which equates to an average cost increase of $65 per year, on average, for each full-time employee.

The proposed rate increase is below what L&I expects to pay for 2024 claims, so the agency will augment the premiums with funds from the workers' compensation contingency reserve. A typical worker will continue to pay about a quarter of the premium, similar to 2023. The proposed increase means employees would pay about $11 more on average in 2024. In part, the rate increase is needed because Washington has had higher-than-normal increases in the state's average wage in recent years.

The final rates will be adopted on November 30, 2023, and go into effect January 1, 2024.

14.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, 2023, Statutory Financial Information Report for the Industrial Insurance Fund, the combined contingency reserve is 28.11 percent of total liabilities. As a part of the 2024 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).

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2023 and 2022
(in thousands)

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

	Basic Plan		Supplemental Pension Plan		Total	
Claims Payable	FY 2023	FY2022	FY 2023	FY2022	FY 2023	FY2022
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 15,699,756	$ 15,531,309	$ 23,003,000	$ 19,051,000	$ 38,702,756	$ 34,582,309
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	2,175,056	2,164,480	614,506	522,401	2,789,562	2,686,881
Increase (decrease) in provision for insured events of prior fiscal years	266,181	(133,698)	712,724	4,210,704	978,905	4,077,006
Total incurred claims and claim adjustment expenses	2,441,237	2,030,782	1,327,230	4,733,105	3,768,467	6,763,887
Less payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	339,476	324,088	-	-	339,476	324,088
Insured events of prior fiscal years	1,590,057	1,538,247	870,230	781,105	2,460,287	2,319,352
Total payments	1,929,533	1,862,335	870,230	781,105	2,799,763	2,643,440
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 16,211,460	$ 15,699,756	$ 23,460,000	$ 23,003,000	$ 39,671,460	$ 38,702,756
Current portion	$ 1,429,544	$ 1,628,498	$ 869,498	$ 899,778	$ 2,299,042	$ 2,528,276
Noncurrent portion	$ 14,781,916	$ 14,071,258	$ 22,590,502	$ 22,103,222	$ 37,372,418	$ 36,174,480

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.05%	3.09%	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 (asset)	$ 35,791,212	$ 16,378,389	$ 46,020,552	$ 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	$ 816,546	$ 1,085,146	$ 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	202,312,504	202,391,391	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*	$ 203,129,050	$ 203,476,537	$ 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*	4383.25%	1509.33%	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	76.56%	88.74%	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.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.23%	3.29%	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 (asset)	$ (61,114,944)	$ (167,927,537)	$ 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*	$ 202,312,504	$ 202,391,391	$ 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*	-30.21%	-82.97%	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	106.73%	120.29%	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.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.230%	0.170%	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 (asset)	$ 56,570	$ 15,308	$ 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	$ 1,799	$ 2,261	$ 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	224,098	171,875	158,034	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's employers' covered payroll*	$ 225,897	$ 174,136	$ 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*	3145.22%	677.05%	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	78.24%	91.42%	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.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.230%	0.180%	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 (asset)	$ (5,943)	$ (62,756)	$ 33,970	$ 12,948	$ 10,164	$ 18,413	$ 29,456	$ 29,388	$ 21,139
Workers' Compensation Program's employers' covered payroll*	$ 224,098	$ 171,875	$ 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*	-2.65%	-36.51%	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	100.86%	113.72%	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.
*Updated 2014 to employer contribution percent provided by the Office of Financial Management

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contributions	$ 8,867,479	$ 7,884,616	$ 9,978,568	$ 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	67,009	84,760	140,966	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	8,800,470	7,799,857	9,837,602	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	8,867,479	7,884,616	9,978,568	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	$ 679,449	$ 816,546	$ 1,085,146	$ 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	222,730,722	202,312,504	202,391,391	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	$ 223,410,171	$ 203,129,050	$ 203,476,537	$ 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	3.97%	3.88%	4.90%	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.

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 14,515,943	$ 13,232,050	$ 15,972,128	$ 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	14,515,943	13,232,050	15,972,128	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	$222,730,722	$202,312,504	$202,391,391	$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	6.52%	6.54%	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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 17,933	$ 15,479	$ 12,209	$ 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	253	239	299	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	17,680	15,240	11,910	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	17,933	15,479	12,209	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	$1,771	$1,799	$2,261	$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	241,033	224,098	171,875	158,034	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's covered payroll	$ 242,804	$ 225,897	$ 174,136	$ 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	7.39%	6.85%	7.01%	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.

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 22,156	$ 19,267	$ 13,936	$ 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	22,156	19,267	13,936	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	$ 241,033	$ 224,098	$ 171,875	$ 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	9.19%	8.60%	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 Contributions
Higher Education Supplemental Defined Benefit Plans
Fiscal Years Ended June 30

	2023	2022	2021
Actuarially determined contributions	$ 57,828	$ 20,336	$ 22,065
Contributions in relation to the actuarially determined contributions	$ 57,828	$ 20,336	$ 22,065
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 20,849	$ 86,552	$ 49,913
Contributions as a percentage of covered payroll	277.37%	23.50%	44.21%

This schedule is to be built prospectively until it contains ten years of data.
Source: Washington State Office of the State Actuary

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

	2023	2022	2021		2020	2019	2018
Net Pension Liability							
Service cost	$ 35,065	$ 11,489	$ 71,047		$ 27,955	$ 53,040	$ 33,074
Interest	152,949	49,482	54,898		35,543	73,022	36,072
Changes of benefit terms	-	-	-		-	-	-
Differences between expected and actual experience	(216,977)	211,138	(1,157,312)		52,609	460,792	(292,464)
Changes in assumptions	(184,340)	68,789	(693,568)		212,184	261,223	(110,437)
Benefit payments	(76,032)	(32,028)	(30,227)		(13,921)	(33,566)	(13,710)
Other	-	-	-		-	-	-
Change in Net Pension Liability	(289,335)	308,870	(1,755,162)		314,370	814,511	(347,465)
Net Pension Liability - Beginning	981,772	672,902	2,428,064	**	1,737,068	922,557	1,270,022
Net Pension Liability - Ending	$ 692,437	$ 981,772	$ 672,902		$ 2,051,438	$ 1,737,068	$ 922,557
Plan Fiduciary Net Postion*							
Contributions - Employer	$ 57,828	$ 20,335	$ 22,065		N/A	N/A	N/A
Contributions - Member	-	-	-		N/A	N/A	N/A
Net Investment Income	49,740	314	69,178		N/A	N/A	N/A
Benefit Payments, Including Refunds of Member Contributions	-	-	-		N/A	N/A	N/A
Administrative Expense	-	-	-		N/A	N/A	N/A
Others	-	-	-		N/A	N/A	N/A
Net Change in Plan Fiduciary Net Position	107,568	20,649	91,243		N/A	N/A	N/A
Plan Fiduciary Net Position - Beginning	301,214	280,565	189,322	**	N/A	N/A	N/A
Plan Fiduciary Net Position - Ending	408,782	301,214	280,565		N/A	N/A	N/A
Plan's Net Position Liability/(Asset) - Ending	$ 283,655	$ 680,558	$ 392,337		N/A	N/A	N/A

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

* Due to changes in legistation, assets from higher education institution plans that were previously not administered through trust were placed into a trust or similar arrangement. As a result, plans prevously reported under GASB Statement No. 73 are now reported under GASB Statements Nos. 67/68. The change is effective for fiscal year 2021.

** Beginning balance adjusted to account for changes due to GASB 67/68 reporting changes.

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 of the Revised Code of Washington (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, 2019, valuation date, completed in the fall of 2020, plus any supplemental contribution rates from the preceding legislative session, determined the ADC for the period beginning July 1, 2021, and ending June 30, 2023.

