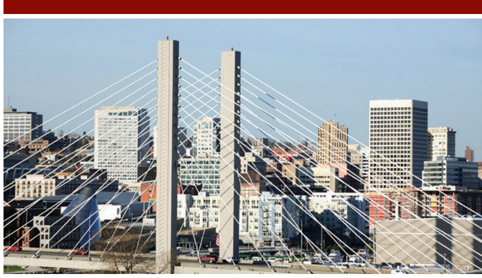
Washington State Department of
Labor & Industries

Workers' Compensation Program

An Enterprise Fund of the State of Washington

Annual Comprehensive Financial Report

For the Fiscal Year Ended June 30, 2022
Olympia, Washington



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Olympia, Washington

Prepared by:

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

Actuarial Services
Bill Vasek, FCAS, Senior Actuary
Ali Ishaq, FCAS, FSA, CSPA, MAAA
Joshua Ligosky, FCAS, MAAA
Mark Phillips, FCAS
Nichole Runnels

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

Insurance Services Division Personnel

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

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

November 21, 2022

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, 2022.

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, 2022. 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. This includes current and future technology needs, as well as the impacts of COVID-19, heat exposure, and wildfire smoke. Ultimately, L&I's focus remains on preventing injuries, when possible, and when that is not possible, helping injured workers heal and return to work. Our approach has reduced 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 customers. Progress was made in the following areas during fiscal year 2022:

1. **Workers' Compensation Systems Modernization (WCSM)** – L&I is working to replace our antiquated workers' compensation computer systems. The ultimate goal is to bring improvements and greater stability to support better outcomes for injured workers throughout Washington. L&I paused some of the WCSM work in 2021 and hired an outside firm to conduct an independent review of the project. Based on that review, the project team needs to make some necessary changes to the plan and approach before the main body of work gets underway. The next year will be focused on doing a technology assessment and journey mapping, which will help us develop a revised solution and implementation strategy. We will also do a feasibility study and market analysis, all of which will be done by June 2023. The project's overall timeline will be updated in August 2023.

2. **Provider Credentialing** – A partnership with the Health Care Authority (HCA) will replace L&I's existing medical provider credentialing system with HCA's existing ProviderOne application. The project team is doing some final testing on the technology and developing some training resources for both providers and L&I employees. ProviderOne is scheduled to go live in phases starting in late 2022 or early 2023.

3. **Protecting Workers from Heat Exposure and Wildfire Smoke; Consulting with Employers on Safety and Health Rules** – For the past two years, L&I has issued emergency rules to increase the protection of workers from heat exposure and wildfire smoke.

   Under both drafts for the permanent and emergency outdoor heat exposure rules, employers are required to take proactive steps to ensure workers do not suffer from heat illness. Those steps include encouraging workers to take paid cool-down breaks and making cool water available. L&I also issued emergency rules to help protect workers from wildfire smoke. The rules spell out to employers how to identify harmful smoke exposure risks and when to notify their workers. They also require employers to train employees and supervisors about wildfire smoke; ensure employees showing symptoms of wildfire smoke exposure are monitored and receive medical care when necessary; and take actions to eliminate or reduce exposures to wildfire smoke, where feasible, when levels of particulate matter are high. L&I continues to gather stakeholder input as updated permanent rules for heat exposure and wildfire smoke are developed.

   An emphasis on L&I's Consultation Program in 2022 aims to bring awareness to and increase the number of businesses meeting with professionally trained safety and industrial hygiene specialists. Many business owners either don't know about the program or don’t feel comfortable inviting L&I into their business. L&I launched a marketing campaign to inform businesses that consultations are free of charge, that there is no risk of being cited or penalized if a hazard is found, and that a consultation can actually help them lower their workers’ compensation rates.

4. **COVID-19 Claims Experience** – L&I’s workers’ compensation program continued to respond swiftly to the COVID-19 pandemic, dedicating staff resources, streamlining processes, and reprioritizing work to meet the needs and demands of our customers. L&I received over 11,700 claims, with an additional 7,200 claims for self-insured employers, since the pandemic began in early 2020. Health care workers accounted for over half of all claims filed.

   To support L&I’s goal to help injured workers heal and return to work, temporary telehealth policies were implemented to help slow the spread of the coronavirus and make it easier for injured or ill workers to continue receiving treatment from their medical providers by video or phone. In addition, L&I’s Employer Assistance Program offered a grace period for premium payments, waiving penalties and interest charges, along with payment plans for employers facing financial difficulties during the pandemic. Losses for allowed COVID-19 claims were not included in the determination of a business’s experience modification factor. Businesses did not lose their claim-free discount because of an allowed coronavirus claim, and the losses for allowed coronavirus claims were not included in employers’ retrospective rating adjustment calculations.

   L&I also implemented two new laws signed by Governor Jay Inslee that provide presumptive workers' compensation protections to health care and frontline workers during a public health emergency. The new laws mean that it is presumed that health care and frontline workers contracted a contagious or infectious disease at work when they file a workers' compensation claim. Both laws took effect May 11, 2021. The Health Emergency Labor Standards Act (HELSA) Presumptive Coverage Project completed work to assure that workers and employers in Washington State are informed and have the resources to apply the new laws and that L&I and self-insurers are ready to provide benefits in an accurate and timely fashion.

5. **Licensing and Certification of Administrators Project** – The Licensing and Certification of Administrators Project (LCAP) seeks to increase the effectiveness of the Self-Insured Workers’ Compensation System by ensuring that all claim administrators are certified and third party administrators are licensed, and aligning penalties for non-compliance with the Seattle Consumer Price Index.

   Much of the work for this project, which recently closed out, was completed in 2021, including establishing rules and requiring certification for claim administrators and licensing third party administrators. Training sessions were held last year to provide an overview of the changes, which were brought about by legislation, and to familiarize concerned parties with the system used to process the licenses.

6. **Transition to Hybrid Work** – L&I is transitioning from most staff teleworking full-time to re-opening L&I offices and operationalizing hybrid work. To facilitate hybrid work, L&I established support projects for managing a hybrid work environment and identified the tools and technology needed to support staff flexibility and strategic office space logistics. Key projects include:

    - Operational safety protocols: L&I is using the Continuous Improvement Model and leveraging safety experience throughout the organization.

    - Optimizing space use: L&I is optimizing the use of our 22 offices to support hybrid work. Once L&I adopts distributed workforce criteria and refreshes telework data, we will draft a reinvestment-sequencing plan for all buildings and programs.

    - Organizational Change Management (OCM): L&I is meeting with diverse teams across the agency to develop an OCM strategy that supports employee engagement and the adoption of new behaviors. This includes efforts to develop the overall framework for promoting change adoption, assessing stakeholders' and staff's readiness for change, and identifying gaps and opportunities for successful implementation and adoption.

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); the 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 3 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 111 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, 2022, 353 active employers were self-insured, covering nearly 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 198,000 employers and 2.7 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2022, including both the employer and worker portions, were $2.5 billion. Almost 86,000 claims were accepted in fiscal year 2022; about 79 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 35,122 claims were active during fiscal year 2022, and 14,442 of these claims, many of which involve long-term disability and complex medical issues, were receiving time-loss benefits. In fiscal year 2022, vocational rehabilitation retraining plans were completed by 148 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 is $856,028,000, which includes $789,209,000 that was appropriated for L&I and the remainder for other state agencies. This budget includes $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 2022 for the Workers’ Compensation Program was $435,841,500, and the portion for L&I was $403,214,500.

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 2022[1]

Washington was the thirteenth most populous state in 2021 (calendar year) with an estimated population of 7.7 million,[2] and the eighth-largest state economy in the U.S. (seasonally adjusted annual rate of $703.1 billion in the third quarter of fiscal year 2022).[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 55.5 percent of the state's non-farm employment (May 2022)[4] and an even higher share of the state's Gross Domestic Product (GDP) (65.5 percent).[5]

Workers' compensation insurance covers all industries in the state of Washington. The economy of Washington was once dominated by commercial airplane manufacturing (Boeing), logging, and agriculture. More recently, a vibrant high-tech industry has developed, including the world's second- and fifth-most valuable companies: Microsoft ($2.3 trillion) and Amazon ($1.6 trillion).[6] Other Washington-based Fortune 500 companies include Costco, Starbucks, Paccar, Expedia, Weyerhaeuser, Expeditors International, Zillow, and Nordstrom.[7]

Current Economic Situation and Outlook

The U.S. and state economies posted sharp swings in GDP in the first three quarters of fiscal year 2022. The U.S. economy grew 2.3 percent (seasonally adjusted annual rate) (SAAR) in the first quarter. It grew by 6.9 percent in the second quarter and then contracted by 1.6 percent in the quarter of the year. Washington's economy gained 2.3 percent (SAAR) in the first quarter of fiscal year 2022. There was a resurgence to a rate of 8.3 percent in the second quarter, and a contraction of 3.3 percent in the third quarter.[8] Real personal income in Washington is projected to shrink by 1.7 percent in 2022, followed by zero growth in 2023. In the following years of 2024 through 2027, income growth is projected to range from 3.1 to 3.7 percent.[9] The federal government continues to struggle to control inflation. Over the last 12 months, the "all items" Consumer Price Index increased 9.1 percent before seasonal adjustment; this is the largest increase in 40 years.[10] In testimony before Congress, Federal Reserve Chairman Jerome Powell

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[1] Unless otherwise indicated, all quarters and years mentioned in this report are fiscal quarters and fiscal years.
[2] "Quick Facts, Washington Population Estimates, July 1 2021, U.S. Census Bureau, https://www.census.gov/quickfacts/fact/tablee/WA,US/PST045221
[3] "Table 3, Gross Domestic Product by State: 1st Quarter 2022", BEA, June 30, 2021. https://www.bea.gov/sites/default/files/2022-06/qgdpstate0622.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
[6] https://www.pwc.com/gx/en/services/audit-assurance/publications/top100/pwc-global-top-100-companies-by-market-capitalization-2022.html (May 2022)
[7] Costco ($255 billion), Starbucks ($105 Billion), Paccar ($31 billion), Expedia ($30 billion), Weyerhaeuser ($28 billion), Expeditors International ($17 billion), Zillow ($12 billion), Nordstrom ($4 billion),
[8] Based on the current-dollar GDP measure: https://www.bea.gov/news/gross-domestic--state-3rd-quarter-2020
[9] "Table 2.1, Washington Economic Forecast Summary", Washingto1 State Economic and Revenue Forecast, Washington State Economic and Revenue Forecast Council (ERFC), June 2022. https://erfc.wa.gov/sites/default/files/public/documents/publications/jun22pub.pdf
[10] Bureau of Labor Statistics, CPI-U, https://www.bls.gov/news.release/archives/cpi_07132022.pdf

stated that the tight labor market, COVID-19 related supply-chain disruptions, and increases in the price of oil and other commodities caused by the war in Ukraine are largely responsible for inflation. In an effort to control inflation, the federal funds rate has been increased 1.5 percent in the first half of calendar year 2022, and the Committee anticipates ongoing increases.[11]

Washington experienced slow but steady economic growth in fiscal year 2022 and has been recognized as one of the top state economies. Wallethub's 2022 "Best & Worst State Economies" report ranked Washington the best state economy in the nation.[12] Washington was second overall in CNBC's "America's Top States for Business 2022". They rated Washington second in technology and innovation, third in economy, and fourth for workforce.[13]

As for the labor market, the national unemployment rate started the fiscal year with 5.4 percent unemployment in July 2021 and declined to 3.6 percent in June 2022 at the end of the fiscal year.[14] Washington State followed a similar pattern with the unemployment rate at 5.2 percent in July 2021, followed by a steady decline to 3.9 percent in June 2022.[15] The jobless rate in the Seattle/Bellevue/Everett metropolitan area paralleled that of the state, falling from 4.6 percent to 2.6 percent over the course of the fiscal year.[16]

All 50 states and District of Columbia posted year-over-year increases in non-farm employment (from June 2021 to June 2022). Washington was the eleventh-strongest state in terms of number of jobs gained (147,300 jobs) and the eleventh-strongest for the year-over-year percent change (+4.4 percent).[17] Job growth in Washington was positive each month in fiscal year 2022 except for May, with a total of 175,700 jobs added.[18] Looking ahead, employment is projected to increase by 2.6 percent in fiscal year 2023, followed by significant slowing. Employment is forecast to increase by 0.7 percent in fiscal years 2023 and 2024.[19]

Washington's credit rating remains in good standing. The most recent ratings released on July 14 and 15, 2022 by Moody's, S&P, and Fitch all indicate the state's General Obligation Bonds as high quality (AAA/AA+/AA+) with a stable outlook.[20] All three rating agencies wrote positively about

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[11] Federal Reserve Chairman Powell's Semiannual Monetary Policy Report to the Congress, June 2022. https://www.federalreserve.gov/monetarypolicy/mpr_default

[12] Best & Worst State Economies: https://wallethub.com/edu/states-with-the-best-economies/21697.

[13] CNBC.com/2022/07/13/americas-top-states-for-business-2022-the-full=rankings

[14] Bureau of Labor statistics (BLS) https://data.bls.gov/timeseries/LNS14000000

[15] ESD "Monthly Employment Report", June 2022 https://esd.wa.gov/june-monthly-employment-report

[16] ESD "Monthly Employment Report": https://esd.wa.gov/newsroom/monthly-employment-report-for-june-2022 https://media.esd.wa.gov/esdwa/Default/ESDWAGOV/labor-market-info/Libraries/Economic-reports/MER/MER%202022/MER-2022-06.pdf

[17] BLS "State Employment and Unemployment - June 2022": https://www.bls.gov/news.release/laus.nr0.html

[18] Employment Security Department, MER 2022-06, https://esd.wa.gov/labormarketinfo/monthly-employment-report

[19] Table 2.1, "Washington Economic and Revenue Forecast, Washington State Economic and Revenue Forecast, ERFC, June 2022: https://erfc.wa.gov/sites/default/files/public/documents/publications/jun22pub.pdf

[20] Credit Ratings, State Debt Information, Washington State Treasurer. (https://www.tre.wa.gov/home/debt-management/debt-information/#toggle-id-4).

the state's stabilizing fiscal policies and "exceptionally strong economic fundamentals". The agencies identified no unusual short- or long-term risks to the stability of Washington's credit rating.

Unstable, but rising, mortgage rates and already-high prices (worsened by inflation) have stalled the real estate market. As buyers become more cautious, housing supply has begun to increase and prices have begun to fall. According to the S&P/Case Shiller home index, prices for existing homes in the U.S. rose 20.4 percent between April 2021 and April 2022 compared to 14.6 percent between April 2020 and April 2021. The Seattle home prices posted a 26.1 percent gain in April 2022, its largest 12-month increase ever.[21] The median home price in Washington reached $634,000 in June 2022, 9.1 percent higher than the year before.[22] Building permit activity in Washington increased 14.9 percent over the same period.[23] Despite the year-over-year changes, the expectation is for moderating home prices and drastically slowing housing starts. Available inventory rose 14.8 percent from June 2021 to 28,571 single-family homes in June 2022, representing a two-month supply at the current rate of home purchases.[24]

The Federal Reserve is divesting itself of equities purchased to stabilize the markets during the pandemic recession. That and their current and future expected interest rate increases are intended to control inflation that reached 9.1 percent in June 2022.[25] The S&P 500, the Dow, and the NASDAQ all started the fiscal year in record territory. The NASDAQ peaked in November 2021. The S&P 500 and the Dow peaked in January 2022. Since their peaks, all the indexes have fallen below the level at which they started the fiscal year. Year over year, the Dow is down 10.2 percent, the S&P 500 is down 22.3 percent, and the NASDAQ is down 23.4 percent.[26] The markets are reacting to record-breaking inflation and the Fed's counter measures, continued widespread supply chain problems, oil price shocks brought on by the war in Ukraine, and fears of an impending recession. As solutions to these issues are nowhere on the horizon, the chances of a market resurgence in the near term are dim. For the market of fixed income securities, yields on bonds, notes, and bills had mixed results in fiscal year 2022. The yield for treasury bills with a maturity term of 1 year gained 2.71 percent by the end of fiscal year 2022, while the 10-year and 30-year bonds gained 1.54 percent and 1.06 percent, respectively, to close the year[27].

