Washington State Department of
Labor & Industries

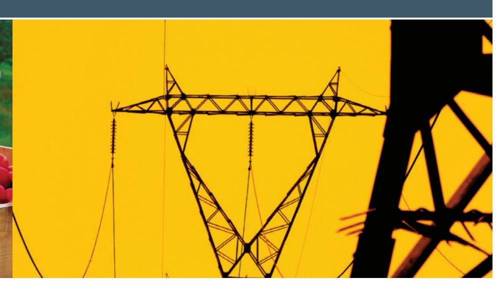
Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Olympia, Washington



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For the Fiscal Year Ended June 30, 2017

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Washington State Investment Board

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

October 20, 2017

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

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2017.

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 financial statements for the year ended June 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

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

PROFILE OF WORKERS' COMPENSATION PROGRAM

L&I, an agency of Washington State, is responsible for managing the state's workers' compensation system; enforcing the Washington Industrial Safety and Health Act; providing safety and health consultations and information; enforcing wage and hour, child labor and family leave requirements; managing the state's Crime Victims' Compensation Program; registering contractors and apprentices; inspecting electrical work, elevators, boilers and factory-assembled structures; and issuing licenses for certain skilled trades.

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

The workers' compensation system has existed in Washington State for 106 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund, managed by L&I, until 1971, when the Legislature created an option for qualified employers to self-insure and expanded the scope of coverage to virtually all workers. The Self-Insurance Program allows employers with sufficient financial resources to pay the cost of claims for their injured workers from their own funds and assume significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund. There are approximately 356 employers who are self-insured, covering close to one-quarter of all workers in Washington.

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

The State Fund Workers' Compensation Program covers approximately 176,000 employers and 2.91 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2017, including both the employer and worker portions, were $2.62 billion. Over 94,000 claims were accepted in fiscal year 2017; about 82 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 37,166 claims were active during fiscal year 2017, and 15,865 of these claims were receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In fiscal year 2017, vocational rehabilitation retraining plans were completed by 411 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 was appropriated and allotted through Washington State's legislative process. The final 2015-2017 appropriated budget for administering the Workers' Compensation Program was $662,900,190, which included $597,675,000 that was appropriated to L&I and the remainder for other state agencies. This budget included $17,842,000 of federal funds dedicated to the Safety & Health Assessment & Research for Prevention (SHARP) Program, the Division of

Occupational Safety and Health (DOSH), and the L&I Apprenticeship Program. The appropriated administering budget for fiscal year 2017 for the Worker's Compensation Program was $340,408,286, and the portion of the total fiscal year 2017 budget for L&I was $309,752,000.

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

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES - FISCAL YEAR 2017

Washington is the thirteenth largest state in the U.S., with a population of 7.29 million,[1] and has the fourteenth largest state economy of $476.55 billion.[2] It is comprised of eleven major metropolitan areas and vast regions of wilderness and farmland. The Seattle/Tacoma/Bellevue metropolitan area alone accounted for 60.1 percent of the state's non-farm employment as of May 2017, and an even higher share of the state's real Gross Domestic Product (GDP).

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 worldwide companies such as Microsoft and Amazon.com. Other Washington-based Fortune 500 companies include Costco, Starbucks, Nordstrom, Weyerhaeuser, Paccar, and Expeditors.

CURRENT ECONOMIC SITUATION AND OUTLOOK

The U.S. economy expanded at an annualized rate of 3.5 percent in the first quarter of fiscal year 2017, but weakened to 2.1 percent and 1.4 percent in the second and third quarters.[3] The labor market has also cooled with a three-month average, from March to May of 2017, of only 121,000 new jobs, far below the roughly 180,000 new jobs each month needed to keep up with the demand in the labor force.[4]

Washington's economy has performed well in the past few years, topping WalletHub's list of 2017's best state economies, with the state's GDP growth and exports being the major factors.[5] Real personal income in Washington was projected to grow 2.9 percent and 3.5 percent in 2017 and 2018, respectively.[6] The statewide unemployment rate improved by a full percentage point from 5.5 percent in June 2016 to 4.5 percent in May 2017.[7] The jobless rate in the

[1] "State Population Totals: 2010-2016", U.S. Census Bureau, December 16, 2016.
[2] "GDP by State, 2015:I-2016:IV", Bureau of Economic Analysis (BEA), May 11, 2017.
[3] Quarterly Gross Domestic Product Report, BEA, June 29, 2017.
[4] As of June 2, 2017, BLS.
[5] "2017's Best & Worst State Economies," WalletHub, June 5, 2017.
[6] "Final June 2017 Fiscal Year Tables for Economic Forecast", Washington State Economic and Revenue Forecast Council (ERFC), June 20, 2017.
[7] Historical resident Labor Force and Employment, ESD, June 28, 2017.