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 Other Postemployment Benefits (OPEB) Liability and Related Ratios As of the Measurement Date of June 30

(dollars in thousands)

	2022	2021	2020	2019	2018	2017
Changes in OPEB Liability						
Service cost	$ 6,869	$ 7,266	$ 5,571	$ 5,354	$ 7,258	$ 8,764
Interest cost	3,187	3,140	4,661	4,645	4,990	4,105
Difference between expected and actual experience	(3,156)	-	(714)	-	4,555	-
Changes in benefit terms	-	-	-	-	-	-
Changes in assumptions	(56,826)	3,107	(527)	8,268	(27,871)	(20,024)
Benefit payments	(2,342)	(2,393)	(2,219)	(2,125)	(2,108)	(2,092)
Other*	-	-	(4,747)	-	-	-
Net Change in Total OPEB Liability	(52,268)	11,120	2,025	16,142	(13,176)	(9,247)
Total OPEB Liability - Beginning	145,382	134,262	132,237	116,095	129,271	138,518
Total OPEB Liability - Ending	$ 93,114	$ 145,382	$ 134,262	$ 132,237	$ 116,095	$ 129,271
Covered-employee payroll	$ 223,653	$ 203,355	$ 203,651	$ 194,546	$ 180,672	$ 172,011
Total OPEB Liability as a Percentage of Covered-Employee Payroll	41.6%	71.5%	65.9%	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.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplementary and Other Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2023

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
Current Assets									
Cash and cash equivalents	$ 7,503,207	$ 5,546,475	$ 13,723,415	$ -	$ 26,773,097	$ 1,490,006	$ 84,882,086	$ 1,264,387	$ 114,409,576
Investments, current	399,328,247	694,292,188	157,430,417	-	1,251,050,852	94,140,197	-	-	1,345,191,049
DOE trust cash and investments	-	-	565,395	-	565,395	-	-	-	565,395
Receivables, net of allowance	433,946,729	248,296,805	65,154,009	-	747,397,543	292,199,932	9,368,016	245,962	1,049,211,453
Receivables from workers' compensation accounts	380,968	2,366,387	9,611,755	-	12,359,110	387,580	-	-	12,746,690 *
Receivables from other state accounts and agencies	156,169	107,682	6,870	-	270,721	95,927	-	-	366,648
Receivables from other governments	1,034,350	292,108	-	-	1,326,458	-	-	-	1,326,458
Prepaid expenses	83,508	81,383	-	-	164,891	-	-	-	164,891
Total Current Assets	842,433,178	950,983,028	246,491,861	-	2,039,908,067	388,313,642	94,250,102	1,510,349	2,523,982,160
Noncurrent Assets									
Due from other funds, net of current portion	-	-	-	2,836,654,253	2,836,654,253	-	-	-	2,836,654,253 *
DOE trust receivable	-	-	3,037,413	-	3,037,413	-	-	-	3,037,413
Investments, net of current portion	6,279,682,186	6,207,966,312	5,119,634,840	-	17,607,283,338	13,962,864	-	-	17,621,246,202
Restricted net pension asset	30,277,861	30,843,026	-	-	61,120,887	-	-	-	61,120,887
Capital assets, net of accumulated depreciation and amortization	75,804,034	36,782,168	-	-	112,586,202	-	-	-	112,586,202
Total Noncurrent Assets	6,385,764,081	6,275,591,506	5,122,672,253	2,836,654,253	20,620,682,093	13,962,864	-	-	20,634,644,957
Deferred Outflows of Resources									
Deferred outflows from pensions	37,576,277	36,895,825	-	-	74,472,102	-	-	-	74,472,102
Deferred outflow of resources on OPEB	7,324,896	8,149,510	-	-	15,474,406	-	-	-	15,474,406
Total Deferred Outflows of Resources	44,901,173	45,045,335	-	-	89,946,508	-	-	-	89,946,508
Total Assets and Deferred Outflows of Resources	$ 7,273,098,432	$ 7,271,619,869	$ 5,369,164,114	$ 2,836,654,253	$ 22,750,536,668	$ 402,276,506	$ 94,250,102	$ 1,510,349	$ 23,248,573,625

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

Combining Schedule of Net Position
June 30, 2023

	Accident Account	Medical Aid Account	Pension Reserve Account	Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)									
Current Liabilities									
Accounts payable	$ 9,834,706	$ 9,286,832	$ 1,771,345	$ -	$ 20,892,883	$ 15,689	$ -	$ -	$ 20,908,572
Accrued liabilities	279,052,967	74,861,561	7,165,939	-	361,080,467	2,974,562	24,827	-	364,079,856
Leases and subscriptions payable, current	5,109,244	4,620,220	-	-	9,729,464	-	-	-	9,729,464
Net pension liability, current	(22)	22	-	-	-	-	-	-	-
Other post-employment benefits, current	1,166,059	1,183,997	-	-	2,350,056	-	-	-	2,350,056
Payables to workers' compensation accounts	2,801,990	775,103	-	-	3,577,093	2,153,030	7,016,567	-	12,746,690 *
Payables to other state accounts and agencies	5,125,148	2,802,142	-	-	7,927,290	-	-	-	7,927,290
Payables to other governments	3	3	-	-	6	-	-	-	6
Unearned revenues	192,858	90,085	-	-	282,943	1,765,012	-	-	2,047,955
DOE trust liabilities, current	-	-	422,353	-	422,353	-	-	-	422,353
Claims payable, current	622,439,000	505,905,000	301,200,000	-	1,429,544,000	869,498,000	-	-	2,299,042,000
Total Current Liabilities	925,721,953	599,524,965	310,559,637	-	1,835,806,555	876,406,293	7,041,394	-	2,719,254,242
Noncurrent Liabilities									
Due to other funds, net of current portion	713,850,920	2,122,803,333	-	-	2,836,654,253	-	-	-	2,836,654,253 *
Claims payable, net of current portion	5,376,312,000	3,776,098,000	5,629,506,000	-	14,781,916,000	22,590,502,000	-	-	37,372,418,000
Leases and subscriptions payable, net of current portion	11,254,472	9,208,417	-	-	20,462,889	-	-	-	20,462,889
Other long-term liabilities	3,272,039	2,997,324	-	-	6,269,363	-	-	-	6,269,363
DOE trust liabilities, net of current portion	-	-	3,180,455	-	3,180,455	-	-	-	3,180,455
Other post-employment benefits, net of current portion	45,168,556	45,595,734	-	-	90,764,290	-	-	-	90,764,290
Net pension liability	19,352,895	16,778,542	-	-	36,131,437	-	-	-	36,131,437
Total Noncurrent Liabilities	6,169,210,882	5,973,481,350	5,632,686,455	-	17,775,378,687	22,590,502,000	-	-	40,365,880,687
Total Liabilities	7,094,932,835	6,573,006,315	5,943,246,092	-	19,611,185,242	23,466,908,293	7,041,394	-	43,085,134,929
Deferred Inflows of Resources									
Deferred inflows from pensions	31,036,053	31,178,588	-	-	62,214,641	-	-	-	62,214,641
Deferred Inflow of resources on OPEB	38,584,225	40,314,747	-	-	78,898,972	-	-	-	78,898,972
Total Deferred Inflows of Resources	69,620,278	71,493,335	-	-	141,113,613	-	-	-	141,113,613
Net Position (Deficit):									
Investment in capital assets	59,440,318	22,953,531	-	-	82,393,849	-	-	-	82,393,849
Restricted pension	35,734,912	35,041,305	-	-	70,776,217	-	-	-	70,776,217
Unrestricted	13,370,089	569,125,383	(574,081,978)	2,836,654,253	2,845,067,747	(23,064,631,787)	87,208,708.00	1,510,349	(20,130,844,983)
Total Net Position (Deficit)	108,545,319	627,120,219	(574,081,978)	2,836,654,253	2,998,237,813	(23,064,631,787)	87,208,708.00	1,510,349	(19,977,674,917)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 7,273,098,432	$ 7,271,619,869	$ 5,369,164,114	$ 2,836,654,253	$ 22,750,536,668	$ 402,276,506	$ 94,250,102	$ 1,510,349	$ 23,248,573,625

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

Combining Schedule of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2023

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES									
Premiums and assessments, net of refunds and reinsurance	$ 1,218,733,062	$ 771,301,050	$ 28,688,869	$ -	$ 2,018,722,981	$ 934,490,183	$ 27,898,322	$ 930,167	$ 2,982,041,653
Miscellaneous revenue	40,919,430	1,294,614	553,800	-	42,767,844	12,774,221	252	-	55,542,317
Total Operating Revenues	1,259,652,492	772,595,664	29,242,669	-	2,061,490,825	947,264,404	27,898,574	930,167	3,037,583,970
OPERATING EXPENSES									
Salaries and wages	113,588,954	110,526,508	-	-	224,115,462	-	-	-	224,115,462
Employee benefits	24,841,696	24,231,626	-	-	49,073,322	-	-	-	49,073,322
Personal services	8,575,018	11,267,414	-	-	19,842,432	-	-	-	19,842,432
Goods and services	50,593,470	44,593,128	-	-	95,186,598	532,916	-	-	95,719,514
Travel	2,850,990	1,494,644	-	-	4,345,634	-	-	-	4,345,634
Claims	1,007,442,398	593,545,999	653,849,534	-	2,254,837,931	1,325,696,155	1,635,441	589,920	3,582,759,447
Depreciation	7,074,296	6,538,792	-	-	13,613,088	-	-	-	13,613,088
Miscellaneous expenses	29,057,218	11,264,242	187,132	-	40,508,592	8,706,313	963	-	49,215,868
Total Operating Expenses	1,244,024,040	803,462,353	654,036,666	-	2,701,523,059	1,334,935,384	1,636,404	589,920	4,038,684,767
Operating Income (Loss)	15,628,452	(30,866,689)	(624,793,997)	-	(640,032,234)	(387,670,980)	26,262,170	340,247	(1,001,100,797)
NONOPERATING REVENUES (EXPENSES)									
Earnings on investments	204,326,762	281,323,973	104,892,653	-	590,543,388	3,936,826	-	-	594,480,214
Other revenues (expenses)	8,119,561	1,567,408	-	-	9,686,969	-	-	-	9,686,969
Total Nonoperating Revenues (Expenses)	212,446,323	282,891,381	104,892,653	-	600,230,357	3,936,826	-	-	604,167,183
Income (Loss) Before Transfers	228,074,775	252,024,692	(519,901,344)	-	(39,801,877)	(383,734,154)	26,262,170	340,247	(396,933,614)
Transfers in	524,887,057	253,924,764	930,715,584	453,227,123	2,162,754,528	80,000,000	42,797,181	-	2,285,551,709
Transfers out	(907,514,392)	(341,404,839)	(554,365,804)	(342,569,820)	(2,145,854,855)	(80,000,000)	(60,081,854)	-	(2,285,936,709)
Net Transfers	(382,627,335)	(87,480,075)	376,349,780	110,657,303	16,899,673	-	(17,284,673)	-	(385,000)
Changes in Net Position	(154,552,560)	164,544,617	(143,551,564)	110,657,303	(22,902,204)	(383,734,154)	8,977,497	340,247	(397,318,614)
Net Position (Deficit) - July 1	263,097,879	462,575,602	(430,530,414)	2,725,996,950	3,021,140,017	(22,680,897,633)	78,231,211	1,170,102	(19,580,356,303)
Net Position (Deficit) - June 30	$ 108,545,319	$ 627,120,219	$ (574,081,978)	$ 2,836,654,253	$ 2,998,237,813	$ (23,064,631,787)	$ 87,208,708	$ 1,510,349	$ (19,977,674,917)