[21] Data Source: S&P/Case-Shiller National and WA-Seattle Home Price Indexes, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/fred2/series/SEXRNSA.
[22] Washington Housing Market, https://www.redfin.com/state/Washington/housing-market
[23] Table 2.1, "Washington Economic and Revenue Forecast, Washington State Economic and Revenue Forecast, ERFC, June 2022: https://erfc.wa.gov/sites/default/files/public/documents/publications/jun22pub.pdf
[24] Same as footnote 21.
[25] Bureau of Labor Statistics, CPI-U, https://www.bls.gov/news.release/archives/cpi_07132022.pdf
[26] Data Source: Federal Reserve Bank of St. Louis.
[27] Data Source: Treasury Constant Maturity data series, Federal Reserve Bank of St. Louis.

Workers' Compensation Impacts

Both U.S. and Washington employment experienced slow and steady growth in 2022. The national and state employment projections for the coming years show slowing in 2023 and growth from 2024 through 2027 averaging less than one percent per year. Year over year, the first through third quarters of fiscal year 2022 saw reported hours increase 5.5 percent, 5.0 percent, and 5.7 percent respectively.[28] Given the forecast for reduced employment growth, the rate of increase in reportable hours in future quarters is expected to be greatly reduced. This raises the prospect that L&I revenues will not keep pace with inflation.

Washington workers' compensation rates rose 3.1 percent in 2022. It is the first time in five years that workers' compensation rates have gone up, but on average, premiums in 2022 would still be less than those imposed in 2017.[29] According to the state forecasting data, Washington nonfarm payroll is forecast to grow by 2.3 percent in 2023. Thereafter, growth is expected to be less than one percent per year through 2027. Not all industries have recovered from the pandemic recession. For example, manufacturing employment is not expected to return to pre-pandemic levels until after 2027.[30] The combination of weak employment growth combined with as-yet-uncontrolled inflation holds the prospect that the purchasing power of the premiums collected will need to be augmented by funds from L&I's contingency reserves.

In Washington, the average annual wage increased 7.5 percent to $82,508 in calendar year 2021, the second-largest percentage increase in twenty years.[31] This rapid growth rate reflects the recovery from the recession where low paying jobs are the first lost and the last regained.

The state minimum wage increased from $13.69 per hour to $14.49 in calendar year 2022. This update was based on the 9.8 percent annual increase in the U.S. Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).[32] The increase in minimum wage will add costs to the workers' compensation system in that the wage replacement benefit paid to eligible minimum wage earners will also increase. After stabilizing in fiscal year 2021, medical costs (based on the Consumer Price Index for medical care) rose 4.5 percent in fiscal year 2022.[33] While the mix of medical services provided in the workers' compensation system is different from general medical care, increases in medical expenses in Washington's Workers' Compensation System should be expected to parallel the increases in the average cost of general medical care.

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[28] Based on L&I payroll data, July 2022.

[29] L&I, https://lni.wa.gov/insurance/rates-risk-classes/rates-for-workers-compensation/final-rates

[30] "June 2022 Economic Forecast", Washington State Economic and Revenue Forecast Council, https://erfc.wa.gov/sites/default/files/public/documents/publications/jun22pub.pdf

[31] https://esd.wa.gov/newsroom/2021-average-annual-wage

[32] https://www.bls.gov/news.release/pdf/cpi.pdf

[33] Data Source: Consumer Price Index for All Urban Consumers: Medical Care, Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/CPIMEDSL

The stock market experienced moderate gains in the first half of the fiscal year, followed by a chaotic net decline that left the major markets in negative territory for fiscal year 2022.[34] The Federal Reserve is unwinding the measures it took to support the economy during the pandemic recession and is increasing interest rates in an attempt to control inflation. The Bureau of Economic Analysis announced that GDP fell 1.6 percent in the third quarter of fiscal year 2022, followed by a decline of 0.9 percent in the fourth quarter. Two consecutive quarters of decline in GDP is the generally accepted definition of a recession. Another recession indicator is the yield curve inversion, which has predicted the last eight recessions. When short-term bond rates are higher than long-term bond rates, the yield curve is inverted. The ten-year/two-year curve has been inverted since early July.[35] The labor market and the overall economy are projected for weak growth through fiscal year 2027.[36] The U.S. Consumer Confidence Index has reached record levels of pessimism. The U.S. Business Confidence Index has passed into pessimistic territory for the first time in two years.[37] The economy of Washington State will closely reflect the national economy. The return to economic expansion and a normal rate of growth will depend on gaining control of inflation, controlling war-influenced commodity prices, and rebuilding robust supply chains for business. None of these issues appears solvable in the near term.

LONG-TERM FINANCIAL PLANNING

Per RCW 51.04.020, the director has the power to set rules governing the use and direction of workers' compensation rates, including the pension discount rate. In fiscal year 2022, the director authorized the decrease in the State Fund pension discount rate from 4.5 percent to 4.0 percent in an ongoing effort to align the pension discount rate with the five-year moving average of the U.S. 20-year Treasury yields, commonly known as "the benchmark rate." The benchmark rate, as of June 30, 2022, was 2.29 percent.

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 percent to 25

[34] Data Source: Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/categories/32255
[35] 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity, https://fred.stlouisfed.org/series/T10Y2Y
[36] "Table 1.1, U.S. Economic Forecast Summary", Washington State Economic and Revenue Forecast State Economic and Revenue Forecast Council (ERFC), June 2022.
[37] Organisation for Economic Co-operation and Development, https://data.oecd.org/leadind/composite-leading-indicator-cli.htm#indicator-chart

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, 2021. A copy of the Certificate of Achievement is included in the introductory section of this ACFR. This was the twelfth 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
Director

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

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington State Department of Labor & Industries

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

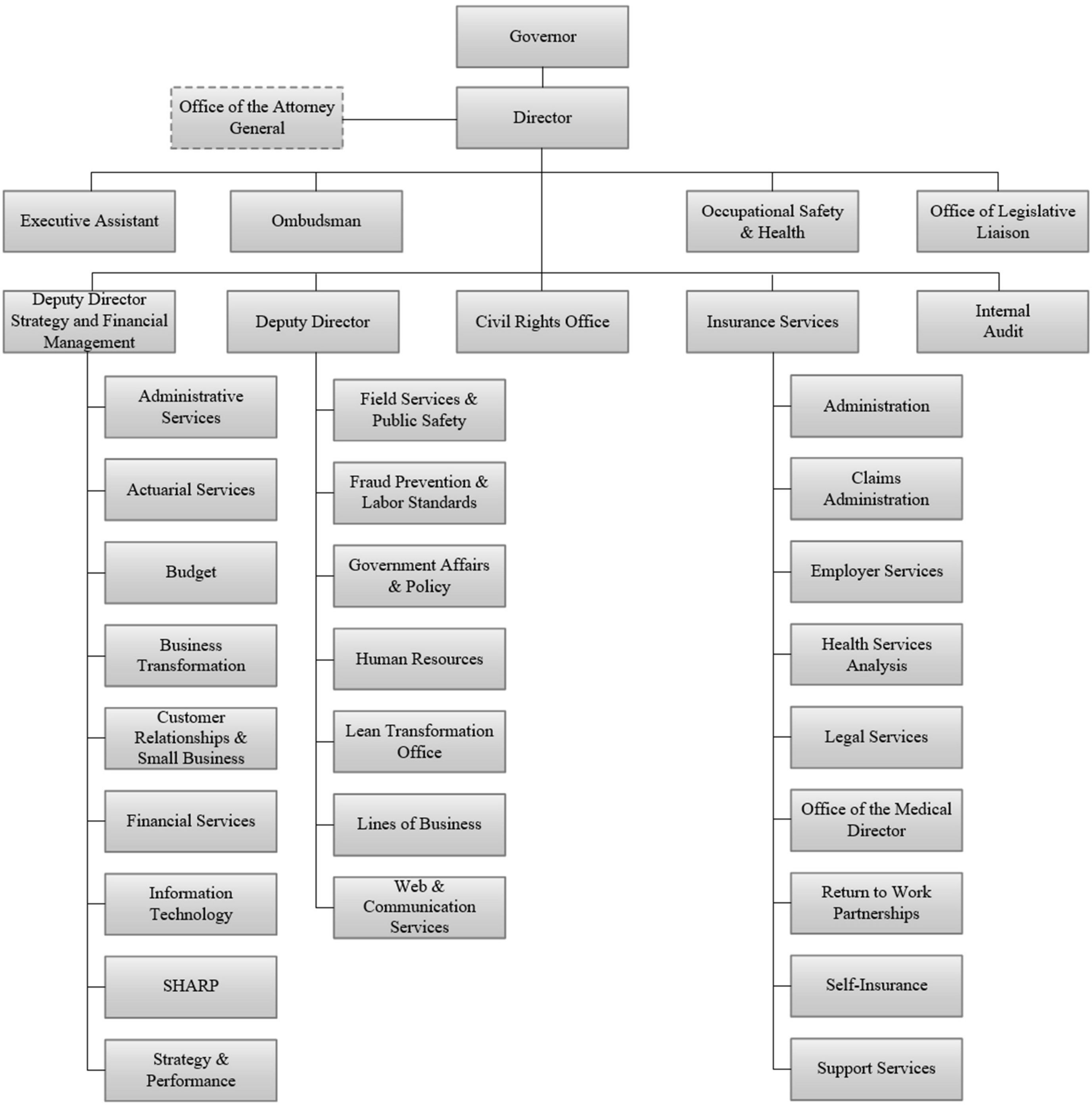
Executive Director/CEO

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart
June 30, 2022



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON 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, 2022, 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, based on our audit and the reports of the other auditors 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, 2022, 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 2022, the Program adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. 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 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 the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 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 21, 2022, 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. That report will be issued under separate cover in the Program's Single Audit Report. 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, State Auditor

Olympia, WA

November 21, 2022

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, 2022. 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 decreased $2,503 million from the prior fiscal year, mainly due to a decrease in investments of $2,899 million.

- Total liabilities increased $4,060 million from the prior year. The increase is largely due to an increase in claims payable of $4,120 million.

- Total revenues earned decreased $3,463 million, mainly due to a $3,883 million decrease in earnings on investments, offset by a $417 million increase in premiums and assessments.

- Total expenses incurred increased $2,449 million from the prior year, primarily due to a $2,473 million increase in claims expense.

- Total net deficit increased $6,713 million from prior year mainly due to increased actual and estimated claims costs, along with decreased 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, 2022, 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, 2022. 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 43-95 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position (dollars in millions)	June 30, 2022	June 30, 2021	$ Change	% Change*
Assets				
Current assets	$ 2,174	$ 2,493	$ (319)	(12.8%)
DOE assets, noncurrent **	4	4	-	0.0%
Investments, noncurrent	17,322	19,723	(2,401)	(12.2%)
Restricted net pension assets	168	-	168	N/A
Capital assets, net	85	36	49	136.1%
Total Assets	19,753	22,256	(2,503)	(11.2%)
Deferred outflows of resources	50	52	(2)	(3.8%)
Liabilities				
Current liabilities	2,810	2,714	96	3.5%
Noncurrent liabilities	36,366	32,402	3,964	12.2%
Total Liabilities	39,176	35,116	4,060	11.6%
Deferred inflows of resources	207	59	148	250.8%
Net Position (Deficit)				
Investment in capital assets	58	36	22	61.1%
Unrestricted	(19,638)	(12,903)	(6,735)	52.2%
Total Net Position (Deficit)	$ (19,580)	$ (12,867)	$ (6,713)	52.2%

*% 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 decreased by $319 million during fiscal year 2022, largely due to a decrease in current investments of $498 million. Current investments consist of fixed income securities that mature in one year or less and will vary from year to year. The decrease was partially offset by an increase in receivables of $112 million and cash and cash equivalents of $67 million. Premium receivable estimates increased as a result of an increase in reported hours of 6.6 percent for the year and an increase in the average annual wage of 7.5 percent. The Medical Aid Account's premium rates decreased 7.8 percent on January 1, 2021, and there was no rate change on January 1, 2022. Cash and cash equivalents fluctuate depending on cash flow from operations and cash needs.

Noncurrent investments - Noncurrent investments decreased by $2,401 million during fiscal year 2022, mainly due to decreases in both fixed income securities and equity investments. The decrease was due to unrealized losses in the market, partially offset by the reinvestment of interest income and realized gains from sales.

Current liabilities - Current liabilities, other than claims payable, decreased $38 million during fiscal year 2022, mainly due to a decrease in retrospective rating refunds payable of $21 million and a decrease in investment trades pending of $20 million, which changes based on the timing of trading activities. In addition, there was a decrease of $6 million in the actuarial experting for cash funded self-insured employers with account excesses. The decrease was partially offset by an increase in salaries and vacation leave liabilities of $2 million and an increase of $7 million for lease liabilities added this fiscal year in compliance with GASB 87. Additional details regarding leases can be found in Note 8 of this report.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $38,703 million at the end of fiscal year 2022, an increase of $4,120 million, or 11.9 percent, when compared to the previous fiscal year. The claims administration expense liability increased by $22 million, due to increases in benefit liabilities and the corresponding expenses to process the increased benefits, as well as the reduction of the discount rates. The remaining increase was due to a net increase in benefit liabilities. Benefit liabilities increased $4,098 million, as shown by the table below:

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

	June 30, 2022	June 30, 2021
Benefit liabilities, beginning of year	$ 33,673	$ 31,950
New liabilities incurred, current year	2,455	2,286
Development on prior years		
Reserve discount accretion	527	506
Change in discount rate**	80	391
Other development on prior liabilities	3,491	864
Claim payments	(2,455)	(2,324)
Change in benefit liabilities	4,098	1,723
Benefit liabilities, end of year	$ 37,771	$ 33,673

***** Excludes claims administration expense liabilities
****** Includes the non-pension discount rate changes from 5.8% to 5.7% (Self-Insurance Program)

It is expected that benefit liabilities will change every year due to normal activities, such as adding the current accident year liabilities, discounting existing liabilities, and paying claims.

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

- The liabilities in the Supplemental Pension Account increased $3,952 million. The Supplemental Pension Account provides for the cost-of-living adjustments (COLAs) on workers' compensation time-loss and pension benefit payments for injured workers insured through both the State Fund and Self-Insurance Program. By statute, the COLAs are based on the annual calendar year change in the state's average wages. The COLA for fiscal year 2022 is based on the change in the State's Average Annual Wage from the preceding calendar year, as published by Washington State Employment Security Department. The state's average annual wage increased from $76,741 in 2020 to $82,508 in 2021, an increase of 7.5 percent.

- The liabilities in the Accident Account decreased $59 million, primarily due to a reduction in time-loss claim estimates and lower-than-anticipated active claims.

- The liabilities in the Medical Aid Account decreased $113 million, mainly due to the decreasing number of active medical claims.

Total net position (deficit) - The Workers' Compensation Program deficit increased by $6,713 million during fiscal year 2022, ending with a deficit balance of $19,580 million. This deficit consists of a $22,681 million deficit in the Supplemental Pension Account, offset by a 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, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,767	$ 2,350	$ 417	17.7%
Miscellaneous revenues	44	41	3	7.3%
Total Operating Revenues	2,811	2,391	420	17.6%
Nonoperating Revenues				
Earnings on investments	(2,580)	1,303	(3,883)	(298.0%)
Other revenues	9	9	-	0.0%
Total Revenues	240	3,703	(3,463)	(93.5%)
Operating Expenses				
Salaries and wages	210	210	-	0.0%
Employee benefits	14	55	(41)	(74.5%)
Personal services	12	15	(3)	(20.0%)
Goods and services	84	103	(19)	(18.4%)
Travel	3	2	1	50.0%
Claims	6,586	4,113	2,473	60.1%
Depreciation	12	4	8	200.0%
Miscellaneous expenses	34	3	31	1033.3%
Total Operating Expenses	6,955	4,505	2,450	54.4%
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	6,955	4,505	2,450	54.4%
Income (Loss) before Transfers	(6,715)	(802)	(5,913)	737.3%
Net Transfers	2	(1)	3	(300.0%)
Change in Net Position (Deficit)	(6,713)	(803)	(5,910)	736.0%
Net Position (Deficit) - Beginning of Year*	(12,867)	(12,064)	(803)	6.7%
Net Position (Deficit) - End of Year	$ (19,580)	$ (12,867)	$ (6,713)	52.2%

*Net Position (Deficit) – Beginning of Year for Fiscal Year Ended June 30, 2021 is restated (see Note 2 for more details).

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2022 were $2,767 million compared to $2,350 million for fiscal year 2021, an increase of $417 million. The majority of this change derived from the increase in reported hours of 6.6 percent and the increase in the Supplemental Pension Account premium rate of 12.0 percent and 13.9 percent on January 1, 2021 and 2022, respectively.