Seattle/Bellevue/Everett metropolitan area also further declined from 4.4 percent in June 2016 to 3.3 percent in May 2017.

Washington's credit rating remains in good standing, thanks to a robust state economy and strong financial management. The most current ratings by Moody's, S&P, and Fitch all indicate the state's General Obligation Bonds as high quality (Aa1/AA+/AA+) with a stable outlook.[8]

According to the June 2017 *Wall Street Journal (WSJ) Economist Survey*, there was a 15.8 percent chance that the U.S. will be in a recession within the next 12 months, down from June 2016's estimate of 20.7 percent.[9] Over the next 5 years, the national economy will expand at a moderate rate of 2.0 to 2.3 percent (Economic Revenue Forecast Council, June 2017). With regard to payroll employment, both the U.S. and Washington will experience significantly slower job gains as the national and state economies approach or have already approached full employment.[10]

Housing/Construction

The overall U.S. home sales continued to trend upward in fiscal year 2017. [11] Monthly sales of new single-family houses from July 2016 to May 2017 averaged a seasonally adjusted annual rate (SAAR) of 594,000 units, much stronger than the averages of 480,000 and 522,000 units sold in fiscal year 2015 and 2016 respectively.[12] Existing home sales also grew at a faster pace in fiscal year 2017. Compared to the average of 5.10 million and 5.35 million units (SAAR) in the previous two years, sales of existing homes averaged 5.53 million from July 2016 to May 2017.[13] The average national home price remained resilient, with a 5.5 percent gain from April 2016 to April 2017.[14]

In fiscal year 2017, Washington State remained one of the strongest housing markets in the country. Home prices across the state continued to rise faster than in any other state in recent months, mainly driven by a robust demand and tight supply of houses on the market. According to the *CoreLogic* report, Washington led all other states in home price gains in each of the last 6 months (December 2016- May 2017). In May 2017, Washington posted the largest average home price inflation of all states, with a 12.6 percent year-over-year increase, followed by Utah (10.4 percent). The median home value in Washington has gone up 10.7 percent over the past year to $334,000 as of May 31, 2017, and was predicted to rise another 5.9 percent in the next year.[15] In the Seattle/Tacoma/Bellevue metropolitan area, home prices rose even faster than the state

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[8] December 2016 Credit Rating Report, Washington State Treasurer. (http://www.tre.wa.gov/partners/for-investors/debt-management/bond-ratings/).

[9] Data Source: WSJ Economic Forecasting Survey. Forecast Edition: June 2017. (http://projects.wsj.com/econforecast/#ind=recession&r=60&e=1496862492032).

[10] Table 1.1 U.S. Economic Forecast Summary and Table 2.1 Washington Economic Forecast Summary: Forecast 2017 to 2021. June 2017 Economic forecast by ERFC.

[11] As of July 6, 2017, the latest monthly data series for most housing /construction indicators was May 2017.

[12] As of June 23, 2017: Census Bureau (https://www.census.gov/construction/nrs/index.html).

[13] Data Source: http://www.realtor.org/topics/existing-home-sales.

[14] Data Source: S&P/Case-Shiller U.S. National Home Price Index, Federal Reserve Bank of St. Louis.

[15] Data Source: http://www.zillow.com/wa/home-values/.

average, with a 12.9 percent gain from April 2016 to April 2017.[16] Building permits have also risen at a faster clip across the state than the past few years.

Large Employers

The Boeing Company reported that its revenue for the quarter ended March 31, 2017, declined seven percent to $20.98 billion, reflecting the timing of commercial and defense aircraft deliveries. Its net earnings and core earnings per share, however, rose 28 percent and 16 percent, respectively, compared with the same quarter a year earlier.[17] Focusing on cost control and productivity improvements, Boeing reduced its workforce significantly in the past few years from 175,742 employees in October 2012 to 144,081 employees in June 2017. Washington workers as a share of total Boeing workforce also declined from 48.4 percent to 47.1 percent over the last year.[18]

Microsoft's March 31, 2017, quarterly report showed an improvement in revenue from the same quarter last year, rising from $20.53 billion to $22.09 billion.[19] As of March 31, 2017, Microsoft employed 45,535 in Washington State, approximately 37.5 percent of its 121,567 worldwide workforce. The company announced at the end of June that it was planning to cut thousands of jobs in the next year, largely in the sales department outside the U.S.[20]