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

Combining Schedule of Cash Flows
For the Fiscal Year Ended June 30, 2023

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Account	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 1,171,325,582	$ 759,851,067	$ 28,797,976	$ -	$ 1,959,974,625	$ 861,580,745	$ 28,158,906	$ 976,887	$ 2,850,691,163
Payments to/for beneficiaries	(606,324,604)	(590,051,229)	(541,306,059)	-	(1,737,681,892)	(868,636,386)	(1,633,094)	(589,920)	(2,608,541,292)
Payments to employees	(153,923,662)	(149,896,753)	-	-	(303,820,415)	-	-	-	(303,820,415)
Payments to suppliers	(55,849,948)	(51,018,390)	1,727,195	-	(105,141,143)	(584,589)	(894)	-	(105,726,626)
Other	38,036,720	(2,664,775)	546,930	-	35,918,875	12,683,803	251	-	48,602,929
Net Cash Flows from Operating Activities	393,264,088	(33,780,080)	(510,233,958)	-	(150,749,950)	5,043,573	26,525,169	386,967	(118,794,241)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers in (Workers' Compensation Funds)	526,886,426	254,681,166	1,395,469,633	342,569,820	2,519,607,045	93,606,527	42,797,181	-	2,656,010,753 *
Transfers out (Workers' Compensation Funds)	(1,316,727,247)	(270,370,181)	(554,365,804)	(342,569,820)	(2,484,033,052)	(80,788,610)	(91,189,091)	-	(2,656,010,753) *
Transfers out (IT Tech Pool)	(191,000)	(194,000)	-	-	(385,000)	-	-	-	(385,000)
Operating grants received	8,225,687	1,638,287	-	-	9,863,974	-	-	-	9,863,974
License fees collected	24,373	12,640	-	-	37,013	-	-	-	37,013
Net Cash Flows from Noncapital Financing Activities	(781,781,761)	(14,232,088)	841,103,829	-	45,089,980	12,817,917	(48,391,910)	-	9,515,987
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisitions of capital assets	(28,163,114)	(10,652,453)	-	-	(38,815,567)	-	-	-	(38,815,567)
Net Cash Flows from Capital and Related Financing Activities	(28,163,114)	(10,652,453)	-	-	(38,815,567)	-	-	-	(38,815,567)
CASH FLOWS FROM INVESTING ACTIVITIES									
Net sales (purchases) of trust investments	-	-	38,217	-	38,217	-	-	-	38,217
Receipt of interest and dividends	175,234,959	155,412,034	162,860,360	-	493,507,353	3,875,107	-	-	497,382,460
Investment expenses	(2,578,010)	(2,671,846)	(1,799,691)	-	(7,049,547)	(213,221)	-	-	(7,262,768)
Proceeds from sale of investment securities	2,517,865,197	2,276,168,728	1,685,553,717	-	6,479,587,642	839,831,014	-	-	7,319,418,656
Purchases of investment securities	(2,273,751,130)	(2,388,136,688)	(2,172,959,575)	-	(6,834,847,393)	(861,766,289)	-	-	(7,696,613,682)
Net Cash Flows from Investing Activities	416,771,016	40,772,228	(326,306,972)	-	131,236,272	(18,273,389)	-	-	112,962,883
Net Increase (Decrease) in Cash and Cash Equivalents	90,229	(17,892,393)	4,562,899	-	(13,239,265)	(411,899)	(21,866,741)	386,967	(35,130,938)
Cash & cash equivalents, July 1 (includes trust cash of $527,178)	7,412,978	23,438,869	9,725,911	-	40,577,758	1,901,906	106,748,825	877,422	150,105,911
Cash & cash equivalents, June 30 (includes trust cash of $565,395)	$ 7,503,207	$ 5,546,476	$ 14,288,810	$ -	$ 27,338,493	$ 1,490,007	$ 84,882,084	$ 1,264,389	$ 114,974,973
Cash Flows from Operating Activities									
Operating income (loss)	$ 15,628,452	$ (30,866,689)	$ (624,793,997)	$ -	$ (640,032,234)	$ (387,670,980)	$ 26,262,170	$ 340,247	$ (1,001,100,797)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities									
Depreciation	7,074,296	6,538,792	-	-	13,613,088	-	-	-	13,613,088
Change in Assets: Decrease (Increase)									
Receivables	(47,292,815)	(23,992,214)	40,696	-	(71,244,333)	(64,078,839)	261,546	46,720	(135,014,906)
Inventories	31,653	31,653	-	-	63,306	-	-	-	63,306
Prepaid expenses	(875)	(875)	-	-	(1,750)	-	-	-	(1,750)
Other assets	53,959,747	52,909,659	-	-	106,869,406	-	-	-	106,869,406
Change in Liabilities: Increase (Decrease)									
Claims and judgments payable	399,874,000	1,723,000	110,107,000	-	511,704,000	457,000,000	-	-	968,704,000
Accrued liabilities	(36,010,370)	(40,123,406)	4,412,343	-	(71,721,433)	(206,608)	1,453	-	(71,926,588)
Net Cash Flows from Operating Activities	$ 393,264,088	$ (33,780,080)	$ (510,233,958)	$ -	$ (150,749,950)	$ 5,043,573	$ 26,525,169	$ 386,967	$ (118,794,241)
Non Cash Investing, Capital and Financing Activities									
Increase (decrease) in fair value of investments	$ (34,031,459)	$ 44,447,455	$ (67,843,531)	$ -	$ (57,427,535)	$ 574,624	$ -	$ -	$ (56,852,911)