Earnings on investments - The earnings on investments decreased by $3,883 million from the prior fiscal year, as explained below:

Significant Changes in Investment Activity*
(dollars in millions)

	June 30, 2022	June 30, 2021	$ Change	% Change
Fixed Income				
Interest earnings	$ 466	$ 474	$ (8)	(1.7%)
Realized gains (losses)	75	114	(39)	(34.2%)
Unrealized gains (losses)	(2,525)	(537)	(1,988)	370.2%
Fixed Income Total	(1,984)	51	(2,035)	(3990.2%)
Equities				
Realized gains (losses)	67	194	(127)	(65.5%)
Unrealized gains (losses)	(654)	1,065	(1,719)	(161.4%)
Equities Total	(587)	1,259	(1,846)	(146.6%)
Real Estate LP				
Realized gains (losses)	-	-	-	N/A
Unrealized gains (losses)	(2)	-	(2)	N/A
Equities Total	(2)	-	(2)	N/A
Total Investments	$ (2,573)	$ 1,310	$ (3,883)	(296.4%)

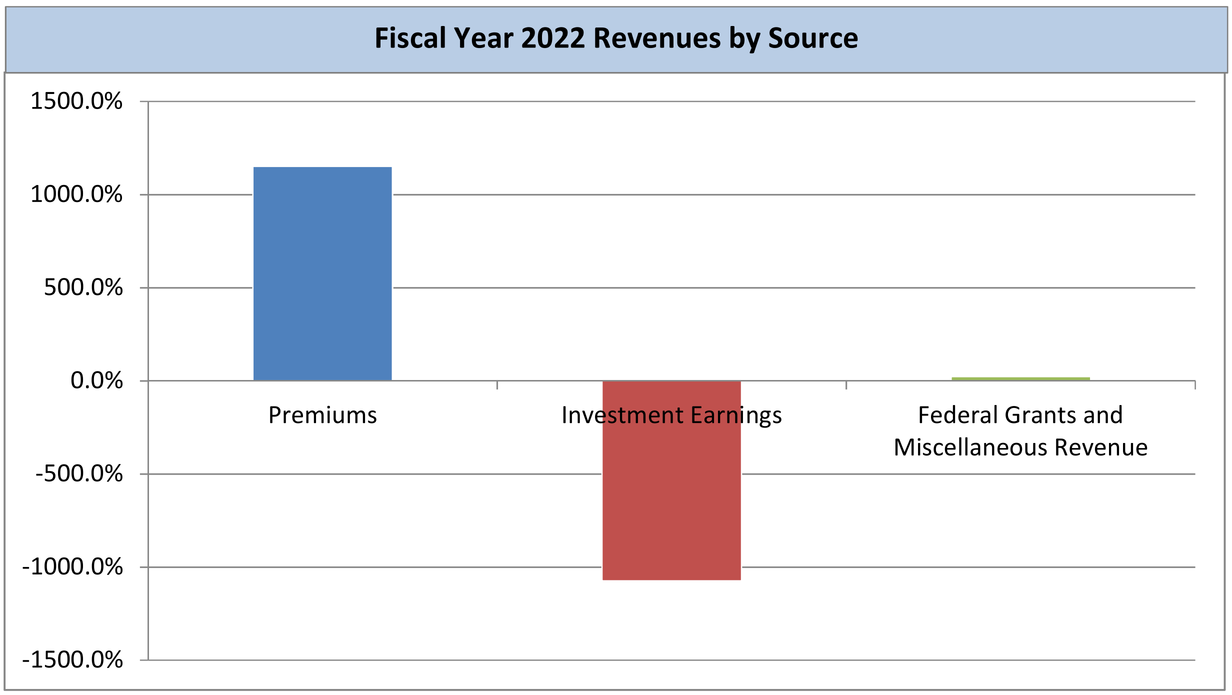
*The above does not include investment expenses.

- Earnings on fixed income security investments decreased $2,035 million as compared to fiscal year 2021, mainly due to $1,988 million in unrealized losses.

- The change in equity realized and unrealized gains during the fiscal year was a decrease of $1,846 million. In fiscal year 2022, net equity realized and unrealized losses were $587 million versus net equity realized and unrealized gains of $1,259 million in fiscal year 2021. Fiscal year 2022 losses were mainly the result of a decline in market conditions. In the second quarter of fiscal year 2022, the Washington State Investment Board (WSIB) rebalanced the investment portfolio, selling equity investments and purchasing fixed income securities that resulted in $67 million in realized gains.

- The change in real estate limited partnership realized and unrealized gains (losses) during the fiscal year was a $2 million loss. The real estate program remains in its early stages and has investments in European and U.S. residential properties. During the early years of a new investment program, start-up costs, operating expenses, and management fees are disproportionately large as a percentage of assets under management and negative returns are expected. Over time, the negative returns are expected to reverse as the size of the portfolio grows.

The following chart provides additional detail on the breakdown of revenues by source during fiscal year 2022:



Claims expense - Claims expense for fiscal year 2022 increased $2,474 million, or 60.1 percent, as compared to fiscal year 2021. 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 2022 was significantly higher than the change in claims payable in fiscal year 2021, causing a $2,321 million increase 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 $153 million, or 6.6 percent, when compared to the prior year. The net increase in claim payments to beneficiaries can be explained by the following:

- The Medical Aid Account's $11.6 million decrease in claim payments to beneficiaries stemmed from a continued reduction in medical aid claim frequency in addition to lower cost per claim in fiscal year 2022 compared with fiscal year 2021.

- The Pension Reserve Account's claim payments to beneficiaries increased $24.8 million, mostly because of higher average monthly benefits. New pensions have higher wages than the pensions that have dropped off through mortality.

- The Accident Account's $26.2 million increase in claim payments to beneficiaries resulted primarily from increases in the number of time loss claims including COVID-19 related claims.

- The Supplemental Pension Account's $113.5 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 2022, other than claims expense, were $369 million, as compared to $392 million in fiscal year 2021.

Employee benefits decreased by $41 million compared to prior year due to:

- A decrease in the employer retirement contribution rate for PERS effective July 1, 2021 from 12.97 percent to 10.25 percent, a reduction of 2.72 percent.

- Pension expenses decreased based on the actuarially determined pension expense that resulted in a significant variance between the amortization of differences between projected and actual earnings on plan investments in fiscal year 2021. For more information on pensions, please see Note 11.

The decrease in employee benefits was mostly offset by an increase in bad debt expense of $35 million. 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 2022, the agency recorded dramatically higher receivables mainly due to the increase in worker hours of 6.6 percent or 257,787 hours.

Additional items that affected the change in operating expenses:

- A reduction in WCSM project efforts due to the COVID-19 pandemic and its aftermath.

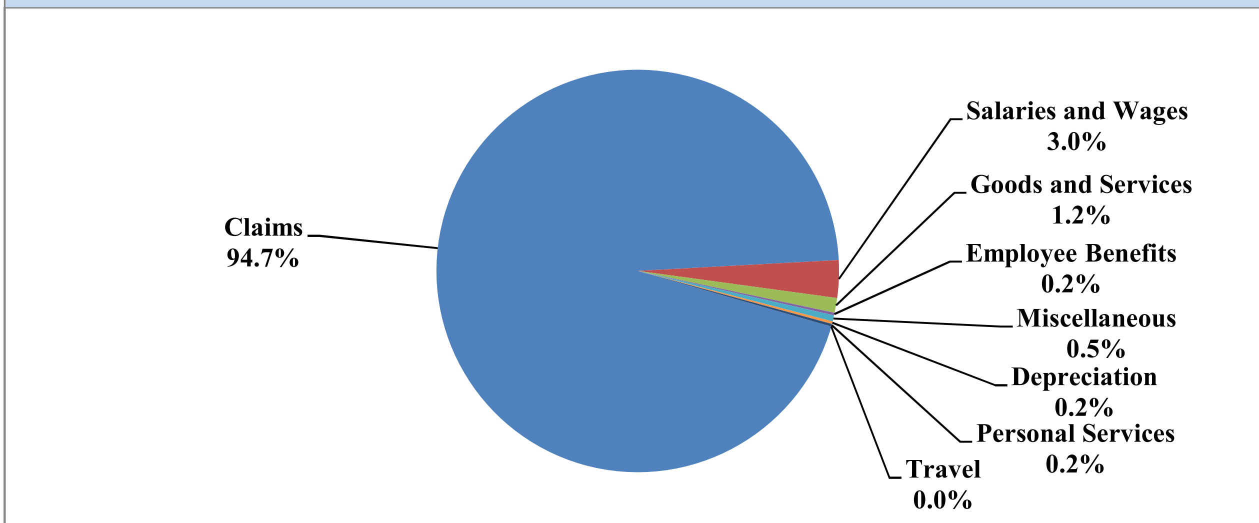
- OPEB expenses increased due to changes in actuarial assumptions resulting from a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index discount rate.

- There was a reduction in total billable hours for services from the Attorney General's office in fiscal year 2022.

- Several large agency projects were completed in fiscal 2021, such as the headquarters elevator and boiler/cooling system replacement projects and several apprenticeship grant projects, reflecting a decrease in fiscal year 2022 operating expenses.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2022:

Fiscal Year 2022 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2022, were $85.3 million. This is a $48.8 million increase from the previous year. The increase was partially due to the implementation of GASB Statement No. 87, Leases, which now considers leases as financing arrangements and requires the recognition of an intangible right-to-use lease asset for an increase of $52.5 million. In addition, construction continued on the new Division of Safety and

Health (DOSH) lab, resulting in an increase to capital assets of $23.7 million. The increase was partially offset by the depreciation expense for the year of $1.8 million and amortization of $25.0 million for the right-to-use asset added this fiscal year. Each year, capital assets are expensed over their useful lives. Additional information on capital assets can be found in Note 1.D.7 and Note 7 of this report.

Potentially Significant Matters with Future Impacts

The agency requested $53 million from the Accident and Medical Aid Accounts to design and construct a 53,925 square foot co-located laboratory and training center as a 2021-2023 capital request. The current facility restricts L&I's ability to achieve its mission of making Washington's workplaces safe and to meet federal mandates to equal or exceed U.S. Occupational Safety & Health Act (OSHA) requirements. The laboratory is used to conduct chemical analyses of hazardous substances that were collected during inspection and consultation visits. The training center works in conjunction with the lab in order to train inspectors and consultants to be able to identify hazards in the workplace and is required per OSHA training mandates. Construction on the new facility began in September 2021 and is expected to be completed in April 2023.

One Washington (OneWA) is an Office of Financial Management (OFM) project, pursuant to Executive Order 19-04, that will modernize the state's core administrative functions for Finance, Procurement, Budget, Human Resources (HR), and Payroll. All executive level agencies are required to transition to the new system, WorkDay. 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.

The Workers' Compensation Program has various computer systems that are used for paying benefits and collecting premiums. Many of the systems were built over thirty years ago, and the agency has a goal to replace these systems before they turn forty years old. The legislature approved a 2021-2023 biennial budget that included $9.4 million out of the total estimated cost of $309 million to replace the old computer systems that support the Workers' Compensation Program. The seven-year project will simplify the program's technology architecture, replace manual paperwork processes with electronic features, and free up staff time to focus on further improving services to injured workers and employers.

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

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Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents	$ 149,578,733
Investments, current	1,084,393,570
DOE trust cash and investments	527,178
Receivables, net of allowance	937,925,798
Receivables from other state accounts and agencies	81,813
Receivables from other governments	1,336,871
Inventories	63,306
Prepaid expenses	163,141
Total Current Assets	2,174,070,410
Noncurrent Assets	
DOE trust receivable	3,392,151
Investments, net of current portion	17,322,227,930
Restricted net pension asset	167,990,293
Capital assets, net of accumulated depreciation and amortization	85,291,553
Total Noncurrent Assets	17,578,901,927
Total Assets	19,752,972,337
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows from pensions	31,490,655
Deferred outflow of resources on OPEB	18,418,362
Total Deferred Outflows of Resources	49,909,017
Total Assets and Deferred Outflows of Resources	$ 19,802,881,354
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	
Current Liabilities	
Accounts payable	$ 9,394,438
Accrued liabilities	254,245,061
Leases payable, current	7,871,059
Total OPEB liabilities, current	2,399,935
Payable to other state accounts and agencies	5,320,405
Unearned revenues	2,740,119
DOE trust liabilities, current	464,516
Claims payable, current	2,528,276,000
Total Current Liabilities	2,810,711,533
Noncurrent Liabilities	
Claims payable, net of current portion	36,174,480,000
Leases payable, net of current portion	20,022,614
Other long-term liabilities	7,726,909
DOE trust liabilities, net of current portion	3,454,813
Total OPEB liabilities, net of current portion	142,982,008
Net pension liability, net of current portion	17,074,255
Total Noncurrent Liabilities	36,365,740,599
Total Liabilities	39,176,452,132
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	174,107,415
Deferred inflow of resources on OPEB	32,678,110
Total Deferred Inflows of Resources	206,785,525
NET POSITION (DEFICIT)	
Investment in capital assets	57,397,880
Restricted pension	36,324,717
Unrestricted	(19,674,078,900)
Total Net Position (Deficit)	(19,580,356,303)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 19,802,881,354

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, 2022

OPERATING REVENUES		
Premiums and assessments, net of refunds and reinsurance	$	2,766,915,460
Miscellaneous revenues		44,630,626
Total Operating Revenues		2,811,546,086
OPERATING EXPENSES		
Salaries and wages		209,887,713
Employee benefits		14,153,888
Personal services		12,346,951
Goods and services		83,890,996
Travel		2,852,726
Claims		6,586,284,402
Depreciation and amortization		11,410,600
Miscellaneous expenses		34,311,302
Total Operating Expenses		6,955,138,578
Operating Income (Loss)		(4,143,592,492)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		(2,580,407,245)
Other revenues		9,303,852
Total Nonoperating Revenues (Expenses)		(2,571,103,393)
Income Before Transfers		(6,714,695,885)
Transfers in		1,787,249
Net Transfers		1,787,249
Change in Net Position		(6,712,908,636)
Net Position (Deficit) at July 1		(12,867,003,122)
Prior Period Adjustment		(444,545)
Net Position (Deficit) - July 1, as restated (see Note 2)		(12,867,447,667)
Net Position (Deficit) - June 30	$	(19,580,356,303)

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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,604,805,126
Payments to/for beneficiaries		(2,471,422,007)
Payments to employees		(282,567,079)
Payments to suppliers		(100,581,940)
Other		42,264,216
Net Cash Flows from Operating Activities		(207,501,684)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in (Workers' Compensation Funds)		1,835,578,165
Transfers in (IT Tech Pool)		1,787,250
Transfers out (Workers' Compensation Funds)		(1,835,578,165)
Operating grants received		9,642,078
License fees collected		94,854
Net Cash Flows from Noncapital Financing Activities		11,524,182
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets		(33,017,430) *
Net Cash Flows from Capital and Related Financing Activities		(33,017,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales (purchases) of trust investments		39,509
Receipt of interest and dividends		464,161,246
Investment expenses		(7,206,807)
Proceeds from sale of investment securities		7,708,550,848
Purchases of investment securities		(7,868,850,510)
Net Cash Flows from Investing Activities		296,694,286
Net increase in cash and cash equivalents		67,699,354
Cash & cash equivalents, July 1 (includes trust cash of $487,669)		82,406,557
Cash & cash equivalents, June 30 (includes trust cash of $527,178)	$	150,105,911
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	(4,143,592,492)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities		
Depreciation		11,410,600
Change in Assets: Decrease (Increase)		
Receivables		(107,288,182)
Inventories		24,394
Prepaid expenses		(4,250)
Other assets		(167,990,290)
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		4,120,447,000
Accrued liabilities		79,491,536
Net Cash Flows from Operating Activities	$	(207,501,684)
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	$	(3,181,050,772)

*Acquisitions of capital assets includes $8,765,945 of principal payments on long-term captial financing as per GASB 87.

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, 2022

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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 comes 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, 2022, trust cash and investments of $527,178, 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, 2022, 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 2.66 percent. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rate. The Medical Aid and Supplemental Pension Accounts are discounted at 1.0 percent; the Pension Reserve Account is discounted at two different rates: the State Fund portion is discounted at 4.0 percent and the Self-Insured portion is discounted at 5.7 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 1.0 percent.

The actuaries estimate accrued retrospective premium annual adjustments for unadjusted enrollment periods by reviewing historical participation and return patterns. The historical averages are used to arrive at an estimate of net retrospective return premiums for unadjusted periods. Cumulative return premiums for periods from the first annual adjustment through the third annual adjustment are system-generated, and the accruals are the difference between the cumulative returns and the amount already returned. The third annual retrospective adjustment is final. Retrospective return premiums due to employers are netted with additional premiums due from employers and recorded as a liability in the Accident Account.