Amazon has announced its plan to create 100,000 full-time jobs in the U.S. over the next 18 months[21] and another 5,000 new part-time, work-from-home jobs over the next year.[22] The online retail giant has created over 150,000 jobs in the U.S. over the last five years, growing its workforce from 30,000 in 2011 to over 180,000 at the end of calendar year 2016.[23] In the first quarter of calendar year 2017, its sales increased 23 percent to $35.7 billion compared to the same quarter in 2016.[24]

Small Businesses

Small business (1-49 employees) employment growth in the U.S. declined substantially in fiscal year 2017. The ADP employment data revealed that only 58,000 new jobs were added by small businesses each month in the fiscal year, well below the monthly average of 78,000 jobs created in fiscal year 2015 and 2016.[25] The Small Business Optimism Index, however, managed to stay at a historically high level from December 2016 to May 2017, as business owners remained optimistic about regulatory reform, tax reform and a health care overhaul under the new administration.[26]

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[16] Data Source: S&P/Case-Shiller WA-Seattle Home Price Index, Federal Reserve Bank of St. Louis.
[17] Data Source: Boeing Company 1st Quarter Earnings Report, April 26, 2017.
[18] Data Source: http://www.boeing.com/company/general-info/index.page#/governance.
[19] Data Source: https://www.microsoft.com/en-us/Investor/earnings/FY-2017-Q3/press-release-webcast.
[20] Facts about Microsoft: https://news.microsoft.com/facts-about-microsoft/#uWDoOsLhMcb0xb08.97.
[21] http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2237110
[22] http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2260304.
[23] Amazon pressroom: http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-news&nyo=0.
[24] http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=2266665.
[25] Data Source: ADP National Employment Report, July 7, 2017.
[26] Data Source: NFIB Small Business Economic Trends-May 2017.

Small businesses in Washington and Seattle fared better than their counterparts in the first half of fiscal year 2017, but have lost steam in the second half. According to the Paychex | IHS Small Business Jobs report, Washington was at the top of the state index in the list of 20 largest states when the year started but slipped to fourth place in May 2017. Similarly, Seattle topped the metro index in small business employment growth as of December 2016 and has fallen to fifth place in May 2017.[27]

Financial markets

The U.S. stock market had a strong year after 2016's sluggish performance and reached historical highs for all three major indices: Dow, S&P 500 and NASDAQ. The Dow surpassed the milestone of 19,000 points on November 22, 2016, 20,000 points on January 25, 2017, and 21,000 points on March 1, 2017, for the first time ever and ended up with a 3,419.64 point or 19.1 percent gain over all of fiscal year 2017. The S&P 500 also gained 15.5 percent and surpassed the 2,400 mark. NASDAQ closed at 6140.42 on the last day of the fiscal year, up 26.8 percent compared to the last day of fiscal year 2016.[28]

Mortgage rates rose at a moderate pace, but were still at historical low levels. The June 2017 rates of 30-year and 15-year loans averaged 3.9 percent and 3.17 percent respectively, up from the average of 3.57 percent and 2.84 percent when fiscal year 2016 ended.[29] Treasury yields on bonds, notes and bills also turned higher over the last year. On June 30, 2017, the average rates for 1-year, 5-year, 10-year, and 30-year treasury constant maturity series were up 79, 88, 82, and 54 basis points from the same day in 2016, to end at 1.24 percent, 1.89 percent, 2.31 percent, and 2.84 percent, respectively.[30]

Workers' Compensation Impacts

Overall, the robust employment growth in Washington State in recent years has boded well for workers' compensation premium revenues. However, if slower job growth in the second half of 2017 continues, slower growth in premiums assessed will result. Workers' compensation exposure is also expected to increase at a slower pace because of this changing labor market condition; however, both premium growth and exposure are also affected by business mix. If rates of growth in high-risk industries outpace growth in other sectors, then premium growth and exposure may outpace that of the overall labor market.

At the industry level, construction was one of the largest contributors to the job gains in Washington, adding 10,900, or 23 percent, of total private nonfarm jobs into the state economy in the first 11 months of fiscal year 2017.[31] Construction was also projected to be the second-fastest-growing industry in employment from 2015 to 2020, trailing only Information Technology.[32] While this may lead to higher total insurance premiums collected, it may also negatively impact

[27] Data Source: http://www.paychex.com/jobs-index/index.aspx.
[28] Data Source: Federal Reserve Bank of St. Louis.
[29] Data Source: The Freddie Mac Primary Mortgage Market Survey: http://www.freddiemac.com/pmms/.
[30] Data Source: Treasury Constant Maturity data series, Federal Reserve Bank of St. Louis.
[31] Washington Employment Estimates, ESD, June 28, 2017.
[32] Industry Employment Projections, ESD, June 2017.

workers' compensation costs, given the fact that the construction industry is normally associated with a higher incidence rate and more severe injuries than most other industries.