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

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

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

Page

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC INFORMATION

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

OPERATING INFORMATION

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

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

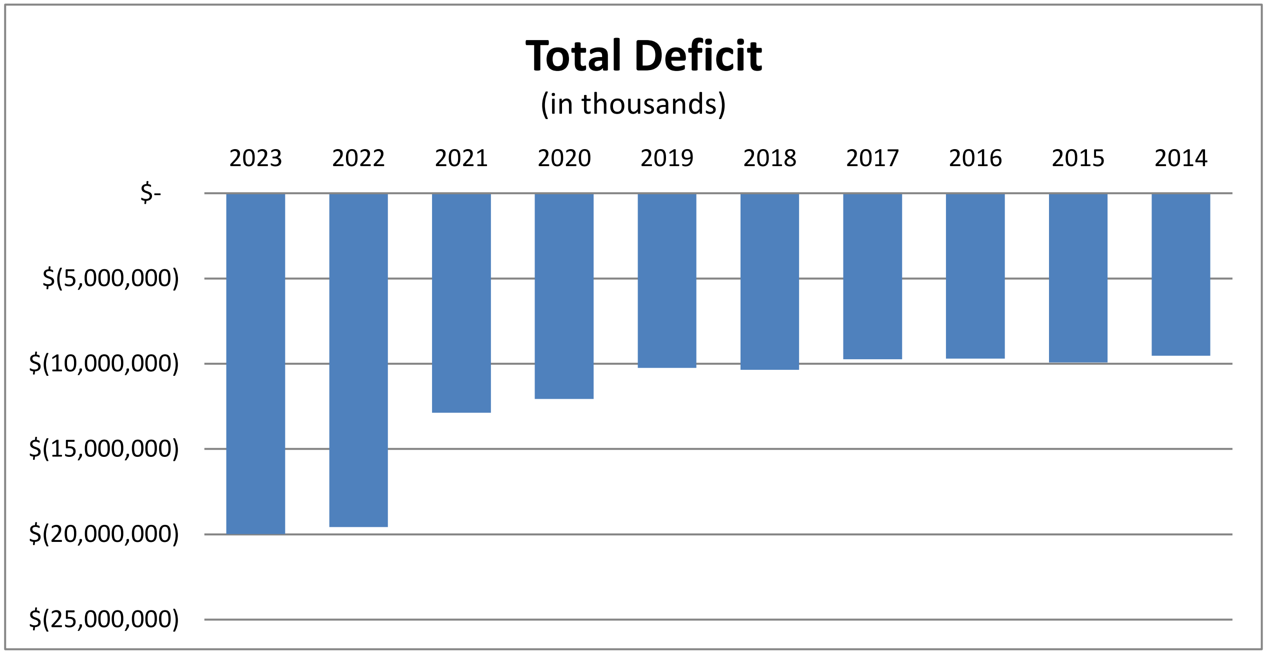
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Net investment in capital assets	$ 82,394	$ 57,398	$ 36,530	$ 37,155	$ 51,440	$ 58,076	$ 65,149	$ 67,452	$ 67,595	$ 58,781
Restricted pension	70,776	36,325	-	-	-	-	-	-	-	-
Unrestricted[1]	(20,130,845)	(19,674,079)	(12,903,978)	(12,101,355)	(10,283,722)	(10,415,584)	(9,791,167)	(9,764,441)	(9,987,396)	(9,577,704)
Total Net Position (Deficit) [1]	$ (19,977,675)	$ (19,580,356)	$ (12,867,448)	$ (12,064,200)	$ (10,232,282)	$ (10,357,508)	$ (9,726,018)	$ (9,696,989)	$ (9,919,801)	$ (9,518,923)

[1] Fiscal years 2014, 2016, 2017 and 2021 are restated amounts.



Schedule 2 - Changes in Net Position

Last Ten Fiscal Years

(in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Operating Revenues										
Premiums and assessments, net of refunds and reinsurance	$ 2,982,042	$ 2,766,915	$ 2,349,955	$ 2,658,958	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410
Miscellaneous revenues	55,542	44,631	41,282	52,706	53,646	49,833	61,239	57,682	56,714	53,986
Total Operating Revenues	3,037,584	2,811,546	2,391,237	2,711,664	2,666,399	2,774,729	2,758,974	2,573,938	2,394,197	2,254,396
Operating Expenses										
Salaries and wages	224,116	209,888	209,818	200,115	186,678	177,028	160,503	159,686	150,278	145,431
Employee benefits	49,073	14,154	55,083	59,563	59,203	64,793	68,547	62,966	55,397	58,367
Personal services	19,842	12,347	14,773	15,829	13,072	14,968	5,686	7,457	11,304	5,661
Goods and services	95,720	83,891	103,284	100,992	93,809	86,737	82,025	82,424	82,416	76,389
Travel	4,346	2,853	2,286	4,381	4,597	4,576	3,867	4,106	4,145	4,047
Claims	3,582,759	6,586,284	4,112,609	5,900,718	3,588,197	3,286,636	2,887,424	2,873,993	2,666,452	2,810,658
Depreciation and amortization	13,613	11,410	4,371	7,508	7,407	8,499	9,851	10,206	7,184	7,228
Miscellaneous	49,216	34,311	3,118	97,669	44,777	23,841	51,548	37,450	41,041	33,954
Total Operating Expenses	4,038,685	6,955,138	4,505,342	6,386,775	3,997,740	3,667,078	3,269,451	3,238,288	3,018,217	3,141,735
Operating Income (Loss)	(1,001,101)	(4,143,592)	(2,114,105)	(3,675,111)	(1,331,341)	(892,349)	(510,477)	(664,350)	(624,020)	(887,339)
Nonoperating Revenues (Expenses)										
Earnings on investments	594,480	(2,580,407)	1,303,002	1,836,909	1,446,193	249,354	551,367	857,707	215,557	1,119,761
Other revenues	9,687	9,304	9,551	9,722	10,374	11,505	9,186	8,909	7,840	8,329
Interest expense	-	-	-	-	-	-	-	(37)	(255)	(461)
Total Nonoperating Revenues (Expenses)	604,167	(2,571,103)	1,312,553	1,846,631	1,456,567	260,859	560,553	866,579	223,142	1,127,629
Income (Loss) Before Transfers	(396,934)	(6,714,695)	(801,552)	(1,828,480)	125,226	(631,490)	50,076	202,229	(400,878)	240,290
Transfers in [1]	-	1,787	75	-	-	-	-	-	-	325,015
Transfers out [1]	(385)	-	(1,326)	(3,439)	-	-	(192)	-	-	(325,015)
Net Transfers	(385)	1,787	(1,251)	(3,439)	-	-	(192)	-	-	-
Changes in Net Position	(397,319)	(6,712,908)	(802,803)	(1,831,919)	125,226	(631,490)	49,884	202,229	(400,878)	240,290
Net Position (Deficit), July 1 [2]	(19,580,356)	(12,867,448)	(12,064,200)	(10,232,282)	(10,357,508)	(9,726,018)	(9,696,989)	(9,919,801)	(9,518,923)	(9,624,691)
Net Position (Deficit), June 30	$ (19,977,675)	$ (19,580,356)	$ (12,867,003)	$ (12,064,201)	$ (10,232,282)	$ (10,357,508)	$ (9,647,105)	$ (9,717,572)	$ (9,919,801)	$ (9,384,401)

[1] Starting in FY15, intrafund transfers should not be reported. The balances in fiscal years 2023, 2022, 2021 and 2020 are related to the IT Transfer Pool and the $192 in fiscal year 2017 is related to a one-time transfer for the Moore Settlement.

[2] Fiscal years 2013, 2015, 2017, 2018 and 2022 deficits at beginning of year are restated amounts.

Schedule 3 - Revenues by Source

Last Ten Fiscal Years

(dollars in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,410,988	$ 1,341,841	$ 1,199,507	$ 1,328,685	$ 1,344,650	$ 1,420,464	$ 1,395,147	$ 1,299,794	$ 1,231,128	$ 1,165,138
Medical Aid	758,535	744,639	692,088	794,066	825,943	870,331	855,218	820,177	779,315	695,460
Supplemental Pension	688,025	607,152	482,231	471,113	427,669	391,670	367,623	340,034	321,967	316,448
Net retrospective rating refunds	(202,525)	(217,359)	(266,286)	(202,909)	(240,184)	(195,578)	(169,105)	(156,378)	(188,302)	(174,854)
Ceded premiums reinsurance[1]	(15,170)	(14,800)	(13,601)	(12,039)	(5,175)	-	-	-	-	-
Total State Fund Premiums	2,639,853	2,461,473	2,093,939	2,378,916	2,352,903	2,486,887	2,448,883	2,303,627	2,144,108	2,002,192
Self-Insurance Assessments	342,188	305,442	256,016	280,042	259,850	238,009	248,852	212,629	193,375	198,218
Total Premiums and Assessments	$ 2,982,041	$ 2,766,915	$ 2,349,955	$ 2,658,958	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410
Investments[2]										
Investment income (interest and dividend)	$ 511,565	$ 465,676	$ 474,021	$ 508,842	$ 506,216	$ 479,112	$ 482,427	$ 503,057	$ 493,679	$ 479,457
Investment balances	$ 18,966,437	$ 18,406,622	$ 21,305,481	$ 20,315,855	$ 18,514,794	$ 16,769,383	$ 16,406,236	$ 15,587,449	$ 14,634,116	$ 14,502,551
Average rate of return	2.7%	2.5%	2.2%	2.5%	2.7%	2.9%	2.9%	3.2%	3.4%	3.3%

CALENDAR YEAR	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Average Standard Premium Rates[3] (Per Hour Worked) - Effective from January 1 to December 31										
Accident	0.3377	0.3231	0.3231	0.3235	0.3305	0.3564	0.3739	0.3691	0.3597	0.3601
Medical Aid	0.1727	0.1724	0.1724	0.1893	0.1959	0.2113	0.2179	0.2179	0.2179	0.2107
Supplemental Pension	0.1672	0.1563	0.1371	0.1223	0.1116	0.1026	0.0958	0.0950	0.0894	0.0909
Stay At Work	0.0054	0.0055	0.0049	0.0049	0.0047	0.0045	0.0046	0.0055	0.0073	0.0073
Total Average Standard Premium Rates (Composite Rate)	0.6830	0.6573	0.6375	0.6400	0.6427	0.6748	0.6922	0.6875	0.6743	0.6690
Employer portion	0.4647	0.4468	0.4369	0.4433	0.4484	0.4739	0.4871	0.4907	0.4734	0.4600
Worker portion	0.1726	0.1671	0.1572	0.1583	0.1561	0.1592	0.1592	0.1592	0.1573	0.1545
State Fund Average Hourly Wage	$ 45.06	$ 40.01	$ 39.26	$ 36.85	$ 36.11	$ 34.55	$ 30.76	$ 30.01	$ 28.64	$ 27.91
Composite Net of Retro Rate per $100 Payroll[4]	$ 1.41	$ 1.53	$ 1.51	$ 1.63	$ 1.67	$ 1.83	$ 2.10	$ 2.17	$ 2.20	$ 2.20