1.D.5 Reinsurance

The Workers' Compensation Program purchased catastrophe reinsurance for risks in excess of its retention on the workers' compensation insurance policy to reduce its exposure to the financial risks associated with a catastrophe. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Workers' Compensation Program as the direct insurer of the risks reinsured.

Amounts that are recoverable from reinsurers and that relate to paid claims and claim adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid claims and claim adjustment expenses are deducted from those liabilities. Ceded unearned premiums are netted with related unearned premiums. Receivables and payables from the same reinsurer, including amounts withheld, are netted. Reinsurance premiums ceded and reinsurance recoveries on claims are netted against related earned premiums and incurred claim costs in the Statement of Revenues, Expenses, and Changes in Net Position.

1.D.6. Inventories and Prepaid Expenses

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

Prepaid expenses are certain types of services that will benefit future accounting periods and are accounted for using the consumption method. The portion of services used during a period is recorded as an expense. The remaining balance is reported as an asset until consumed. As of June 30, 2022, prepaid expenses amounted to $163,141.

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
- Lease assets with total payments over the lease term of $500,000 or greater
- All other capital assets with a unit cost (including ancillary costs) of $5,000 or greater, unless otherwise noted
- All capital assets acquired with a Certificate of Participation

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

The value of assets constructed for use in the Workers' Compensation Program includes all direct construction costs and indirect costs, such as agency project management costs, that are related to the construction.

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

Generally, estimated useful lives are as follows:

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

1.D.8. Compensated Absences

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

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

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

1.E. Other Information

1.E.1. Risk Management

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

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

1.E.2. Interfund/Interagency Activities

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

Note 2 - Accounting and Reporting Changes

Reporting Changes

Effective for fiscal year 2022 reporting, the Workers' Compensation Program adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 87, Leases

This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets include buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right-to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources.

Prior Period Adjustments

The Workers' Compensation Program recorded a reduction to the beginning net position in the following funds in order to report the fund's addition of right to use lease assets, accumulated amortization, and short-term and long-term lease liabilities per GASB Statement No. 87:

- Accident Fund, a major proprietary fund, in the amount of $226,727.
- Medical Aid Fund, a major proprietary fund, in the amount of $217,818.

The Workers' Compensation Program recorded a reduction to the beginning net position as a result of these reporting changes. The Net Position (Deficit) at July 1, 2021, has been restated as follows:

Restated Net Position (Deficit)		
Net Position (Deficit) at June 30, 2021, as previously reported	$	(12,867,003,122)
Prior Period Adjustment - Reporting Changes		(444,545)
Net Position (Deficit) at July 1, 2021, as restated	$	(12,867,447,667)

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 during the coverage period, and no recoveries have been recorded. Reinsurance premiums are reflected as a reduction of premium income.

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

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

The Workers' Compensation Program pays a flat premium amount for the ceded reinsurance. The total annual ceded premium is $14.8 million for the coverage period January 2022 through December 2022. Premiums ceded of $14.8 million for reinsurance coverage have been recorded in the accompanying basic financial statements for the year ended June 30, 2022, for the coverage period from July 2021 through June 2022.

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 2022 and 2021 (expressed in millions):

	Fiscal Year 2022	Fiscal Year 2021
Premiums and assessments, net of refunds	$ 2,782	$ 2,365
Ceded premiums	(15)	(15)
Total premium and assessment income, net of refunds and ceded premiums	$ 2,767	$ 2,350

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. At June 30, 2022, $149.8 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $277,178 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 3 percent of the fund's fair market value at the time of purchase, nor shall its market value exceed 6 percent of the fund's market 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.

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

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

Fixed Income - Sector allocation of fixed income investments is to be managed within prescribed ranges. Deviations may occur in the short term as a result of interim market conditions. However, if a range is exceeded, the portfolios must be rebalanced to the target allocations as soon as it is practicable. Target allocations for the fixed income sectors include:

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

Total market value of below-investment-grade credit bonds (as defined by Bloomberg Global Family of Fixed Income Indices) shall not exceed 5 percent of the total market 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 market value of below-investment-grade mortgage-backed, asset-backed, and commercial mortgage-backed securities should not exceed 5 percent of total market value of the funds.

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

- Generate a 6 percent annual investment return over a rolling 10-year period. This objective also serves as the total net return benchmark for the portfolio.
- The return will be generated by current income, and the portfolio will be intentionally constructed to focus on yield rather than total return.
- The portfolio will be diversified across geography and property type.
- No more than 15 percent of the 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 and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

The Workers' Compensation Program receives fair value prices for publicly traded debt securities directly from its custodian bank. These prices are obtained from reputable pricing sources, which include, but are not limited to, Bloomberg Valuation Services. 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 2 to 5 percent or greater are researched, with corroborating evidence required from the primary pricing vendor.

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

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

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

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

The table below presents fair value measurements as of June 30, 2022:

Schedule of Fair Value Measurements
June 30, 2022
(in thousands)

Investment Type	Fair Value	Fair Value Measurements Using: Level 1	Level 2	Level 3
Debt securities				
Mortgage and other asset-backed securities	$ 711,942		$ 711,942	
Corporate bonds	10,449,765		10,449,765	
U.S. and foreign government and agency securities	3,857,444		3,857,444	
Total Investments by Fair Value Level	$ 15,019,151		$ 15,019,151	
Investments Measured at Net Asset Value (NAV)				
Commingled equity investment trusts	3,069,050			
Real Estate	38,561			
Total investments measured at the NAV	3,107,611			
Total Investments Measured at Fair Value*	$ 18,126,762			

*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 of a broad, global equity index, the MSCI All Country World Investable Market Index net with USA gross. The fund determines a fair value by obtaining the values of underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings are publicly traded equity securities.

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

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

The limited partnerships’ annual financial statements are audited by independent auditors. These investments are valued at approximately $38.6 million as of June 30, 2022. Because of the inherent uncertainties in estimating fair values, it is possible these estimates will change in the near-term or the subsequent sale of assets will be different than the June 30, 2022, reported net asset value.

These investments can never be redeemed. Instead, the nature of these investments provides for distributions through the sale or liquidation of the underlying assets and from net operating cash flows. It is anticipated that the investments will be held for at least 10 years.

Real Estate. This currently includes three 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. At June 30, 2022, 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 at June 30, 2022. 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 2022, 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 2022 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 2022, there was no cash collateral from securities lending.

Contracts require the lending agent to indemnify the OST if the borrowers fail to return securities and if the collateral is inadequate to replace the securities lent, or if the borrower fails to pay the OST for income distributed by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2022, the fair value of securities on loan for the Workers' Compensation Program totaled $1,780,894.

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 2022, 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, 2022, 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, 2022. 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, 2022
(in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration (years)**
Mortgage and other asset-backed securities	$ 711,942	$ 8,570	$ 574,080	$ 129,292	$ -	4.1
Corporate bonds	10,449,765	521,210	3,835,289	3,003,391	3,089,875	7.3
U.S. government and agency securities	2,518,774	122,427	1,207,057	467,386	721,904	7.3
Foreign government and agencies	1,338,670	151,660	580,510	413,848	192,652	5.7
Total investments categorized	$ 15,019,151	$ 803,867	$ 6,196,936	$ 4,013,917	$ 4,004,431	7.0
Investments Not Required to be Categorized						
Commingled investment trusts	3,069,050					
Cash and cash equivalents	280,526					
Real estate	38,561					
Total investments not categorized	3,388,137					
Total*	$ 18,407,288					

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

Investments with multiple credit ratings at June 30, 2022, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2022
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 711,942	$ 475,730	$ 161,586	$ 1,349,258
Aa1	-	196,557	306,629	503,186
Aa2	-	143,790	102,054	245,844
Aa3	-	887,171	147,467	1,034,638
A1	-	1,341,324	369,490	1,710,814
A2	-	1,855,056	78,211	1,933,267
A3	-	1,787,425	-	1,787,425
Baa1	-	1,748,013	-	1,748,013
Baa2	-	1,383,373	137,936	1,521,309
Baa3	-	426,805	8,182	434,987
Ba1 or lower	-	204,521	27,115	231,636
Total Fair Value	$ 711,942	$ 10,449,765	$ 1,338,670	$ 12,500,377

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, 2022, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program's policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2022.

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 at June 30, 2022, consisted of $1,215 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, 2022 (in thousands)		
Foreign Currency Denomination		**Equity Securities**
Australia - Dollar	$	62,726
Brazil - Real		17,978
Canada - Dollar		98,756
China - Yuan Renminbi		17,736
Denmark - Krone		20,423
E.M.U. - Euro		227,109
Hong Kong - Dollar		111,159
India - Rupee		49,836
Japan - Yen		181,385
New Taiwan - Dollar		54,454
Saudi Arabia - Riyal		15,135
Singapore - Dollar		10,758
South Africa - Rand		12,935
South Korea - Won		41,708
Sweden - Krona		28,989
Switzerland - Franc		74,498
United Kingdom - Pound		123,489
Miscellaneous Foreign Currencies		66,208
Total	$	1,215,282

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.

At June 30, 2022, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $261.3 million.

Note 5 - Receivables

Receivables at June 30, 2022, consisted of the following:

Receivables June 30, 2022		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	216,228,894
Estimated premiums receivable[1]		710,630,000
Estimated self-insurance premiums receivable[2]		98,462,276
Total Premiums Receivable		1,025,321,170
Other receivables		
Receivable from overpayments		1,829,997
Investment interest receivable		115,376,030
Safety fines & penalties receivable		30,306,386
Miscellaneous receivables		5,091,953
Total Current Receivables, Gross		1,177,925,536
Less: Allowance for uncollectible receivables		239,999,738
Total Current Receivables, Net of Allowance	$	937,925,798

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2022. 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, 2022, 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, 2022, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2022		
General Fund	$	42,742
L&I accounts*		12,941
Other state agencies		26,130
Total Receivables From Other State Accounts and Agencies	$	81,813

*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, 2022. Payables to other state accounts and agencies as of June 30, 2022, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2022	
General Fund	$ 1,768
L&I accounts*	325,482
Other state agencies	4,993,155
Total Payables To Other State Accounts and Agencies	**$ 5,320,405**

*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, 2022, and paid after the fiscal year ended.

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

Capital Assets Activity
For the Fiscal Year Ended June 30, 2022

	Beginning Balance July 1, 2021	Increases	Decreases	Ending Balance June 30, 2022
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,204,301	$ -	$ -	$ 3,204,301
Construction in progress	4,052,352	23,651,351	-	27,703,703
Total Capital Assets Not Being Depreciated	7,256,653	23,651,351	-	30,908,004
Capital Assets Being Depreciated:				
Buildings and building components	65,110,518	-	-	65,110,518
Accumulated depreciation	(38,458,014)	(1,353,041)	-	(39,811,055)
Net Buildings and Building Components	26,652,504	(1,353,041)	-	25,299,463
Furnishings, equipment, and collections	57,919,138	224,345	(765,284)	57,378,199
Accumulated depreciation	(56,448,322)	(482,589)	765,284	(56,165,627)
Net Furnishings, Equipment, and Collections	1,470,816	(258,244)	-	1,212,572
Other improvements	1,289,263	-	-	1,289,263
Accumulated depreciation	(850,057)	(20,383)	-	(870,440)
Net Other Improvements	439,206	(20,383)	-	418,823
Total Capital Assets Being Depreciated, Net	28,562,526	(1,631,668)	-	26,930,858
Capital Assets Being Amortized:				
Intangible assets - definite useful lives	47,208,593	-	-	47,208,593
Accumulated amortization - definite useful lives	(46,498,122)	(710,471)		(47,208,593)
Net Intangible Assets - Definite Useful Lives	710,471	(710,471)	-	-
Lease asset - building[1]	52,465,028			52,465,028
Accumulated amortization - lease asset - building[1]	(16,168,220)	(8,844,117)		(25,012,337)
Net Lease Asset - Building	36,296,808	(8,844,117)	-	27,452,691
Total Capital Assets Being Amortized, Net	37,007,279	(9,554,588)	-	27,452,691
Total Capital Assets, Net of Depreciation and Amortization	$ 72,826,458	$ 12,465,095	$ -	$ 85,291,553

[1]Fiscal year 2021 adjusted ending balance due to the fiscal year 2022 addition of GASB No.87 right-to-use lease assets.

For fiscal year 2022, the total depreciation and amortization expense was $11,410,600.

Increases of $23.7 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 is expected to be completed around April 2023.

Note 8 - Noncurrent Liabilities

8.A. Changes in Current and Noncurrent

Current and noncurrent liability activity for the fiscal year ended June 30, 2022, was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2022

Current and Noncurrent Liabilities	Beginning Balance June 30, 2021	Additions	Reductions	Ending Balance June 30, 2022	Due Within One Year[2]	Noncurrent Balance June 30, 2022
Claims payable, current & noncurrent	$ 34,582,309,000	$ 6,763,887,000	$ (2,643,440,000)	$ 38,702,756,000	$ 2,528,276,000	$ 36,174,480,000
Other current and noncurrent liabilities						
Compensated absences[1]	22,956,980	20,755,705	(20,904,720)	22,807,965	15,081,056	7,726,909
DOE trust liabilities	4,269,498	-	(350,169)	3,919,329	464,516	3,454,813
Other postemployment benefits	134,262,261	8,141,335	2,978,347	145,381,943	2,399,935	142,982,008
Lease liabilites[3]	36,741,353	9,467,723	(18,315,403)	27,893,673	7,871,059	20,022,614
Net pension liability	67,653,468	22,424,283	(73,003,496)	17,074,255	-	17,074,255
Total Other Current and Noncurrent Liabilities	265,883,560	60,789,046	(109,595,441)	217,077,165	25,816,566	191,260,599
Total Current and Noncurrent Liabilities	$ 34,848,192,560	$ 6,824,676,046	$ (2,753,035,441)	$ 38,919,833,165	$ 2,554,092,566	$ 36,365,740,599

[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.
[3]Fiscal year 2021 adjusted ending balance due to the fiscal year 2022 addition of GASB No.87 right-to-use lease liabilities.

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, 2022 and 2021

Claims Payable	**June 30, 2022**	**June 30, 2021**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 34,582,309,000	$ 32,793,141,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,686,881,000	2,511,881,000
Increase in provision for insured events of prior fiscal years	4,077,006,000	1,792,880,000
Total Incurred Claims and Claim Adjustment Expenses	6,763,887,000	4,304,761,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	324,088,000	328,384,000
Insured events of prior fiscal years	2,319,352,000	2,187,209,000
Total payments	2,643,440,000	2,515,593,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year-End	$ 38,702,756,000	$ 34,582,309,000
Current portion	$ 2,528,276,000	$ 2,393,303,000
Noncurrent portion	$ 36,174,480,000	$ 32,189,006,000

At June 30, 2022, $49,085 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $38,703 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 $38,703 million as of June 30, 2022, include $23,003 million for supplemental pension COLAs that are funded on a current payment basis per RCW 51.32.073. Management believes the funding is in compliance with the statute. The remaining claims liabilities of $15,700 million are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

Note 9 – Leases

Right-To-Use Lease Agreements

The Workers' Compensation Program leases office facilities, office and computer equipment, and other assets 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.

Effective fiscal year 2022, the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, establishes a single model for lease accounting based on the principle that leases are financings of the right to use an asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets include buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right-to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources.

The Workers' Compensation Program's right-to-use lease assets activity for the year ended June 30, 2022, 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, 2022:

Future Annual Payments for Right-To-Use Lease Agreements
June 30, 2022

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 7,870,398	$ 219,055	$ 8,089,453
2024	6,735,359	150,275	6,885,634
2025	5,676,533	93,937	5,770,470
2026	3,494,142	51,250	3,545,392
2027	1,238,148	31,601	1,269,749
2028-2032	2,879,093	37,517	2,916,610
Thereafter	-	-	-
Total Future Minimum Lease Payments	$ 27,893,673	$ 583,635	$ 28,477,308

Variable lease 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 liability. Such amounts are recognized as an expense in the period in which the obligation for those payments is incurred.

During the fiscal year ending June 30, 2022, the Workers' Compensation Program recognized $5,798,367 for variable lease payments related to certain equipment leases which require additional payments based on the usage of that asset, such as the number of copies made. There were no residual guarantee payments during the fiscal year ending June 30, 2022.

Note 10 - Deficit

At June 30, 2022, the Workers' Compensation Program had a deficit of $19,580 million. This is the result of a $22,681 million deficit in the Supplemental Pension Account at June 30, 2022, offset by a combined $3,101 million net position in the total Basic Plan, Second Injury Account, and the Self-Insured Employer Overpayment Reimbursement Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2022, noncurrent claims payable in the Supplemental Pension Account totaled $22,103 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2022:

Supplemental Pension Account Net Position (Deficit)		
Balance, July 1, 2021	$	(18,750,160,424)
Fiscal year 2022 activity		(3,930,737,209)
Balance, June 30, 2022	$	(22,680,897,633)

Note 11 - Retirement Plans

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

The table below shows the net pension liability/(asset), deferred outflows of resources, deferred inflows of resources, and pension expense reported on June 30, 2022, 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, 2022				
	Net Pension Liability (Asset)	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERS 1	$ 16,378,389	$ 7,938,248	$ (18,174,530)	$ (9,594,098)
PERS 2/3	(167,927,537)	22,701,883	(154,332,294)	(51,427,955)
TRS 1	15,308	11,625	(22,950)	(13,008)
TRS 2/3	(62,756)	41,808	(76,971)	(23,192)
Higher Ed	680,558	797,091	(1,500,670)	(169,823)
Total	$ (150,916,038)	$ 31,490,655	$ (174,107,415)	$ (61,228,076)

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 3.

Benefits Provided

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

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service, or after five years of service if 12 months of that service are earned after age 44. 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 2022 for each of Plans 1, 2, and 3 was 10.25 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, 2022, 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, 2020, with the results rolled forward to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report.

The 7.40 percent long-term expected rate of return on pension plan investments was determined using a building-block method in 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 2017 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, 2021, are summarized in the following table:

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

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

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members.

Based on the assumptions in the OSA's Certification Letter, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	PERS 1	PERS 2/3
1% Decrease	$ 27,901,509	$ (47,839,305)
Current Discount Rate	$ 16,378,389	$ (167,927,537)
1% Increase	$ 6,329,050	$ (266,820,263)

Net Pension Liability/Asset

At June 30, 2022, the Workers' Compensation Program reported a liability of $16,378,389 for its proportionate share of the collective net pension liability for PERS 1 and a net pension asset of $167,927,537 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was

3.09 percent, a decrease of 0.01 percent since the prior reporting period, and 3.29 percent for PERS 2/3, an increase of 0.02 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, 2022, the Workers' Compensation Program recognized a pension expense of ($9,594,098) for PERS 1, and a pension expense of ($51,427,955) for PERS 2/3.

At June 30, 2022, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2022

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 8,155,998	$ 8,155,998
Changes of assumptions	-	245,396	245,396
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	813,688	813,688
Contributions subsequent to measurement date	7,938,248	13,486,801	21,425,049
Total	$ 7,938,248	$ 22,701,883	$ 30,640,131

At June 30, 2022, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2022

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 2,058,629	$ 2,058,629
Changes of assumptions	-	11,925,635	11,925,635
Net difference between projected and actual earnings on pension plan investments	18,174,530	140,348,030	158,522,560
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 18,174,530	$ 154,332,294	$ 172,506,824

Pension contributions made subsequent to the measurement date in the amount of $7,938,248 and $13,486,801 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2022, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023.

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

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ended June 30,		**PERS 1**		**PERS 2/3**
2023	$	(4,814,435)	$	(38,276,508)
2024	$	(4,411,775)	$	(35,754,914)
2025	$	(4,171,512)	$	(34,050,840)
2026	$	(4,776,808)	$	(36,839,163)
2027	$	-	$	(363,981)
Thereafter	$	-	$	168,164

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 2 members unless they exercised an option to transfer their membership to Plan 3. Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

Benefits Provided

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

TRS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service, or after five years of service if 12 months of that service are earned after age 44. 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 2022 for each of Plans 1, 2, and 3 was 14.42 percent.

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies and higher education employees. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency and higher education employees at June 30, 2022, 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, 2020, with the results rolled forward to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report.

The 7.40 percent long-term expected rate of return on pension plan investments was determined using a building-block method in 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 2017 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, 2021, are summarized in the following table:

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

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

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members.

Based on the assumptions in the OSA's Certification Letter, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

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

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	TRS 1	TRS 2/3
1% Decrease	$ 29,342	$ 10,943
Current Discount Rate	$ 15,308	$ (62,756)
1% Increase	$ 3,061	$ (122,874)

Net Pension Liability/Asset

At June 30, 2022, the Workers' Compensation Program reported a liability of $15,308 for its proportionate share of the collective net pension liability for TRS 1 and a net pension asset of $62,756 for TRS 2/3. Workers' Compensation Program's proportion for TRS 1 was 0.17 percent, a decrease of 0.01 percent since the prior reporting period, and 0.18 percent for TRS 2/3, a decrease of 0.01 percent since the prior reporting period. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

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

For the year ended June 30, 2022, a pension expense of ($13,008) was recognized for TRS 1, and a pension expense of ($23,192) was recognized for TRS 2/3.

At June 30, 2022, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2022

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 19,496	$ 19,496
Changes of assumptions	-	3,904	3,904
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	3,360	3,360
Contributions subsequent to measurement date	11,625	15,048	26,673
Total	$ 11,625	$ 41,808	$ 53,433

At June 30, 2022, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2022

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 508	$ 508
Changes of assumptions	-	3,298	3,298
Net difference between projected and actual earnings on pension plan investments	22,950	73,165	96,115
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 22,950	$ 76,971	$ 99,921

Pension contributions made subsequent to the measurement date in the amount of $11,625 and $15,047 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at

June 30, 2022, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023.

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 ended June 30,	TRS 1	TRS 2/3
2023	$ (6,082)	$ (16,072)
2024	$ (5,565)	$ (14,849)
2025	$ (5,267)	$ (13,848)
2026	$ (6,036)	$ (15,950)
2027	$ -	$ 3,036
Thereafter	$ -	$ 7,472

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, 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 as of June 30, 2020, with the results rolled forward to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

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

Material assumption changes

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

House Bill 1661 (Chapter 103 Laws of 2020) created dedicated funds to pay SRP benefits that mimic the trust arrangements for the rest of the State Retirement Systems. The change results in the SRP reporting under GASB 67 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 7.40 percent for the June 30, 2022, measurement date.

Plan Membership

Membership of the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2021, 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
3	1	16	20

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, 2022:

Changes in Net Pension Liability/(Asset) June 30, 2022		
Net Pension Liability		
Service cost	$	11,489
Interest		49,482
Changes of benefit terms		-
Differences between expected and actual experience		211,138
Changes in assumptions		68,789
Benefit payments		(32,028)
Other		-
Change in Net Pension Liability		308,870
Net Pension Liability - Beginning		672,902
Net Pension Liability - Ending	$	981,772
Plan Fiduciary Net Postion**		
Contributions - Employer	$	20,335
Contributions - Member		-
Net Investment Income		314
Benefit Payments, Including Refunds of Member Contributions		-
Administrative Expense		-
Net Change in Plan Fiduciary Net Position		20,649
Plan Fiduciary Net Position - Beginning		280,565
Plan Fiduciary Net Position - Ending		301,214
Plan's Net Position Liability/(Asset) - Ending	$	680,558

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

For the year ended June 30, 2022, the Higher Education Supplemental Retirement Plans reported a proportionate share pension expense of ($169,823).

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

Employers' Proportionate Share of Net Pension Liability/(Asset)		
1% Decrease	$	792,522
Current Discount Rate	$	680,558
1% Increase	$	584,801

At June 30, 2022, 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, 2022				
	Deferred Outflows of		**Deferred Inflows of**	
Difference between expected and actual experience	$	397,151	$	928,184
Changes of assumptions		382,990		539,867
Net difference between projected and actual		16,950		32,619
Total	$	797,091	$	1,500,670

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 ended June 30,		
2023	$	(156,922)
2024	$	(156,922)
2025	$	(114,747)
2026	$	(85,810)
2027	$	(192,355)
Thereafter	$	3,177

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

The state implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* starting with fiscal year 2018 financial reporting. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability insurance.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between 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 premiums based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium.

In calendar year 2021, the average weighted implicit subsidy was valued at $384 per adult unit per month. In calendar year 2022, the average weighted implicit subsidy is projected to be $390 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, 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 2022, the explicit subsidy was up to $183 per member per month, and it will remain $183 per member per month in calendar year 2023.

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 $36,597,792 during fiscal year 2021.

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, 2020
Actuarial Measurement Date	June 30, 2021
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	2.75%
Projected salary increases	3.50% plus service-based salary increases
Healthcare trend rates	Initial trend rate ranges from 2 to 11%, reaching an ultimate rate of approximately 4.3% in 2075.
Post-retirement participation	65.00%
Percentage with spouse coverage	45.00%

In projecting the growth of the explicit subsidy after 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	$	113,703,893
Current Healthcare Cost Trend Rate	$	145,381,943
1% Increase	$	164,693,899

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 2.21 percent for the June 30, 2020, measurement date, and 2.16 percent for the June 30, 2021, measurement date.

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

The following presents the Workers' Compensation Program's proportionate share of the total OPEB liability, calculated using the discount rate of 2.16 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.16 percent) or one percentage point higher (3.16 percent) than the current rate:

Sensitivity of the Discount Rate OPEB Liability		
1% Decrease	$	117,290,675
Current Discount Rate	$	145,381,943
1% Increase	$	183,342,725

Total OPEB Liability

As of June 30, 2022, the Workers' Compensation Program reported a total OPEB liability of $145,381,943. This liability was determined based on a measurement date of June 30, 2021.

The following table shows changes in the Workers' Compensation Program's total OPEB liability as of the June 30, 2022, reporting date.

Changes in Total OPEB Liability For the Fiscal Year Ended June 30, 2022		
Total OPEB Liability - Beginning	$	134,262,261
Changes for the year		
Service cost		7,266,337
Interest cost		3,140,467
Changes of assumptions*		3,105,479
Benefit payments		(2,392,601)
Net Changes in Total OPEB Liability		11,119,682
Total OPEB Liability - Ending	$	145,381,943

*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 $3.8 million.

For fiscal year 2022, 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, 2022				
		Outflows		Inflows
Difference between expected and actual experience	$	2,486,826	$	562,785
Changes of assumptions		9,258,645		26,358,391
Changes in proportionate share of contributions		4,272,956		5,756,934
Transactions subsequent to the measurement date		2,399,935		-
Total	$	18,418,362	$	32,678,110

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2023.

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,		
2023	$	(4,203,700)
2024	$	(4,203,700)
2025	$	(4,203,700)
2026	$	(4,203,700)
2027	$	(1,431,945)
Thereafter	$	1,587,063

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 2022 was $9.46 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, 2022, the director announced a proposed 4.8 percent increase in the average premium rate for 2023. This rate increase will raise the overall hourly rate from $0.6572 to $0.6890, or $0.0318 per hour, which equates to an average cost increase of $61 per year, on average, for each full-time employee.

The proposed rate increase is driven by general wage inflation and increasing medical costs, which make it more expensive to provide the workplace safety net. As workers' wages go up, the cost of insuring them goes up as well, since much of the benefits directly paid to workers are tied to how much they are getting paid.

The final rates will be adopted on November 30, 2022, and go into effect January 1, 2023.

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, 2022, Statutory Financial Information Report for the Industrial Insurance Fund, the combined contingency reserve is 26.70 percent of total liabilities. As a part of the 2023 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 2022 and 2021
(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 2022	FY2021	FY 2022	FY2021	FY 2022	FY2021
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 15,531,309	$ 14,737,141	$ 19,051,000	$ 18,056,000	$ 34,582,309	$ 32,793,141
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	2,164,480	2,116,462	522,401	395,419	2,686,881	2,511,881
Increase (decrease) in provision for insured events of prior fiscal years	(133,698)	516,443	4,210,704	1,276,437	4,077,006	1,792,880
Total incurred claims and claim adjustment expenses	2,030,782	2,632,905	4,733,105	1,671,856	6,763,887	4,304,761
Less payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	324,088	328,384	-	-	324,088	328,384
Insured events of prior fiscal years	1,538,247	1,510,353	781,105	676,856	2,319,352	2,187,209
Total payments	1,862,335	1,838,737	781,105	676,856	2,643,440	2,515,593
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 15,699,756	$ 15,531,309	$ 23,003,000	$ 19,051,000	$ 38,702,756	$ 34,582,309
Current portion	$ 1,628,498	$ 1,562,514	$ 899,778	$ 830,789	$ 2,528,276	$ 2,393,303
Noncurrent portion	$ 14,071,258	$ 13,968,795	$ 22,103,222	$ 18,220,211	$ 36,174,480	$ 32,189,006

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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	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)	$ 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	$ 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	202,391,391	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*	$ 203,476,537	$ 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*	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	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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers’ Compensation Program's employers' proportion of the net pension liability*	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)	$ (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*	$ 202,391,391	$ 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*	-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	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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	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)	$ 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	$ 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	171,875	158,034	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's employers' covered payroll*	$ 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*	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	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

	2021	2020	2019	2018	2017	2016	2015	2014
Workers’ Compensation Program's employers' proportion of the net pension liability*	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)	$ (62,756)	$ 33,970	$ 12,948	$ 10,164	$ 18,413	$ 29,456	$ 29,388	$ 21,139
Workers’ Compensation Program's employers' covered payroll*	$ 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*	-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	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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contributions	$ 7,988,021	$ 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	85,871	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	7,902,150	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	7,988,021	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	$ 864,737	$ 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	206,070,631	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	$ 206,935,368	$ 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	3.86%	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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 13,477,847	$ 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	13,477,847	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	$206,070,631	$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	6.54%	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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 11,441	$ 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	177	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	11,264	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	11,441	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	$1,329	$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	175,381	171,875	158,034	86,164	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's covered payroll	$ 176,710	$ 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	6.47%	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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 15,079	$ 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	15,079	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	$ 175,381	$ 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	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

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

	2022	2021		2020	2019	2018
Net Pension Liability						
Service cost	$ 11,489	$ 71,047		$ 27,955	$ 53,040	$ 33,074
Interest	49,482	54,898		35,543	73,022	36,072
Changes of benefit terms	-	-		-	-	-
Differences between expected and actual experience	211,138	(1,157,312)		52,609	460,792	(292,464)
Changes in assumptions	68,789	(693,568)		212,184	261,223	(110,437)
Benefit payments	(32,028)	(30,227)		(13,921)	(33,566)	(13,710)
Other	-	-		-	-	-
Change in Net Pension Liability	308,870	(1,755,162)		314,370	814,511	(347,465)
Net Pension Liability - Beginning	672,902	2,428,064	***	1,737,068	922,557	1,270,022
Net Pension Liability - Ending	$ 981,772	$ 672,902		$ 2,051,438	$ 1,737,068	$ 922,557
Plan Fiduciary Net Postion**						
Contributions - Employer	$ 20,335	$ 22,065		N/A	N/A	N/A
Contributions - Member	-	-		N/A	N/A	N/A
Net Investment Income	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
Net Change in Plan Fiduciary Net Position	20,649	91,243		N/A	N/A	N/A
Plan Fiduciary Net Position - Beginning	280,565	189,322	***	N/A	N/A	N/A
Plan Fiduciary Net Position - Ending	301,214	280,565		N/A	N/A	N/A
Plan's Net Position Liability/(Asset) - Ending	$ 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 changed due to GASB 67/68 reporting changes.