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

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

Schedule 4 - Employer Accounts

Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employers insured	203,000	197,000	186,000	183,000	183,000	180,000	177,000	176,000	173,000	170,000
Workers covered	2,778,000	2,665,000	2,508,000	2,627,000	2,574,000	2,800,000	2,692,000	2,577,000	2,489,000	2,419,000
Hours reported	4,306,000,000	4,130,000,000	3,887,000,000	4,006,000,000	3,927,000,000	3,828,000,000	3,683,000,000	3,540,000,000	3,388,000,000	3,273,000,000
Self-insured employers	348	352	351	351	350	351	356	351	363	363
Workers covered under self-insured employers	940,000	959,000	927,000	972,000	951,000	943,000	909,000	903,000	879,000	858,000
Industry Classifications - NAICS Sector										
Construction	28,200	27,400	26,600	26,500	27,000	26,100	25,100	23,900	22,700	21,900
Prof., scientific, and technical services	36,400	35,000	30,200	27,000	26,000	25,100	24,400	23,700	22,600	21,500
Other services (except public administration)	17,800	17,600	16,900	17,100	17,300	17,100	17,000	16,900	16,700	16,500
Retail trade	14,600	14,700	14,300	14,700	15,000	15,300	15,500	15,700	15,900	16,000
Health care and social assistance	15,900	16,000	15,500	15,400	15,300	15,200	15,100	15,100	15,100	15,000
Accommodation and food services	15,500	15,300	14,600	15,300	15,600	15,300	15,000	14,900	14,800	14,600
Administrative and support services	17,000	16,300	14,400	13,200	13,000	12,600	12,300	12,000	11,600	11,100
Wholesale trade	10,300	10,900	10,900	11,200	11,200	11,200	11,300	11,200	11,000	10,700
Agriculture, forestry, fishing, and hunting	5,970	6,260	6,380	6,600	6,810	7,020	7,100	7,230	7,150	7,020
Real estate, rental and leasing	6,670	7,050	6,970	7,120	7,160	7,070	7,030	6,900	6,840	6,770
Manufacturing	6,590	6,730	6,450	6,530	6,620	6,610	6,640	6,650	6,600	6,590
Finance and insurance	5,950	5,860	5,530	5,280	5,180	5,160	5,060	5,040	5,040	5,050
Transportation and warehousing	4,640	4,520	4,280	4,260	4,260	4,220	4,150	5,620	6,090	6,060
Education services	3,600	3,610	3,410	3,400	3,350	3,230	3,080	3,050	2,930	2,750
Arts, entertainment, and recreation	3,070	3,050	2,870	3,040	3,020	2,930	2,900	2,890	2,770	2,720
Information	3,790	3,360	2,770	2,380	2,400	2,410	2,180	2,250	2,150	2,150
Public administration	970	990	980	1,000	1,000	1,020	1,020	1,030	1,030	1,030
Utilities	350	350	350	350	350	360	360	360	370	360
Mgmt. of companies and enterprises	340	270	260	230	230	210	200	180	170	170
Mining	160	150	150	150	150	160	160	160	160	170
Unclassified establishments	5,250	2,100	1,740	1,490	1,350	1,220	1,120	1,060	1,020	970
Total Employer Accounts	203,000	197,000	186,000	183,000	183,000	180,000	177,000	176,000	173,000	170,000

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

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

Schedule 5 - Ratios of Outstanding Debt

Last Ten Fiscal Years

(dollars in thousands, except per covered worker)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Outstanding Debt										
General obligation bonds [1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,050	$ 7,870
Leases/installment contracts [2,3]	30,192	27,894								
	$ 30,192	$ 27,894	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,050	$ 7,870
Debt Ratios										
Principal paid on total debt	$ 9,052	$ 7,251	$ -	$ -	$ -	$ -	$ -	$ 4,050	$ 3,820	$ 3,605
Ratio of principal paid to total prior year debt	30.0%	26.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	48.5%	31.4%
Interest paid on total debt	$ 217	$ 241	$ -	$ -	$ -	$ -	$ -	$ 110	$ 325	$ 527
Ratio of interest paid to total prior year debt	0.7%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	4.1%	4.6%
Premiums and assessments earned	$ 2,982,042	$ 2,766,915	$ 2,349,955	$ 2,658,958	$ 2,612,753	$ 2,724,896	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410
Ratio of total debt to premiums and assessments earned	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%
Total debt per covered worker [4]	$ 10.87	$ 10.47	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.51	$ 3.05

[1] Bonds were paid in full during fiscal year 2016.

[2] Beginning in fiscal year 2022, the 'Leases/installment contracts' replaced "Capital leases/installment contracts.' This change was due to the implementation of GASB Statement No. 87, *Leases*, under which lease contracts previously considered operating are now treated as financings of the right to use an asset and, thus, included on this schedule.

[3] Beginning in fiscal year 2023 GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, was implemented. Contracts for SBITAs are treated as financings of the right to use an asset and, thus, included on this schedule.

[4] Covered worker data can be found in Schedule 4.

Source: Washington State Agency Financial Reporting System

Schedule 6 - Schedule of Changes in Claims Payable

Last Ten Fiscal Years

(in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 38,702,755	$ 34,582,309	$ 32,793,141	$ 29,166,819	$ 27,774,303	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,789,563	2,686,881	2,511,881	2,347,952	2,105,190	2,111,642	2,062,195	2,048,491	2,102,923	1,910,196
Increase in provision for insured events of prior fiscal years	978,905	4,077,006	1,792,880	3,744,191	1,658,960	1,333,719	968,518	975,846	711,211	1,043,312
Total incurred claims and claim adjustment expenses	3,768,468	6,763,887	4,304,761	6,092,143	3,764,150	3,445,361	3,030,713	3,024,337	2,814,134	2,953,508
Less payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	339,476	324,088	328,384	326,927	321,422	325,933	309,490	303,784	300,862	296,885
Insured events of prior fiscal years	2,460,287	2,319,352	2,187,209	2,138,894	2,050,212	1,985,663	1,933,011	1,934,376	1,884,657	1,846,649
Total payments	2,799,763	2,643,440	2,515,593	2,465,821	2,371,634	2,311,596	2,242,501	2,238,160	2,185,519	2,143,534
Total unpaid loss and loss adjustment expenses at fiscal year-end	$ 39,671,460	$ 38,702,756	$ 34,582,309	$ 32,793,141	$ 29,166,819	$ 27,774,303	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534

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

Source: Washington State Department of Labor & Industries Actuarial Services

Schedule 7 - Washington State Population and Components of Change

Last Ten Calendar Years

(in thousands, except percentages)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Population	7,951.2	7,864.4	7,767.0	7,706.3	7,581.8	7,463.5	7,344.1	7,237.2	7,106.6	7,005.2
Net increase	86.8	97.4	60.7	124.5	118.3	119.4	106.9	130.6	101.4	95.8
Percent change	1.1%	1.3%	0.8%	1.6%	1.6%	1.6%	1.5%	1.8%	1.5%	1.4%
Components of change										
Births	83.1	85.0	82.1	84.8	85.7	87.3	89.7	89.8	88.5	87.0
Deaths	68.6	71.2	64.0	58.5	57.2	56.4	56.1	54.7	52.8	50.7
Net migration	72.3	83.6	42.5	98.2	89.8	88.4	73.3	95.4	65.8	59.4

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

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

Schedule 8 - Washington State Personal Income

Last Ten Calendar Years

(dollars in billions, except per capita)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Personal income	$ 589	$ 571	$ 528	$ 490	$ 455	$ 426	$ 402	$ 381	$ 360	$ 334
Percent change	3%	8%	8%	8%	7%	6%	6%	6%	8%	2%
Per capita	$ 75,698	$ 73,755	$ 68,304	$ 64,189	$ 60,221	$ 57,265	$ 54,918	$ 53,083	$ 50,890	$ 47,857

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

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

Schedule 9 - Washington State Unemployment Rate

Last Ten Calendar Years

(in thousands, except percentages)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Civilian labor force	3,940	3,889	3,969	3,861	3,767	3,719	3,644	3,545	3,488	3,457
Less Employed	3,771	3,622	3,711	3,692	3,598	3,544	3,451	3,346	3,275	3,217
Total unemployed	169	267	258	169	169	175	193	199	213	240
Unemployment rate	4.3%	6.9%	6.5%	4.4%	4.5%	4.7%	5.3%	5.6%	6.1%	6.9%

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

Source: Washington State Economic and Revenue Forecast, June 2023

Schedule 10 - Washington State Principal Employers by Industry

Last Calendar Year and Nine Years Ago

	2022 Annual Averages			2013 Annual Averages		
Industry [1]	Number of Employees [2]	Percent of Total	Number of Employers	Number of Employees [2]	Percent of Total	Number of Employers
Government	553,219	15.8%	2,128	517,760	17.5%	2,090
Healthcare and social assistance [3]	444,002	12.7%	38,261	336,504	11.4%	15,449
Retail trade	333,606	9.5%	14,232	324,679	11.0%	14,265
Manufacturing	272,349	7.8%	15,171	237,980	8.0%	13,083
Accommodation and food services	265,986	7.6%	7,896	283,647	9.6%	6,766
Professional, scientific, and technical services	250,168	7.2%	36,332	170,701	5.8%	19,799
Construction	219,319	6.3%	28,445	139,716	4.7%	20,075
Administrative and support services [4]	183,360	5.2%	13,779	144,060	4.9%	9,972
Information	153,546	4.4%	6,570	105,812	3.6%	2,732
Wholesale trade	135,189	3.9%	12,464	124,884	4.2%	13,312
Transportation and warehousing	125,322	3.6%	5,163	83,885	2.8%	4,061
Agriculture, forestry, fishing, and hunting	103,987	3.0%	679	38,824	1.3%	650
Finance and insurance	98,806	2.8%	20,424	132,282	4.5%	76,703
Other services [3]	97,864	2.8%	7,016	89,999	3.0%	5,473
Real estate, rental and leasing	95,030	2.7%	6,332	94,674	3.2%	7,030
Education services	57,322	1.6%	7,309	44,927	1.5%	6,139
Management of companies and enterprises	49,598	1.4%	3,123	45,820	1.5%	2,474
Arts, entertainment, and recreation	47,498	1.4%	3,993	37,135	1.2%	2,740
Utilities	5,522	0.2%	234	4,779	0.2%	230
Mining	1,917	0.1%	141	2,103	0.1%	157
Total average employment	3,493,610	100.0%	229,690	2,960,171	100.0%	223,200

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

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

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

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

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

Schedule 11 - Washington State Annual Average Wages by Industry

Last Ten Calendar Years

	Annual Average Wages [1]									
Industry [2]	**2022 [3]**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Information	$ 237,166	$ 268,296	$ 241,913	$ 207,103	$ 194,863	$ 172,592	$ 159,236	$ 150,503	$ 148,429	$ 135,304
Management of companies and enterprises	196,685	135,136	129,043	123,508	118,097	111,942	109,462	108,447	106,518	105,501
Professional, scientific, and technical services	129,769	125,687	111,944	103,935	101,410	92,323	88,223	85,968	84,883	81,893
Finance and insurance	124,566	124,539	113,556	100,948	95,089	90,869	88,308	92,790	82,102	79,587
Utilities	121,961	112,671	108,826	105,295	99,718	93,057	88,789	85,644	87,212	86,373
Wholesale trade	98,523	95,073	87,326	82,405	80,439	76,856	73,903	72,523	70,169	68,230
Manufacturing	88,378	83,182	81,984	81,234	79,377	76,301	74,641	73,860	74,303	70,798
Mining	79,880	75,933	73,480	74,849	71,083	71,120	67,389	67,425	63,404	62,444
Government	77,904	74,754	71,849	66,945	63,832	61,187	58,945	57,274	55,603	53,733
Construction	76,429	73,796	69,813	67,811	64,470	61,227	58,887	56,925	55,037	53,735
Real estate, rental and leasing	74,556	70,905	63,288	58,420	55,188	51,553	48,965	47,459	45,181	43,426
Transportation and warehousing	72,135	69,589	65,808	64,709	60,374	58,058	56,173	54,344	52,293	51,967
Administrative and support services [4]	67,070	61,609	57,081	53,133	50,370	48,484	47,050	45,934	44,382	43,261
Healthcare and social assistance [5]	63,283	60,233	56,771	54,647	52,690	50,971	49,337	46,986	44,245	47,733
Other services [5]	51,819	52,099	46,667	42,584	40,410	38,832	37,557	37,437	35,571	26,717
Education services	47,510	46,271	44,594	40,223	39,008	38,455	37,667	36,414	36,918	36,775
Retail trade	45,919	76,366	71,398	62,264	58,866	52,542	45,930	38,300	36,127	34,084
Arts, entertainment, and recreation	43,152	40,505	38,875	33,140	32,522	32,074	30,908	30,509	29,725	27,771
Agriculture, forestry, fishing, and hunting	38,801	37,471	36,170	33,702	32,405	31,154	29,971	28,398	27,758	26,880
Accommodation and food services	30,483	28,246	24,726	25,321	24,003	22,766	21,301	20,451	19,561	19,136

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

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

[3] 2022 data is preliminary.

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

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

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

Schedule 12 - Demographics of Accepted Claims

Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Male injured workers	64%	64%	66%	65%	66%	67%	67%	67%	67%	67%
Female injured workers	36%	36%	34%	35%	34%	33%	33%	33%	33%	33%
Average age of injured workers	39	39	38	38	38	38	38	38	38	38
Injured workers younger than 30	31%	31%	32%	30%	31%	31%	29%	29%	29%	28%
Injured workers 30 to 50	43%	44%	44%	44%	43%	44%	44%	45%	45%	46%
Injured workers older than 50	25%	24%	24%	24%	24%	24%	25%	24%	24%	24%
Injured workers age unknown	1%	1%	1%	1%	1%	1%	1%	2%	2%	2%

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

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

Schedule 13 – L&I Number of Employees by Division

Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Administrative Services	116	112	156	160	160	134	131	136	132	127
Communications & Web Services	57	57	59	63	60	61	54	54	51	47
Director's Office	29	31	34	34	26	28	35	32	31	31
DOSH	400	390	374	361	367	361	345	349	355	356
Field Services & Public Safety	12	12	8	8	7	6	6	7	4	4
Financial Management	125	126	55	55	54	50	53	54	53	50
Fraud Prevention & Labor Standards	149	150	146	143	144	144	125	132	131	122
Human Resources	77	66	58	60	57	56	52	54	54	46
Information Technology	212	218	217	214	213	213	199	208	201	194
Insurance Services	1,101	1,114	1,098	1,102	1,123	1,119	1,090	1,101	1,076	1,048
New legislation	5	2	4	1	N/A	N/A	2	6	12	6
Region 1	54	55	58	59	57	56	58	58	60	60
Region 2	91	93	94	101	100	102	96	100	102	101
Region 3	50	46	51	54	52	50	51	52	54	55
Region 4	67	67	71	71	72	68	70	70	70	70
Region 5	73	72	72	73	72	68	70	72	72	68
Region 6	36	36	40	39	38	39	40	39	39	38
Workers' Compensation System Modernization	4	10	69	51	28	18	N/A	N/A	N/A	N/A
Total	2,658	2,657	2,664	2,649	2,630	2,573	2,477	2,524	2,497	2,423

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

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

In fiscal year 2020, the Business Transformation project was renamed, "Workers' Compensation System Modernization".

In fiscal year 2022, Workers' Compensation System Modernization was paused and positions were transferred to Financial Management. Administrative Services also transferred positions to Financial Management.