Notes to Required Supplementary Information

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

The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered-year valuation date determine the ADC for the biennium that ensues two years later. The actuarial valuation with a June 30, 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)

	2021	2020	2019	2018	2017
Changes in OPEB Liability					
Service cost	$ 7,266	$ 5,571	$ 5,354	$ 7,258	$ 8,764
Interest cost	3,140	4,661	4,645	4,990	4,105
Difference between expected and actual experience	-	(714)	-	4,555	-
Changes in benefit terms	-	-	-	-	-
Changes in assumptions	3,107	(527)	8,268	(27,871)	(20,024)
Benefit payments	(2,393)	(2,219)	(2,125)	(2,108)	(2,092)
Other*	-	(4,747)	-	-	-
Net Change in Total OPEB Liability	11,120	2,025	16,142	(13,176)	(9,247)
Total OPEB Liability - Beginning	134,262	132,237	116,095	129,271	138,518
Total OPEB Liability - Ending	$ 145,382	$ 134,262	$ 132,237	$ 116,095	$ 129,271
Covered-employee payroll	$ 207,112	$ 203,651	$ 194,546	$ 180,672	$ 172,011
Total OPEB Liability as a Percentage of Covered-Employee Payroll	70.2%	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, 2022

	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	$ 7,412,979	$ 23,438,869	$ 9,198,732	$ -	$ 40,050,580	$ 1,901,906	$ 106,748,826	$ 877,421	$ 149,578,733
Investments, current	468,474,792	468,613,707	96,265,657	-	1,033,354,156	51,039,414	-	-	1,084,393,570
DOE trust cash and investments	-	-	527,178	-	527,178	-	-	-	527,178
Receivables, net of allowance	403,569,729	237,355,029	59,163,861	-	700,088,619	227,914,935	9,629,563	292,681	937,925,798
Receivables from workers' compensation accounts	2,380,337	3,122,789	474,365,804	-	479,868,930	13,994,107	-	-	493,863,037 *
Receivables from other state accounts and agencies	34,470	41,834	-	-	76,304	5,509	-	-	81,813
Receivables from other governments	1,095,760	241,111	-	-	1,336,871	-	-	-	1,336,871
Inventories	31,653	31,653	-	-	63,306	-	-	-	63,306
Prepaid expenses	82,632	80,509	-	-	163,141	-	-	-	163,141
Total Current Assets	883,082,352	732,925,501	639,521,232	-	2,255,529,085	294,855,871	116,378,389	1,170,102	2,667,933,447
Noncurrent Assets									
Due from other funds, net of current portion	-	-	-	2,725,996,950	2,725,996,950	-	-	-	2,725,996,950 *
DOE trust receivable	-	-	3,392,151	-	3,392,151	-	-	-	3,392,151
Investments, net of current portion	6,381,495,631	6,149,972,966	4,755,609,325	-	17,287,077,922	35,150,008	-	-	17,322,227,930
Restricted net pension asset	84,237,608	83,752,685	-	-	167,990,293	-	-	-	167,990,293
Capital assets, net of accumulated depreciation and	52,640,012	32,651,541	-	-	85,291,553	-	-	-	85,291,553
Total Noncurrent Assets	6,518,373,251	6,266,377,192	4,759,001,476	2,725,996,950	20,269,748,869	35,150,008	-	-	20,304,898,877
Deferred Outflows of Resources									
Deferred outflows from pensions	15,874,388	15,616,267	-	-	31,490,655	-	-	-	31,490,655
Deferred outflow of resources on OPEB	8,782,093	9,636,269	-	-	18,418,362	-	-	-	18,418,362
Total Deferred Outflows of Resources	24,656,481	25,252,536	-	-	49,909,017	-	-	-	49,909,017
Total Assets and Deferred Outflows of Resources	$ 7,426,112,084	$ 7,024,555,229	$ 5,398,522,708	$ 2,725,996,950	$ 22,575,186,971	$ 330,005,879	$ 116,378,389	$ 1,170,102	$ 23,022,741,341

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

Continued

Combining Schedule of Net Position
June 30, 2022

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)									
Current Liabilities									
Accounts payable	$ 5,861,414	$ 3,420,688	$ 44,149	$ -	$ 9,326,251	$ 67,294	$ 893	$ -	$ 9,394,438
Accrued liabilities	225,699,025	21,687,516	4,490,644	-	251,877,185	2,345,395	22,481	-	254,245,061
Leases payable, current	4,083,224	3,787,835	-	-	7,871,059	-	-	-	7,871,059
Net pension liability, current	(22)	22	-	-	-	-	-	-	-
Other post-employment benefits, current	1,190,748	1,209,187	-	-	2,399,935	-	-	-	2,399,935
Payables to workers' compensation accounts	436,423,148	16,374,445	-	-	452,797,593	2,941,640	38,123,804	-	493,863,037 *
Payables to other state accounts and agencies	2,958,539	2,361,798	-	-	5,320,337	68	-	-	5,320,405
Unearned revenues	146,936	44,068	-	-	191,004	2,549,115	-	-	2,740,119
DOE trust liabilities, current	-	-	464,516	-	464,516	-	-	-	464,516
Claims payable, current	625,420,000	521,555,000	481,523,000	-	1,628,498,000	899,778,000	-	-	2,528,276,000
Total Current Liabilities	1,301,783,012	570,440,559	486,522,309	-	2,358,745,880	907,681,512	38,147,178.00	-	3,304,574,570
Noncurrent Liabilities									
Due to other funds, net of current portion	689,633,616	2,036,363,334	-	-	2,725,996,950	-	-	-	2,725,996,950 *
Claims payable, net of current portion	4,973,457,000	3,758,725,000	5,339,076,000	-	14,071,258,000	22,103,222,000	-	-	36,174,480,000
Leases payable, net of current portion	10,134,632	9,887,982	-	-	20,022,614	-	-	-	20,022,614
Other long-term liabilities	4,022,005	3,704,904	-	-	7,726,909	-	-	-	7,726,909
DOE trust liabilities, net of current portion	-	-	3,454,813	-	3,454,813	-	-	-	3,454,813
Other post-employment benefits, net of current portion	71,015,235	71,966,773	-	-	142,982,008	-	-	-	142,982,008
Net pension liability, net of current portion	9,730,677	7,343,578	-	-	17,074,255	-	-	-	17,074,255
Total Noncurrent Liabilities	5,757,993,165	5,887,991,571	5,342,530,813	-	16,988,515,549	22,103,222,000	-	-	39,091,737,549
Total Liabilities	7,059,776,177	6,458,432,130	5,829,053,122	-	19,347,261,429	23,010,903,512	38,147,178	-	42,396,312,119
Deferred Inflows of Resources									
Deferred inflows from pensions	87,532,163	86,575,252	-	-	174,107,415	-	-	-	174,107,415
Deferred Inflow of resources on OPEB	15,705,864	16,972,246	-	-	32,678,110	-	-	-	32,678,110
Total Deferred Inflows of Resources	103,238,027	103,547,498	-	-	206,785,525	-	-	-	206,785,525
Net Position (Deficit):									
Investment in capital assets	38,422,155	18,975,725	-	-	57,397,880	-	-	-	57,397,880
Restricted pension	18,214,786	18,109,931	-	-	36,324,717	-	-	-	36,324,717
Unrestricted	206,460,939	425,489,945	(430,530,414)	2,725,996,950	2,927,417,420	(22,680,897,633)	78,231,211.00	1,170,102	(19,674,078,900)
Total Net Position (Deficit)	263,097,880	462,575,601	(430,530,414)	2,725,996,950	3,021,140,017	(22,680,897,633)	78,231,211.00	1,170,102	(19,580,356,303)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 7,426,112,084	$ 7,024,555,229	$ 5,398,522,708	$ 2,725,996,950	$ 22,575,186,971	$ 330,005,879	$ 116,378,389	$ 1,170,102	$ 23,022,741,341

*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, 2022

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
OPERATING REVENUES									
Premiums and assessments, net of refunds and reinsurance	$ 1,135,302,166	$ 758,513,297	$ 34,994,278	$ -	$ 1,928,809,741	$ 800,735,698	$ 36,292,979	$ 1,077,042	$ 2,766,915,460
Miscellaneous revenue	34,850,188	1,051,660	20,883	-	35,922,731	8,707,775	120	-	44,630,626
Total Operating Revenues	1,170,152,354	759,564,957	35,015,161	-	1,964,732,472	809,443,473	36,293,099	1,077,042	2,811,546,086
OPERATING EXPENSES									
Salaries and wages	106,480,994	103,406,719	-	-	209,887,713	-	-	-	209,887,713
Employee benefits	7,372,790	6,781,098	-	-	14,153,888	-	-	-	14,153,888
Personal services	4,066,553	8,280,398	-	-	12,346,951	-	-	-	12,346,951
Goods and services	43,698,957	40,192,039	-	-	83,890,996	-	-	-	83,890,996
Travel	1,858,276	994,450	-	-	2,852,726	-	-	-	2,852,726
Claims	528,855,907	451,078,552	870,792,114	-	1,850,726,573	4,733,128,316	2,042,833	386,680	6,586,284,402
Depreciation and amortization	5,901,717	5,508,883	-	-	11,410,600	-	-	-	11,410,600
Miscellaneous expenses	23,213,785	6,209,554	-	-	29,423,339	4,886,413	1,550	-	34,311,302
Total Operating Expenses	721,448,979	622,451,693	870,792,114	-	2,214,692,786	4,738,014,729	2,044,383	386,680	6,955,138,578
Operating Income (Loss)	448,703,375	137,113,264	(835,776,953)	-	(249,960,314)	(3,928,571,256)	34,248,716	690,362	(4,143,592,492)
NONOPERATING REVENUES (EXPENSES)									
Earnings on investments	(922,102,919)	(830,149,200)	(825,989,173)	-	(2,578,241,292)	(2,165,953)	-	-	(2,580,407,245)
Other revenues	7,750,447	1,553,405	-	-	9,303,852	-	-	-	9,303,852
Total Nonoperating Revenues (Expenses)	(914,352,472)	(828,595,795)	(825,989,173)	-	(2,568,937,440)	(2,165,953)	-	-	(2,571,103,393)
Income (Loss) Before Transfers	(465,649,097)	(691,482,531)	(1,661,766,126)	-	(2,818,897,754)	(3,930,737,209)	34,248,716	690,362	(6,714,695,885)
Transfers in	369,955,202	328,011,397	1,027,754,454	507,951,064	2,233,672,117	-	22,973,878	-	2,256,645,995
Transfers out	(985,466,854)	(483,502,033)	(273,072,157)	(443,215,350)	(2,185,256,394)	-	(69,602,352)	-	(2,254,858,746)
Net Transfers	(615,511,652)	(155,490,636)	754,682,297	64,735,714	48,415,723	-	(46,628,474)	-	1,787,249
Changes in Net Position	(1,081,160,749)	(846,973,167)	(907,083,829)	64,735,714	(2,770,482,031)	(3,930,737,209)	(12,379,758)	690,362	(6,712,908,636)
Net Position (Deficit) at July 1	1,344,485,356	1,309,766,586	476,553,415	2,661,261,236	5,792,066,593	(18,750,160,424)	90,610,969	479,740	(12,867,003,122)
Prior Period Adjustment	(226,727)	(217,818)	-	-	(444,545)	-	-	-	(444,545)
Net Position (Deficit) - July 1, as restated (see Note 2)	1,344,258,629	1,309,548,768	476,553,415	2,661,261,236	5,791,622,048	(18,750,160,424)	90,610,969	479,740	(12,867,447,667)
Net Position (Deficit) - June 30	$ 263,097,880	$ 462,575,601	$ (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)

*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, 2022

	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	$ 1,056,554,954	$ 729,787,901	$ 27,173,226	$ -	$ 1,813,516,081	$ 752,032,525	$ 38,176,851	$ 1,079,669	$ 2,604,805,126
Payments to/for beneficiaries	(588,303,112)	(563,560,652)	(536,067,907)	-	(1,687,931,671)	(781,051,834)	(2,044,505)	(393,997)	(2,471,422,007)
Payments to employees	(143,372,210)	(139,194,869)	-	-	(282,567,079)	-	-	-	(282,567,079)
Payments to suppliers	(49,547,615)	(50,756,671)	(7,323)	-	(100,311,609)	(271,225)	894	-	(100,581,940)
Other	33,567,560	(29,234)	20,881	-	33,559,207	8,704,890	119	-	42,264,216
Net Cash Flows from Operating Activities	308,899,577	(23,753,525)	(508,881,123)	-	(223,735,071)	(20,585,644)	36,133,359	685,672	(207,501,684)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers in (Workers' Compensation Funds)	493,266,092	326,649,499	553,411,809	443,215,350	1,816,542,750	(13,992,542)	33,027,957	-	1,835,578,165 *
Transfers in (IT Tech Pool)	1,063,221	724,029	0	-	1,787,250	-	-	-	1,787,250
Transfers out (Workers' Compensation Funds)	(639,601,989)	(312,256,813)	(409,608,735)	(443,215,350)	(1,804,682,887)	583,270	(31,478,548)	-	(1,835,578,165) *
Operating grants received	7,930,239	1,711,839	-	-	9,642,078	-	-	-	9,642,078
License fees collected	80,626	14,228	-	-	94,854	-	-	-	94,854
Net Cash Flows from Noncapital Financing Activities	(137,261,811)	16,842,782	143,803,074	-	23,384,045	(13,409,272)	1,549,409	-	11,524,182
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisitions of capital assets	(24,918,819)	(8,098,611)	-	-	(33,017,430)	-	-	-	(33,017,430) **
Net Cash Flows from Capital and Related Financing Activities	(24,918,819)	(8,098,611)	-	-	(33,017,430)	-	-	-	(33,017,430)
CASH FLOWS FROM INVESTING ACTIVITIES									
Net sales (purchases) of trust investments	-	-	39,509	-	39,509	-	-	-	39,509
Receipt of interest and dividends	165,437,912	143,276,856	154,356,147	-	463,070,915	1,090,331	-	-	464,161,246
Investment expenses	(2,627,759)	(2,616,090)	(1,810,826)	-	(7,054,675)	(152,132)	-	-	(7,206,807)
Proceeds from sale of investment securities	2,627,764,985	2,301,633,301	1,983,915,125	-	6,913,313,411	795,237,437	-	-	7,708,550,848
Purchases of investment securities	(2,933,529,946)	(2,408,425,076)	(1,764,399,989)	-	(7,106,355,011)	(762,495,499)	-	-	(7,868,850,510)
Net Cash Flows from Investing Activities	(142,954,808)	33,868,991	372,099,966	-	263,014,149	33,680,137	-	-	296,694,286
Net Increase (Decrease) in Cash and Cash Equivalents	3,764,139	18,859,637	7,021,917	-	29,645,693	(314,779)	37,682,768	685,672	67,699,354
Cash & cash equivalents, July 1 (includes trust cash of $487,669)	3,648,840	4,579,232	2,703,993	-	10,932,065	2,216,685	69,066,058	191,749	82,406,557
Cash & cash equivalents, June 30 (includes trust cash of $527,178)	$ 7,412,979	$ 23,438,869	$ 9,725,910	$ -	$ 40,577,758	$ 1,901,906	$ 106,748,826	$ 877,421	$ 150,105,911
Cash Flows from Operating Activities									
Operating income (loss)	$ 448,703,375	$ 137,113,264	$ (835,776,953)	$ -	$ (249,960,314)	$ (3,928,571,256)	$ 34,248,716	$ 690,362	$ (4,143,592,492)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities									
Depreciation	5,901,717	5,508,883	-	-	11,410,600	-	-	-	11,410,600
Change in Assets: Decrease (Increase)									
Receivables	(35,091,452)	(22,229,444)	(7,977,876)	-	(65,298,772)	(43,877,459)	1,885,421	2,628	(107,288,182)
Inventories	12,197	12,197	-	-	24,394	-	-	-	24,394
Prepaid expenses	(2,125)	(2,125)	-	-	(4,250)	-	-	-	(4,250)
Other assets	(84,237,606)	(83,752,684)	-	-	(167,990,290)	-	-	-	(167,990,290)
Change in Liabilities: Increase (Decrease)									
Claims and judgments payable	(58,931,000)	(113,303,000)	340,681,000	-	168,447,000	3,952,000,000	-	-	4,120,447,000
Accrued liabilities	32,544,471	52,899,384	(5,807,294)	-	79,636,561	(136,929)	(778)	(7,318)	79,491,536
Net Cash Flows from Operating Activities	$ 308,899,577	$ (23,753,525)	$ (508,881,123)	$ -	$ (223,735,071)	$ (20,585,644)	$ 36,133,359	$ 685,672	$ (207,501,684)
Non Cash Investing, Capital and Financing Activities									
Increase (decrease) in fair value of investments	$ (1,128,240,763)	$ (983,522,179)	$ (1,065,915,251)	$ -	$ (3,177,678,193)	$ (3,372,579)	$ -	$ -	$ (3,181,050,772)

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

**Acquisitions of capital assets includes $8,765,945 of principal payments on long-term captial financing as per GASB 87.