Source: Washington State Fiscal Interactive Reporting System

Schedule 14 - Capital Asset Indicators – Business Locations

Last Ten Calendar Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	18	18	18	18	18	18
Warehouses	1	1	1	1	1	1	1	1	1	1
Labs	1	1	1	1	1	1	1	1	1	1
Other offices	1	1	1	1	2	2	2	2	2	2

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

Source: Washington State Department of Labor & Industries Facilities Services

Schedule 15 - Claim Statistics and Five Most Frequent Injuries

Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Claim Statistics										
Number of Claims Filed [1]	101,098	102,878	95,668	99,984	111,837	111,604	109,965	110,498	109,359	106,903
Number of Claims Accepted [1, 2]	84,448	85,830	79,814	86,316	94,681	95,213	94,128	95,277	82,707	86,968
Number of Claims Denied [1, 2]	16,999	17,051	14,099	15,678	16,814	16,504	15,981	16,760	14,098	14,593
Fatal Pensions Awarded	44	47	43	44	44	36	50	48	61	51
Total Permanent Disability Pensions Granted	826	708	854	832	890	886	1,062	1,047	1,063	1,085
Permanent Partial Disability Awards Granted	5,966	5,761	6,897	8,151	8,784	9,312	10,038	10,280	10,769	10,431
New Time-loss (Wage Replacement) Claims [3]	18,365	19,660	17,528	16,790	16,498	17,812	18,782	19,065	19,509	20,049
Medical-only Claims Accepted	68,165	67,891	64,488	72,000	80,494	79,888	78,054	78,816	66,411	69,752
Retraining Plans Completed [4]	153	148	196	248	313	347	411	438	474	501
Total Days Paid for Lost Work	5,599,108	5,551,193	5,550,175	5,505,732	5,519,390	5,732,712	6,102,780	6,475,281	6,841,091	7,054,849
Claims not yet coded [5]	44,816	16,813	-	-	-	-	-	-	-	-
Five Most Frequent Injuries										
Finger(s): open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	4,013	7,216	8,671	9,315	11,114	11,076	10,809	11,068	9,429	9,459
Back, spine, and spinal cord: traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	3,875	6,803	8,552	9,758	10,820	11,187	10,930	11,652	10,624	10,466
Leg(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	1,791	3,139	3,746	3,950	4,289	4,148	4,083	3,939	3,696	3,802
Shoulder(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., including clavicle, scapula (includes injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)	1,742	2,999	3,920	3,981	4,241	4,265	4,133	4,126	3,728	3,646
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	1,627	-	3,637	4,187	4,148	-	-	-	-	-
Face: surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	-	-	-	-	-	3,824	3,724	4,056	3,473	3,611
Viral diseases of body systems	-	3,154	-	-	-	-	-	-	-	-

Note: The data is a snapshot of the fiscal year ending June 30 as of the following September. Numbers are shown for the five most frequent injury categories only for any given year.

[1] Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed, as there are claims in "provisional" status where the decision to accept or deny has yet to be made.

[2] Counts of accepted and denied claims reflect actions in that year, regardless of when claim was filed.

[3] Counts of new time-loss (wage replacement) claims reflect actions in that year, regardless of when claim was filed.

[4] Beginning in fiscal year 2014, the statistics reported are for retraining plans successfully completed. The previous years include all training plans whether completed successfully or not.

[5] Claims not yet coded have not been included in their corresponding Five Most Frequent Injury category count above.

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

Schedule 16 - Risk Classes with Greatest Number of Ultimate Claims

Last Ten Fiscal Years

Risk Class	Risk Class Description	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
3905	Restaurants and Taverns	6,378	6,348	4,990	6,261	8,049	7,785	7,673	7,677	7,519	7,194
4803	Orchards	2,798	2,862	2,897	3,278	3,529	3,845	3,206	3,361	3,395	3,078
6109	Physicians & Medical Clinics	2,625	2,792	2,601	2,301	2,340	2,305	2,290	2,120	2,109	2,220
6509	Boarding Homes and Retirement Centers	2,411	2,502	2,343	2,277	2,283	2,353	2,327	2,429	2,370	2,501
1101	Parcel and Package Delivery Service	2,061	2,076	1,942	1,622	1,339	1,204	1,232	1,102	983	967
6107	Veterinary Services	1,656	1,691	1,757	1,513	1,493	1,320	1,167	1,059	996	950
6108	Nursing Homes	1,485	1,893	1,957	1,823	1,532	1,580	1,629	1,816	1,871	2,040
4906	Colleges & Universities	1,464	1,725	1,269	1,398	1,458	1,523	1,534	1,747	1,712	1,755
3411	Automobile Dealers, Rentals and Service Shops	1,397	1,398	1,299	1,374	1,667	1,726	1,637	1,664	1,582	1,541
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,341	1,273	844	1,188	1,489	1,436	1,414	1,387	1,300	1,339
0516	Carpentry, N.O.C.	1,327	1,395	1,396	1,291	1,596	1,427	1,351	1,352	1,261	1,048
4910	Property and Building Management Services	1,320	1,237	1,202	1,289	1,424	1,300	1,355	1,283	1,279	1,242
0510	Wood Frame Building Construction	1,180	1,180	1,387	1,332	1,622	1,723	1,602	1,541	1,507	1,341
0601	Electrical Wiring: Buildings and Structures	1,069	1,076	1,040	1,104	1,245	1,216	1,112	1,088	1,066	932
2104	Fruit & Vegetable Packing - Fresh	1,066	1,246	1,339	1,327	1,514	1,748	1,561	1,691	1,862	1,561
0307	HVAC Systems, Installation, Service and Repair	1,042	1,029	1,003	934	1,122	1,068	1,013	931	854	856
6402	Supermarkets	941	1,004	942	947	1,044	990	962	957	1,021	1,016
6602	Janitorial Service	938	961	917	900	1,039	1,070	1,058	1,001	1,004	970
6511	Chore Services	844	870	1,019	940	1,059	907	976	948	887	976
0306	Plumbing	843	845	837	814	843	901	922	819	886	759
3402	Machine Shops and Machinery Mfg., N.O.C.	839	899	931	946	1,142	1,150	1,103	1,345	1,301	1,321
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	829	882	902	922	896	886	831	1,008	960	784
5307	State Government - All Other Employees, N.O.C.	811	844	767	747	946	941	981	894	855	923
4905	Motels and Hotels	798	783	633	940	1,110	1,101	1,171	1,175	1,136	1,142
1102	Trucking, N.O.C.	798	847	858	807	954	1,018	1,139	1,035	1,050	1,029
6309	Hardware, Auto Parts and Sporting Good Stores	768	857	780	856	900	1,004	1,064	1,057	1,053	1,065
0518	Non Wood Frame Building Construction	763	788	955	888	1,039	1,089	868	1,004	914	756
6406	Retail Stores, N.O.C.	736	770	782	801	929	988	1,009	946	986	1,017
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	703	604	619	710	824	754	794	726	753	788
0507	Roofing Work - Construction and Repair	663	758	826	726	807	865	848	828	789	695
2903	Wood Products Manufacturing, N.O.C.	617	633	649	670	770	823	859	795	826	818
2102	Warehouses, N.O.C., Grocery Dist, & Recycle Centers	494	544	1,376	1,370	1,295	1,337	1,178	889	746	668

Notes:

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

These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of June 30, 2023.

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

Source: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplemental Audit Report

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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October 27, 2023

June 30, 2023 Statement of Actuarial Opinion
Regarding GAAP Reserves

State of Washington – Workers' Compensation Program

Identification

I, Rod Morris, am a Specialist Leader with the firm of Deloitte Consulting LLP. I am Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. I was appointed by the Washington State Auditors' Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Workers' Compensation Program's ("the Program") carried Generally Accepted Accounting Principles ("GAAP") loss and loss adjustment expense reserves as of June 30, 2023. I meet the qualification standards promulgated by the American Academy of Actuaries and am appropriately qualified to perform these procedures and issue Statements of Actuarial Opinion. I have attested compliance with the Casualty Actuarial Society Continuing Education Policy as of December 31, 2022 to perform actuarial services in 2023.

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

The intended purpose of this opinion is to provide an opinion on the carried loss and loss adjustment expense reserves as of June 30, 2023. The intended users of this opinion are the Department and the State Auditor' Office. The loss and loss adjustment expense reserves are the responsibility of Department. My responsibility is to express an opinion on those reserves based on my review.

Scope

I have examined the loss and loss adjustment expense reserves as shown in the Program's Annual Comprehensive Financial Report as of June 30, 2023. I have reviewed the June 30, 2023 loss and loss adjustment expense reserves recorded under U.S. Governmental Accounting Standard GAAP. My review considered data evaluated as of June 30, 2023 and additional information provided to me through the date of this opinion.

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

My review was limited to the loss and loss adjustment expense reserves listed below and did not include an analysis of any other balance sheet items. I have not examined the Program's assets and I have formed no opinion as to the validity or value of these assets.

Opinion

A summary of the Program's recorded loss and loss adjustment expense reserves by account in its Annual Comprehensive Financial Report as of June 30, 2023 is as follows:

Accident Account	$ 5,998,751,000
Medical Aid Account	4,282,003,000
Pension Reserve Account	5,930,706,000
Total Basic Plan Loss and LAE Reserves	$16,211,460,000
Supplemental Pension Account	23,460,000,000
Total Program Loss and LAE Reserves	$39,671,460,000

In my opinion, the loss and loss adjustment expense reserves listed above and displayed in the Program's Annual Comprehensive Financial Report as of June 30, 2023:

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

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

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

Relevant Comments

A. Company-Specific Risk Factors

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

The major factors and/or particular conditions underlying the risk and uncertainties that I consider relevant to the Department's estimates of unpaid losses and loss adjustment expenses as of June 30, 2023 are described in the sections below. These include but are not necessarily limited to the following items.

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

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

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money using an average annual interest rate of 1.97%. Changes to the interest rate used for discounting could result in material changes to the reserves. I note that the current risk free interest rate matching the duration of these liabilities (approximately 17.1 years) was 3.99% as of June 30, 2023, 3.26% as of June 30, 2022, 1.84% as of June 30, 2021, and 1.03% as of June 30, 2020.