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

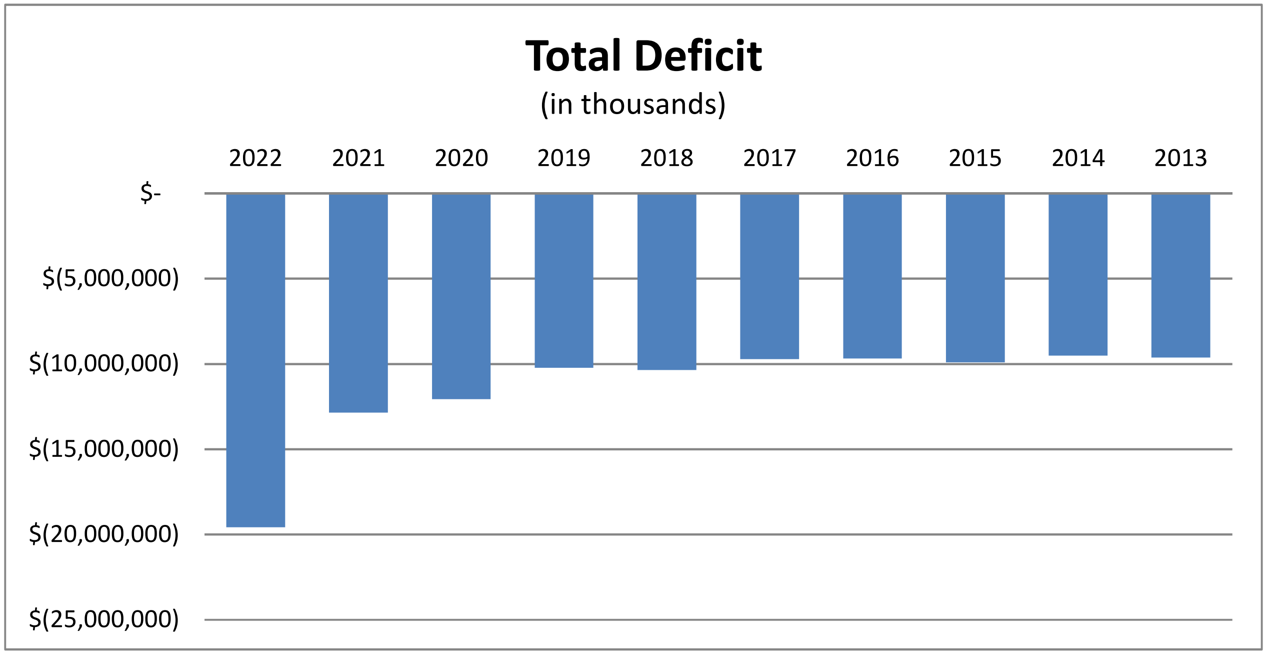
Schedule 1 - Net Position (Deficit) by Component

Last Ten Fiscal Years

(in thousands)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net investment in capital assets	$ 57,398	$ 36,530	$ 37,155	$ 51,440	$ 58,076	$ 65,149	$ 67,452	$ 67,595	$ 58,781	$ 57,687
Restricted pension	36,325	-	-	-	-	-	-	-	-	-
Unrestricted[1]	(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)	(9,682,379)
Total Net Position (Deficit) [1]	$ (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)	$ (9,624,692)

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



Schedule 2 - Changes in Net Position

Last Ten Fiscal Years
(in thousands)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Operating Revenues										
Premiums and assessments, net of refunds and reinsurance	$ 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	$ 2,123,483
Miscellaneous revenues	44,631	41,282	52,706	53,646	49,833	61,239	57,682	56,714	53,986	47,354
Total Operating Revenues	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	2,170,837
Operating Expenses										
Salaries and wages	209,888	209,818	200,115	186,678	177,028	160,503	159,686	150,278	145,431	140,203
Employee benefits	14,154	55,083	59,563	59,203	64,793	68,547	62,966	55,397	58,367	54,367
Personal services	12,347	14,773	15,829	13,072	14,968	5,686	7,457	11,304	5,661	8,895
Goods and services	83,891	103,284	100,992	93,809	86,737	82,025	82,424	82,416	76,389	79,315
Travel	2,853	2,286	4,381	4,597	4,576	3,867	4,106	4,145	4,047	4,068
Claims	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	3,014,796
Depreciation and amortization	11,410	4,371	7,508	7,407	8,499	9,851	10,206	7,184	7,228	8,428
Miscellaneous	34,311	3,118	97,669	44,777	23,841	51,548	37,450	41,041	33,954	28,486
Total Operating Expenses	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	3,338,558
Operating Income (Loss)	(4,143,592)	(2,114,105)	(3,675,111)	(1,331,341)	(892,349)	(510,477)	(664,350)	(624,020)	(887,339)	(1,167,721)
Nonoperating Revenues (Expenses)										
Earnings on investments	(2,580,407)	1,303,002	1,836,909	1,446,193	249,354	551,367	857,707	215,557	1,119,761	223,875
Other revenues	9,304	9,551	9,722	10,374	11,505	9,186	8,909	7,840	8,329	8,998
Interest expense	-	-	-	-	-	-	(37)	(255)	(461)	(656)
Total Nonoperating Revenues (Expenses)	(2,571,103)	1,312,553	1,846,631	1,456,567	260,859	560,553	866,579	223,142	1,127,629	232,217
Income (Loss) Before Transfers	(6,714,695)	(801,552)	(1,828,480)	125,226	(631,490)	50,076	202,229	(400,878)	240,290	(935,504)
Transfers in [1]	1,787	75	-	-	-	-	-	-	325,015	371,670
Transfers out [1]	-	(1,326)	(3,439)	-	-	(192)	-	-	(325,015)	(371,670)
Net Transfers	1,787	(1,251)	(3,439)	-	-	(192)	-	-	-	-
Changes in Net Position	(6,712,908)	(802,803)	(1,831,919)	125,226	(631,490)	49,884	202,229	(400,878)	240,290	(935,504)
Net Position (Deficit), July 1 [2]	(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)	(8,689,188)
Net Position (Deficit), June 30	$ (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)	$ (9,624,692)

[1] Starting in fiscal year 2015, intrafund transfers should not be reported, per GFOA comments. The balance of $1,251 in fiscal year 2021 and $3,439 in fiscal year 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)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Premiums and Assessments										
State Fund Premiums										
Accident	$ 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	$ 1,105,903
Medical Aid	744,639	692,088	794,066	825,943	870,331	855,218	820,177	779,315	695,460	624,913
Supplemental Pension	607,152	482,231	471,113	427,669	391,670	367,623	340,034	321,967	316,448	302,915
Net retrospective rating refunds	(217,359)	(266,286)	(202,909)	(240,184)	(195,578)	(169,105)	(156,378)	(188,302)	(174,854)	(136,404)
Ceded premiums reinsurance[1]	(14,800)	(13,601)	(12,039)	(5,175)	-	-	-	-	-	-
Total State Fund Premiums	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	1,897,327
Self-Insurance Assessments	305,442	256,016	280,042	259,850	238,009	248,852	212,629	193,375	198,218	226,156
Total Premiums and Assessments	$ 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	$ 2,123,483
Investments[2]										
Investment income (interest and dividend)	$ 465,676	$ 474,021	$ 508,842	$ 506,216	$ 479,112	$ 482,427	$ 503,057	$ 493,679	$ 479,457	$ 466,299
Investment balances	$ 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	$ 13,381,566
Average rate of return	2.5%	2.2%	2.5%	2.7%	2.9%	2.9%	3.2%	3.4%	3.3%	3.5%

CALENDAR YEAR	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Average Standard Premium Rates[3] (Per Hour Worked) - Effective from January 1 to December 31										
Accident	0.3231	0.3231	0.3235	0.3305	0.3564	0.3739	0.3691	0.3597	0.3601	0.3601
Medical Aid	0.1724	0.1724	0.1893	0.1959	0.2113	0.2179	0.2179	0.2179	0.2107	0.1905
Supplemental Pension	0.1563	0.1371	0.1223	0.1116	0.1026	0.0958	0.0950	0.0894	0.0909	0.0928
Stay At Work	0.0055	0.0049	0.0049	0.0047	0.0045	0.0046	0.0055	0.0073	0.0073	0.0080
Total Average Standard Premium Rates (Composite Rate)	0.6573	0.6375	0.6400	0.6427	0.6748	0.6922	0.6875	0.6743	0.6690	0.6514
Employer portion	0.4468	0.4369	0.4433	0.4484	0.4739	0.4871	0.4907	0.4734	0.4600	0.4578
Worker portion	0.1671	0.1572	0.1583	0.1561	0.1592	0.1592	0.1592	0.1573	0.1545	0.1457
State Fund Average Hourly Wage	$ 40.01	$ 39.26	$ 36.85	$ 36.11	$ 34.55	$ 30.76	$ 30.01	$ 28.64	$ 27.91	$ 26.79
Composite Net of Retro Rate per $100 Payroll[4]	$ 1.53	$ 1.51	$ 1.63	$ 1.67	$ 1.83	$ 2.10	$ 2.17	$ 2.20	$ 2.20	$ 2.25

[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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Employers insured	198,000	187,000	184,000	182,000	178,000	176,000	177,000	174,000	169,000	168,000
Workers covered	2,656,000	2,509,000	2,607,000	3,049,000	2,993,000	2,914,000	2,800,000	2,690,000	2,577,000	2,487,000
Hours reported	4,117,000,000	3,826,000,000	3,976,000,000	4,008,000,000	3,935,000,000	3,824,000,000	3,678,000,000	3,538,000,000	3,388,000,000	3,270,000,000
Self-insured employers	353	353	351	349	351	356	355	355	355	363
Workers covered under self-insured employers	772,560	883,276	933,731	910,318	949,963	909,405	872,000	865,000	884,000	846,000
Industry Classifications - NAICS Sector										
Prof., scientific, and technical services	35,100	30,300	27,000	26,200	25,100	24,500	22,801	22,074	21,474	20,035
Construction	28,400	27,500	27,000	27,200	26,100	25,309	23,562	22,460	21,998	21,229
Other services (except public administration)	17,600	17,000	17,000	17,200	17,000	17,103	16,749	16,541	16,511	16,353
Administrative and support services	16,500	14,600	13,300	13,100	12,600	12,454	11,706	11,399	11,138	10,458
Health care and social assistance	16,100	15,700	15,400	15,400	15,100	15,158	15,009	14,672	14,611	14,538
Accommodation and food services	15,500	14,900	15,400	15,600	15,300	15,215	15,147	15,007	15,013	14,843
Retail trade	14,900	14,500	14,600	15,000	15,300	15,654	15,645	15,796	16,146	16,219
Wholesale trade	11,000	11,000	11,200	11,300	11,200	11,383	10,483	10,832	10,652	10,189
Real estate, rental and leasing	7,100	7,040	7,090	7,130	7,000	7,033	6,828	6,765	6,721	6,642
Manufacturing	6,780	6,500	6,510	6,650	6,620	6,722	6,559	6,603	6,604	6,670
Agriculture, forestry, fishing, and hunting	6,260	6,390	6,580	6,830	7,000	7,151	7,202	7,069	6,980	7,141
Finance and insurance	5,870	5,530	5,230	5,190	5,140	5,078	4,873	4,997	5,017	5,003
Transportation and warehousing	4,650	4,440	4,300	4,280	4,240	4,189	5,636	6,130	6,106	5,753
Education services	3,620	3,450	3,380	3,370	3,210	3,089	2,991	2,907	2,769	2,653
Information	3,310	2,750	2,350	2,400	2,390	2,159	2,090	2,144	2,147	2,114
Arts, entertainment, and recreation	3,080	2,920	3,050	3,010	2,930	2,934	2,866	2,742	2,715	2,624
Unclassified establishments	980	600	2,890	470	480	1,024	1,025	1,027	1,028	1,026
Public administration	530	980	990	990	1,010	1,059	5,387	2,265	985	3,816
Utilities	350	350	350	350	350	357	356	359	357	355
Mgmt. of companies and enterprises	270	250	230	220	200	193	169	158	150	144
Mining	160	150	150	150	150	156	159	167	172	177
Total Employer Accounts	198,060	186,850	184,000	182,040	178,420	177,920	177,243	172,114	169,294	167,982

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)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Outstanding Debt										
General obligation bonds [1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,050	$ 7,870	$ 11,475
Debt Ratios										
Principal paid on total debt	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,050	$ 3,820	$ 3,605	$ 3,400
Ratio of principal paid to total prior year debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	48.5%	31.4%	22.9%
Interest paid on total debt	$ -	$ -	$ -	$ -	$ -	$ -	$ 110	$ 325	$ 527	$ 717
Ratio of interest paid to total prior year debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	4.1%	4.6%	4.8%
Premiums and assessments earned	$ 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	$ 2,123,483
Ratio of total debt to premiums and assessments earned	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%	0.5%
Total debt per covered worker [2]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.51	$ 3.05	$ 4.61

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

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

Source: Washington State Agency Financial Reporting System

Schedule 6 - Schedule of Changes in Claims Payable

Last Ten Fiscal Years

(in thousands)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$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	$22,596,350
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	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	1,924,011
Increase in provision for insured events of prior fiscal years	4,077,006	1,792,880	3,744,191	1,658,960	1,333,719	968,518	975,846	711,211	1,043,312	1,226,506
Total incurred claims and claim adjustment expenses	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	3,150,517
Less payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	324,088	328,384	326,927	321,422	325,933	309,490	303,784	300,862	296,885	296,347
Insured events of prior fiscal years	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	1,822,960
Total payments	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	2,119,307
Total unpaid loss and loss adjustment expenses at fiscal year-end	$ 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	$ 23,627,560

[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)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Population	7,864.4	7,767.0	7,706.3	7,582.5	7,464.1	7,344.6	7,237.7	7,107.0	7,005.5	6,909.7
Net increase	97.4	60.7	123.8	118.4	119.5	106.9	130.7	101.5	95.8	74.3
Percent change	1.3%	0.8%	1.6%	1.6%	1.6%	1.5%	1.8%	1.5%	1.4%	1.1%
Components of change										
Births	84.6	82.8	84.8	85.7	87.3	89.7	89.8	88.5	87.0	87.3
Deaths	70.5	65.0	58.5	57.2	56.4	56.1	54.7	52.8	50.7	51.1
Net migration	83.3	42.9	97.5	89.9	88.5	73.3	95.5	65.9	59.5	38.1

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)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Personal income	$ 556	$ 516	$ 480	$ 454	$ 426	$ 402	$ 381	$ 360	$ 334	$ 327
Percent change	8%	8%	6%	7%	6%	6%	6%	8%	2%	7%
Per capita	$ 71,889	$ 66,907	$ 62,817	$ 60,178	$ 57,244	$ 54,918	$ 53,083	$ 50,890	$ 47,857	$ 47,320

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)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Civilian labor force	3,882	3,968	3,861	3,767	3,719	3,644	3,545	3,488	3,457	3,463
Less Employed	3,618	3,706	3,692	3,598	3,544	3,451	3,346	3,275	3,217	3,185
Total unemployed	264	262	169	169	175	193	199	213	240	278
Unemployment rate	6.8%	6.6%	4.4%	4.5%	4.7%	5.3%	5.6%	6.1%	6.9%	8.0%

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 2022

Schedule 10 - Washington State Principal Employers by Industry

Last Calendar Year and Nine Years Ago

Industry [1]	2021 Annual Averages Number of Employees [2]	2021 Percent of Total	2021 Number of Employers	2012 Annual Averages Number of Employees [2]	2012 Percent of Total	2012 Number of Employers
Government	547,166	16.3%	2,140	516,199	17.8%	2,088
Healthcare and social assistance [3]	434,088	13.0%	61,071	330,531	11.4%	14,497
Retail trade	398,227	11.9%	14,277	314,383	10.9%	14,048
Manufacturing	256,371	7.7%	7,715	277,361	9.6%	6,733
Accommodation and food services	237,697	7.1%	15,055	228,392	7.9%	12,856
Professional, scientific, and technical services	225,512	6.7%	31,544	166,643	5.8%	18,692
Construction	210,289	6.3%	28,055	129,791	4.5%	19,343
Administrative and support services [4]	171,112	5.1%	13,229	139,007	4.8%	9,540
Information	156,366	4.7%	5,673	104,480	3.6%	2,558
Wholesale trade	129,162	3.8%	12,255	121,764	4.2%	13,024
Transportation and warehousing	108,536	3.2%	4,994	82,657	2.8%	3,993
Agriculture, forestry, fishing, and hunting	96,995	2.9%	6,498	95,442	3.3%	7,030
Finance and insurance	96,499	2.9%	6,372	87,636	3.0%	5,397
Other services [3]	91,271	2.7%	19,832	132,126	4.6%	70,406
Real estate, rental and leasing	54,152	1.6%	7,193	43,545	1.5%	6,014
Education services	43,230	1.3%	3,763	35,868	1.2%	2,600
Management of companies and enterprises	43,202	1.3%	659	36,293	1.2%	639
Arts, entertainment, and recreation	40,200	1.2%	3,047	45,329	1.6%	2,413
Utilities	5,322	0.2%	224	4,864	0.2%	228
Mining	2,113	0.1%	132	2,083	0.1%	158
Total average employment [5]	3,347,510	100.0%	243,728	2,894,394	100.0%	212,257

[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]	**2021 [3]**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Information	$ 268,502	$ 241,913	$ 207,103	$ 194,863	$ 172,592	$ 159,236	$ 150,503	$ 148,429	$ 135,304	$ 131,872
Management of companies and enterprises	135,156	129,043	123,508	118,097	111,942	109,462	108,447	106,518	105,501	105,535
Professional, scientific, and technical services	125,748	111,944	103,935	101,410	92,323	88,223	85,968	84,883	81,893	79,972
Finance and insurance	124,676	113,556	100,948	95,089	90,869	88,308	92,790	82,102	79,587	77,455
Utilities	112,678	108,826	105,295	99,718	93,057	88,789	85,644	87,212	86,373	84,024
Wholesale trade	95,020	87,326	82,405	80,439	76,856	73,903	72,523	70,169	68,230	68,481
Manufacturing	83,157	81,984	81,234	79,377	76,301	74,641	73,860	74,303	70,798	69,306
Retail trade	76,369	71,398	62,264	58,866	52,542	45,930	38,300	36,127	34,084	32,364
Mining	75,881	73,480	74,849	71,083	71,120	67,389	67,425	63,404	62,444	60,231
Government	74,767	71,849	66,945	63,832	61,187	58,945	57,274	55,603	53,733	52,871
Construction	73,866	69,813	67,811	64,470	61,227	58,887	56,925	55,037	53,735	53,056
Real estate, rental and leasing	70,601	63,288	58,420	55,188	51,553	48,965	47,459	45,181	43,426	42,040
Transportation and warehousing	69,538	65,808	64,709	60,374	58,058	56,173	54,344	52,293	51,967	50,876
Administrative and support services [4]	61,561	57,081	53,133	50,370	48,484	47,050	45,934	44,382	43,261	43,381
Healthcare and social assistance [5]	60,236	56,771	54,647	52,690	50,971	49,337	46,986	44,245	47,733	47,067
Other services [5]	52,198	46,667	42,584	40,410	38,832	37,557	37,437	35,571	26,717	25,651
Education services	46,220	44,594	40,223	39,008	38,455	37,667	36,414	36,918	36,775	36,226
Arts, entertainment, and recreation	40,504	38,875	33,140	32,522	32,074	30,908	30,509	29,725	27,771	25,276
Agriculture, forestry, fishing, and hunting	37,461	36,170	33,702	32,405	31,154	29,971	28,398	27,758	26,880	26,295
Accommodation and food services	28,256	24,726	25,321	24,003	22,766	21,301	20,451	19,561	19,136	18,698

[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] 2021 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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Male injured workers	64%	66%	65%	66%	67%	67%	67%	67%	67%	67%
Female injured workers	36%	34%	35%	34%	33%	33%	33%	33%	33%	33%
Average age of injured workers	39	38	38	38	38	38	38	38	38	38
Injured workers younger than 30	31%	32%	30%	31%	31%	29%	29%	29%	28%	27%
Injured workers 30 to 50	44%	44%	44%	43%	44%	44%	45%	45%	46%	46%
Injured workers older than 50	24%	24%	24%	24%	24%	25%	24%	24%	24%	24%
Injured workers age unknown	1%	1%	1%	1%	1%	1%	2%	2%	2%	2%

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

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

Schedule 13 – L&I Number of Employees by Division

Last Ten Fiscal Years

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Administrative Services	112	156	160	160	134	131	136	132	127	122
Communications & Web Services	57	59	63	60	61	54	54	51	47	N/A
Director's Office	31	34	34	26	28	35	32	31	31	141
DOSH	390	374	361	367	361	345	349	355	356	344
Field Services & Public Safety	12	8	8	7	6	6	7	4	4	N/A
Financial Management	126	55	55	54	50	53	54	53	50	N/A
Fraud Prevention & Labor Standards	150	146	143	144	144	125	132	131	122	86
Human Resources	66	58	60	57	56	52	54	54	46	44
Information Technology	218	217	214	213	213	199	208	201	194	175
Insurance Services	1,114	1,098	1,102	1,123	1,119	1,090	1,101	1,076	1,048	955
New legislation	2	4	1	N/A	N/A	2	6	12	6	93
Region 1	55	58	59	57	56	58	58	60	60	61
Region 2	93	94	101	100	102	96	100	102	101	100
Region 3	46	51	54	52	50	51	52	54	55	55
Region 4	67	71	71	72	68	70	70	70	70	71
Region 5	72	72	73	72	68	70	72	72	68	71
Region 6	36	40	39	38	39	40	39	39	38	39
Specialty Compliance Services	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	37
Workers' Compensation System Modernization	10	69	51	28	18	N/A	N/A	N/A	N/A	N/A
Total	2,657	2,664	2,649	2,630	2,573	2,477	2,524	2,497	2,423	2,394

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

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

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

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

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
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	2	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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Claim Statistics										
Number of Claims Filed [1]	102,878	95,668	99,984	111,837	111,604	109,965	110,498	109,359	106,903	103,328
Number of Claims Accepted [1, 2]	85,830	79,814	86,316	94,681	95,213	94,128	95,277	82,707	86,968	84,064
Number of Claims Denied [1, 2]	17,051	14,099	15,678	16,814	16,504	15,981	16,760	14,098	14,593	14,077
Fatal Pensions Awarded	47	43	44	44	36	50	48	61	51	44
Total Permanent Disability Pensions Granted	708	854	832	890	886	1,062	1,047	1,063	1,085	1,614
Permanent Partial Disability Awards Granted	5,761	6,897	8,151	8,784	9,312	10,038	10,280	10,769	10,431	10,760
New Time-loss (Wage Replacement) Claims [3]	19,660	17,528	16,790	16,498	17,812	18,782	19,065	19,509	20,049	19,740
Medical-only Claims Accepted	67,891	64,488	72,000	80,494	79,888	78,054	78,816	66,411	69,752	67,171
Retraining Plans Completed [4]	148	196	248	313	347	411	438	474	501	1,740
Total Days Paid for Lost Work	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	7,521,311
Claims not yet coded [5]	16,813	-	-	-	-	-	-	-	-	-
Five Most Frequent Injuries										
Finger(s): open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	7,216	8,671	9,315	11,114	11,076	10,809	11,068	9,429	9,459	8,665
Back, spine, and spinal cord: traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	6,803	8,552	9,758	10,820	11,187	10,930	11,652	10,624	10,466	10,247
Viral diseases of body systems	3,154	-	-	-	-	-	-	-	-	-
Leg(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	3,139	3,746	3,950	4,289	4,148	4,083	3,939	3,696	3,802	3,614
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)	2,999	3,920	3,981	4,241	4,265	4,133	4,126	3,728	3,646	3,441
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	-	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	3,723

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	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
3905	Restaurants and Taverns	6,425	4,994	6,264	8,049	7,785	7,673	7,676	7,519	7,193	6,936
4803	Orchards	2,868	2,899	3,279	3,529	3,847	3,206	3,361	3,396	3,078	2,867
6509	Boarding Homes and Retirement Centers	2,507	2,345	2,276	2,284	2,352	2,327	2,429	2,371	2,501	2,407
6109	Physicians & Medical Clinics	2,789	2,607	2,299	2,339	2,305	2,289	2,119	2,108	2,220	2,140
6108	Nursing Homes	1,791	1,955	1,823	1,533	1,581	1,629	1,816	1,871	2,040	2,078
4906	Colleges & Universities	1,698	1,276	1,399	1,459	1,522	1,534	1,746	1,712	1,755	1,707
3411	Automobile Dealers, Rentals and Service Shops	1,397	1,300	1,371	1,665	1,724	1,634	1,663	1,579	1,539	1,560
2104	Fruit & Vegetable Packing - Fresh	1,284	1,345	1,331	1,517	1,752	1,565	1,695	1,866	1,564	1,484
0510	Wood Frame Building Construction	1,192	1,391	1,333	1,624	1,728	1,603	1,545	1,508	1,343	1,286
1101	Parcel and Package Delivery Service	2,104	1,950	1,623	1,340	1,206	1,234	1,102	984	967	958
0516	Carpentry, N.O.C.	1,430	1,394	1,291	1,598	1,427	1,351	1,353	1,262	1,048	955
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,280	843	1,188	1,489	1,436	1,415	1,387	1,300	1,338	1,345
4910	Property and Building Management Services	1,255	1,202	1,288	1,423	1,300	1,355	1,282	1,277	1,242	1,273
6107	Veterinary Services	1,721	1,760	1,512	1,494	1,320	1,167	1,059	996	950	894
3402	Machine Shops and Machinery Mfg., N.O.C.	892	933	947	1,143	1,150	1,104	1,347	1,303	1,323	1,258
0601	Electrical Wiring: Buildings and Structures	1,091	1,041	1,105	1,246	1,217	1,112	1,088	1,064	930	923
4905	Motels and Hotels	762	632	936	1,109	1,101	1,171	1,175	1,136	1,143	1,122
2102	Warehouses, N.O.C., Grocery Dist, & Recycle Centers	550	1,378	1,369	1,295	1,337	1,178	889	746	668	563
6602	Janitorial Service	962	918	902	1,040	1,071	1,058	1,002	1,004	970	935
1102	Trucking, N.O.C.	857	862	808	953	1,017	1,140	1,036	1,049	1,030	1,039
6402	Supermarkets	1,016	941	945	1,043	989	960	957	1,021	1,016	886
6309	Hardware, Auto Parts and Sporting Good Stores	860	782	856	900	1,005	1,064	1,057	1,053	1,065	1,089
0307	HVAC Systems, Installation, Service and Repair	1,030	1,000	935	1,123	1,067	1,013	932	855	856	784
6511	Chore Services	877	1,018	941	1,059	907	977	948	887	976	923
6406	Retail Stores, N.O.C.	767	784	802	929	988	1,010	946	986	1,017	931
0518	Non Wood Frame Building Construction	796	960	891	1,040	1,091	869	1,005	915	756	691
5307	State Government - All Other Employees, N.O.C.	827	764	747	946	936	979	893	854	920	943
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	878	903	921	896	884	831	1,008	960	784	740
0306	Plumbing	866	843	810	838	895	917	815	881	756	726
0507	Roofing Work - Construction and Repair	756	824	724	807	866	848	828	790	694	687
2903	Wood Products Manufacturing, N.O.C.	631	644	668	768	823	858	794	822	818	725
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	615	622	712	824	754	795	727	753	788	764

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, 2022.

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

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

October 28, 2022

June 30, 2022 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, 2022. 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, 2021 to perform actuarial services in 2022.

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, 2022. The intended users of this opinion are the Department and the State Auditor' Office. The loss and loss adjustment expense reserves are the responsibility of Department. My responsibility is to express an opinion on those reserves based on my review.

Scope

I have examined the loss and loss adjustment expense reserves as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2022. I have reviewed the June 30, 2022 loss and loss adjustment expense reserves recorded under U.S. Governmental Accounting Standard GAAP. My review considered data evaluated as of June 30, 2022 and additional information provided to me through the date of this opinion.

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

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

Opinion

A summary of the Program's recorded loss and loss adjustment expense reserves by account in its Comprehensive Annual Financial Report as of June 30, 2022 is as follows:

Accident Account	$ 5,598,877,000
Medical Aid Account	4,280,280,000
Pension Reserve Account	5,820,599,000
Total Basic Plan Loss and LAE Reserves	$15,699,756,000
Supplemental Pension Account	23,003,000,000
Total Program Loss and LAE Reserves	$38,702,756,000

In my opinion, the loss and loss adjustment expense reserves listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2022:

(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 Comprehensive Annual Financial Report.

The major factors and/or particular conditions underlying the risk and uncertainties that I consider relevant to the Department's estimates of unpaid losses and loss adjustment expenses as of June 30, 2022 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 1.60%. 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 16.1 years) was 3.23% as of June 30, 2022, 1.79% as of June 30, 2021, 0.98% as of June 30, 2020, and 2.19% as of June 30, 2019.

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

B. Other Disclosures

Pension Liabilities for State Employees

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

GAAP requires the Program to record a liability for the total unfunded state employee pensions in its Comprehensive Annual Financial Report ("CAFR") as of June 30, 2022. The CAE liability in the CAFR does not include any of the unfunded State employee pensions so as to not double count the liability. This difference in accounting results in a GAAP CAE liability that is approximately $14.6 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 $14,575,000 ($4,596,000 for the Accident Account and $9,979,000 for the Medical Aid Account).

Discounting

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

- For the Medical Aid Account, the Department's selected interest rate is 1.0%.

- For "state Program pensions" within the Pension Reserve Account, the Department's selected interest rate is 4.0%.

- For "self-insured pre-Programed pensions" within the Pension Reserve Account, the Department's selected interest rate is 5.7% according to the Washington administrative code rule WAC 296-14-8810. The rates selected for self-insured pre-Programed pensions is allowed to be different from the rate selected for state Program pensions according to SB6393.

- For the Accident Account, combinations of interest rates are used to discount the reserves. The future total permanent disability and fatal transfers made to the Pension Reserve Account assume interest discounts based on an annual rate of 4.0%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.0%.

- For the Supplemental Pension Account, the Department's selected interest rate is 1.0%.

The average combined interest rate for the Program is approximately 1.60% with a total discount amount of $10.38 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 3.23% as of June 30, 2022, 1.79% as of June 30, 2021, 0.98% as of June 30, 2020, and 2.19% as of June 30, 2019.

The interest rates used for the self-insured pre-funded pensions within the Pension Reserve Account changed from 5.8% last year to 5.7% 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 remained the same at 1.0% this year. The effect of changing these interest rate assumptions this year was an increase in the discounted reserve of $5.2 million.

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, 2022, 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, 2022 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 2023 of 7.51% was obtained from the Employment Security Department's State Average Annual Wage data and represents the change in calendar year 2021 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 2023 is based on the change in calendar year 2021 wages). This year, the Department used the Washington Economic Forecast Council's estimates for calendar years 2022 through 2024 as a proxy for COLA adjustments for fiscal years 2024 through 2026. The COLA adjustments for fiscal years 2027 through 2036 are projected by using a linear interpolation between the fiscal year 2026 COLA adjustment of 4.40% and a long-term constant COLA adjustment assumption of 1.0%. For projected COLA adjustments subsequent to fiscal year 2036, the Department uses the long-term assumption of 1.0% 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 $3.300 billion in the Supplemental Pension Account discounted liability at 1.0%.

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 4.51% with annual changes varying between 3.41% (at the 30th percentile) and 5.01% (at the 70^{th} 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 4.51% would increase the Supplemental Pension Account discounted liability by $16.795 billion (keeping the discount rate at 1.0%). The Department has assumed that there will be a significant correlation between changes in the future COLA adjustments and changes in the interest rates in the future even though the correlation between the two has been weak at best in the past.

It is difficult to determine the reasonableness of this future correlation considering it has not occurred in the past. Therefore, 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.

The Department's average interest rate used to discount the liabilities of the Supplemental Pension Account is 1.0%. The risk-free interest rate that matches the duration of these liabilities (approximately 17.1 years) as of June 30, 2022 is 3.26 which is relatively higher than the Department's selected 1.0%.

I do agree with the Department that wages long-term (and thus COLA Adjustments) will move in the same direction as inflation and the risk-free interest rates. In addition, 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 $25.6 million has already been spent as of June 30, 2022 of which none has been currently allocated to CAE payments. The anticipated future cost of WCSM is approximately $226.3 million over the next eight fiscal years. The Department assumes that approximately 2/3 of the cost will be claims related and will expense the allocated State Fund costs (i.e. excluding costs allocated to self-insureds) through its claims administration expense (CAE). The CAE related cost has been distributed to both future and historical fiscal accident years. The estimated amount allocated to fiscal-accident years 2022 and prior and included in the reserves as of June 30, 2022 totals $53.5 million on a discounted basis and $55.3 million on an undiscounted basis.

C. COVID-19

The COVID-19 pandemic has impacted the number and severity of reported claims over the past 27 months. There has been a total of 8,179 compensable claims reported as of June 30, 2022. These claims represent 20.5% 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, 2022 is $50.7 million of which $38.6 million has been paid. The majority of these claims are very small in nature with only a handful of larger claims. Therefore, I do not expect the direct impact of COVID-19 claims to be significant, although these claims do affect the frequency and severity of reported claims as mentioned 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, 2022. 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 are increased due to the potential future effects of the pandemic.

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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Rod Morris, FCAS, FSA, MAAA
Deloitte Consulting LLP
555 West 5th Street, Suite 2700
Los Angeles, CA 90013
(213) 688-3374
rmorris@deloitte.com
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Washington State Department of
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Keep Washington Safe and Working

Workers' Compensation Program
Annual Comprehensive Financial Report

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