A major assumption in the analysis of the Supplemental Pension Account and Pension Reserve Account is future cost of living adjustments and the implicit assumption that the State of Washington cost of living adjustments will be similar to cost of living adjustments approved by the Federal Government for Social Security retirement benefits. Future State of Washington cost of living adjustments different from those anticipated or that vary significantly from those approved by the Federal Government for Social Security retirement benefits could result in a material change in future costs and the adequacy of the loss and loss adjustment expense reserves.

B. Other Disclosures

Non-Workers' Compensation Pension Liabilities for State Employees

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

GAAP requires the Program to record a liability for the total unfunded state employee pensions in its Annual Comprehensive Financial Report as of June 30, 2023. The CAE liability in the Annual Comprehensive Financial Report does not include any of the unfunded State employee pensions so as to not double count the liability. This difference in accounting results in a GAAP CAE liability that is approximately $11.7 million less than the SAP CAE liability.

Therefore, the GAAP reserve shown above upon which I am expressing an opinion excludes the liabilities for the unfunded State employee pensions for staff administering claims. The amounts excluded total $11.7 million ($3,704,000 for the Accident Account and $8,009,000 for the Medical Aid Account).

Discounting

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

- For the Medical Aid Account, the Department's selected interest rate is 1.5%.
- For "state Program pensions" within the Pension Reserve Account, the Department's selected interest rate is 4.0%.
- For "self-insured pre-funded pensions" within the Pension Reserve Account, the Department's selected interest rate is 5.6% consistent with the Washington administrative code rule WAC 296-14-8810. The rates selected for self-insured pre-funded pensions is allowed to be different from the rate selected for state fund pensions according to SB6393.
- For the Accident Account, combinations of interest rates are used to discount the reserves. The future total permanent disability and fatal transfers made to the Pension Reserve Account assume interest discounts based on an annual rate of 4.0%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.5%.
- For the Supplemental Pension Account, the Department's selected interest rate is 1.0%.

The average combined interest rate for the Program is approximately 1.97% with a total discount amount of $14.127 billion. The interest rates were selected by the Department, and I make no opinion regarding the appropriateness of the selected rates. I note that the current risk free interest rate matching the duration of these liabilities (approximately 17.1 years) was 3.99% as of June 30, 2023, 3.26% as of June 30, 2022, 1.84% as of June 30, 2021, and 1.03% as of June 30, 2020.

The interest rates used for the self-insured pre-funded pensions within the Pension Reserve Account changed from 5.7% last year to 5.6% this year. The interest rates used for the "state fund pensions" within the Pension Reserve Account remained the same at 4.0% this year. The interest rates used for the actual transfer payments and all other Accident Account, Medical Aid Account, and Supplemental Pension Account payments changed from 1.0% to 1.5% this year. The effect of changing these interest rate assumptions this year was an increase in the discounted reserve of $2.334 billion.

Underwriting Pools or Associations

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

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

Asbestos Exposures and Environmental Exposures

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

Disclosure of Total Claims Made Extended Loss and Loss Expense Reserves

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

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

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

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

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

Reinsurance Collectability

Use of ceded reinsurance is minimal and is limited to catastrophic events and terrorism coverage at high limits in older years and once again purchased effective February 1, 2019 and subsequent. The current reinsurance program consists of two excess of loss contracts. The first excess of loss contract covers catastrophic or terrorism events that exceed $200 million up to $500 million per occurrence. The second excess of loss contract covers catastrophic or terrorism events that exceed $500 million up to $1.0 billion per occurrence. All reinsurers are rated A or better by AM Best. As of June 30, 2023, Fund management has informed me that it is not aware of any catastrophic events that would trigger a reinsurance recovery. Therefore, there are currently no ceded reserves recorded as of June 30, 2023 and no reinsurance collectability problems. With respect to loss and loss adjustment expense reserves net of ceded reinsurance, I have not anticipated any contingent liability which could arise if any of the reinsurers prove unable to meet their loss and loss adjustment expense obligations under the terms and conditions of their contracts with the Fund.

Retroactive Reinsurance, Financial Reinsurance

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

Major Assumption Changes and Other Comments

The Supplemental Pension Account COLA adjustment for fiscal year 2024 of 2.01% was obtained from the Employment Security Department's State Average Annual Wage data and represents the change in calendar year 2022 wages. By statute, the COLAs are based on the annual calendar year change to the states' average wages and are somewhat lagged (e.g. the annual COLA change for fiscal year 2024 is based on the change in calendar year 2022 wages). This year, the Department used the Washington Economic Forecast Council's estimates for calendar years 2023 through 2025 as a proxy for COLA adjustments for fiscal years 2025 through 2027. The COLA adjustments for fiscal years 2028 through 2037 are projected by using a linear interpolation between the fiscal year 2027 COLA adjustment of 4.40% and a long-term constant COLA adjustment assumption of 1.5%. For projected COLA adjustments subsequent to fiscal year 2037, the Department uses the long-term assumption of 1.5% per year. I note that due to the current economic environment and the increase in the expected average wages in the state for the next few years, the effect of updating the future COLA assumptions from those used last year was an increase of $2.407 billion in the Supplemental Pension Account discounted liability at 1.5%.

During my review, I considered the Department's selection of future COLA adjustments. The Department's selections are lower than the most recent or long-term historical average of COLA adjustments. For example, the simple average of the most recent 15 years of COLA adjustments is 4.31% with annual changes varying between 2.79% (at the 30th percentile) and 4.93% (at the 70th percentile). These COLA adjustments have been at this level while interest rate and/or inflation rate changes have been declining during this same time period. The materiality of this assumption is significant given that selecting the most recent 15-year historical average COLA adjustment of 4.31% would increase the Supplemental Pension Account discounted liability by $11.997 billion (keeping the discount rate at 1.5%). The Department has assumed that there will be a significant correlation between changes in the future COLA adjustments and changes in the interest rates in the future even though the correlation between the two has been weak at best in the past.

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

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

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

Beginning in fiscal year 2020, the Department initiated a Workers' Compensation System Modernization (WCSM) project to update its policy, administration, and claim systems. It is estimated that a total of $30.4 million has already been spent as of June 30, 2023 of which none has been currently allocated to CAE payments. The anticipated future cost of WCSM is approximately $340.6 million over the next ten fiscal years. The Department assumes that approximately 2/3 of the cost will be claims related and will expense the allocated State Fund costs (i.e. excluding costs allocated to self-insureds) through its claims administration expense (CAE). The CAE related cost has been distributed to both future and historical fiscal accident years. The estimated amount allocated to fiscal-accident years 2023 and prior and included in the reserves as of June 30, 2023 totals $51.2 million on a discounted basis and $63.6 million on an undiscounted basis.

The assumed future medical growth rate was changed from 4.0% as of June 30, 2022 to 4.5% as of June 20, 2023. The effect of the change in the medical growth rate assumption this year was an increase in the discounted reserve in the Medical Aid Account of $265.0 million.

The Department has increased its assumption of the number of total permanent disability claims (TPD or pension claims) after claim administration staff identified several COVID-19 claims that indicated a strong potential to result in a TPD pension. To account for this, an adjustment was made to reflect the potential for more TPD COVID-19 pensions. The adjustment increased the number of TPD pension claims for the accident periods impacted by COVID-19 (beginning April 1, 2020 to present) by 6.58%. The adjustment resulted in an additional 212 TPD pensions and approximately $100 million.

C. COVID-19

The COVID-19 pandemic has impacted the number and severity of reported claims over the past 39 months. There has been a total of 11,312 compensable claims reported as of June 30, 2023. These claims represent 10.9% of the compensable claims for fiscal-accident year 2023, 21.2% of the compensable claims for fiscal-accident year 2022, 10.3% of the compensable claims for fiscal-accident year 2021 and 5.4% of the compensable claims for fiscal-accident year 2020. The total case incurred value of the COVID-19 claims as of June 30, 2023 is $62.2 million of which $50.8 million has been paid. The majority of these claims are very small in nature with only a handful of larger claims. However, there is some initial evidence that many of these claims may become TPD pension claims as discussed previously. The resultant shutdowns and economic downturn had an initial effect on the medical treatment, legal processes, and business operations but I believe that most of these indirect effects of the pandemic have stabilized as of June 30, 2023. In my analysis I have separated out the COVID-19 claims performing the analysis excluding these claims and then adding in a provision for unpaid COVID-19 claims. I have not incorporated estimated adjustments to the actuarial assumptions in consideration of the effects of the pandemic. However, I caution that the volatility and uncertainty of my projections related to the COVID-19 claim provision is high due to the potential number of TPD pensions in the future.

D. General Uncertainty

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

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

Rod Morris

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October 27, 2023

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