Wage growth finally picked up in fiscal year 2017, translating into a larger increase in time-loss and pension benefits for most workers injured on or before July 1, 2016. These benefits are required to be recalculated each year to reflect the change in the state's average wage. In Washington, the average annual wage increased 4.8 percent to $58,957 in 2016, the largest annual gain since calendar year 2007.[33] Based on this rate, L&I increased time-loss and pension benefit payments for eligible workers, effective July 1, 2017.

Medical inflation (based on the Consumer Price Index for medical care) also picked up in the first few months of 2017 but appeared to taper off thereafter. The inflation index rose 4.9 percent for the 12-month period ending September 2016, the largest annual gain since January 2008, but slowed down to 2.7 percent from May 2016 to May 2017. Overall, the annual average growth rate of 3.9 percent in the CPI for medical care for fiscal year 2017 was still the biggest jump in the past 9 years.[34] It is likely that increasing costs for medical care overall would affect medical costs in Washington's workers' compensation system. However, if the recent downward trend holds, the likelihood of this adverse impact is expected to lessen in the near future.

A stronger equity market will bring higher returns on investment for L&I and, therefore, strengthen its financial stability and flexibility. Although equity accounted for only 12.9 percent of L&I's total investment assets,[35] a historically high stock market with all three major indices at record highs had a substantial impact on the agency's overall investment performance, especially on helping to build up healthy contingency reserves, which the agency needs to protect against unexpected large rate fluctuations in the future.

LONG-TERM FINANCIAL PLANNING

In 2012, L&I adopted a 10-year plan to increase the contingency reserve to a target of 13 to 15 percent of State Fund liabilities, while reducing the rate used to discount pension liabilities from 6.5 to 4.5 percent by 2023. The "contingency reserve" refers to any surplus remaining (similar to net position) on the statutory financial statements prepared in accordance with the National Association of Insurance Commissioners statutory accounting principles for the Industrial Insurance Fund.

During fiscal year 2017, the contingency reserve balance changed from $1,493 million to $2,972 million, which was 21.8 percent of State Fund liabilities, and the discount rate was reduced from 6.3 to 6.2 percent. L&I's goals for fiscal year 2018 include:

- Continue to reduce the pension discount rate with guidance from the Workers' Compensation Advisory Committee
- Continue operational efficiencies to reduce costs through improved worker health and return-to-work outcomes

[33] Quarterly Census of Employment and Wages (QCEW), ESD, June 26, 2017.
[34] Data Source: Federal Reserve Bank of St. Louis.
[35] Data Source: L&I Funds Statement of Net Position-As of June 30, 2017, Washington State Investment Board.

- Maintain an appropriate contingency reserve level while reducing future volatility

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 June 15, 2017, the investment policy was updated, reducing the amount allocated to fixed income, while increasing the allocation to equities and adding real estate as an investment option.

Asset Allocation Target and Ranges			
Fund	Fixed Income	Equity	Real Estate
Accident Fund	80% ±6	15% ±4	5% ±2
Pension Reserve Fund	85% ±5	10% ±3	5% ±2
Medical Aid Fund	75% ±7	20% ±5	5% ±2
Supplemental Pension Fund	100%	0%	0%

A gradual implementation plan has been adopted. The global equity and fixed income holdings are expected to reach their targets over a period of 2.5 years while real estate will take seven years or longer, given liquidity constraints of the asset class. If real estate, due to timing or illiquidity, is above or below its target, fixed income will be used to offset the balance.

MAJOR INITIATIVES

The Department of Labor & Industries covers many workplace and safety issues, all of which fall within three primary lines of business: prevention, recovery, and the support for each.

Prevention: L&I works to prevent the things that threaten the lives and livelihoods of the people who live and work in Washington from happening. It covers workplace injuries and fatalities, the failure of equipment we regulate, violations of worker's wage and labor rights, and fraud.

Recovery: When something does go wrong on the job, L&I strives to ensure remediation and recovery - working to make people, workplaces, and communities whole again. Success in recovery means that those who are injured get reconnected to the workforce as quickly as possible, those who are wronged get speedy relief, and those who wronged them pay the right penalty or make restitution.

Support: The vital link between striving for prevention and providing recovery assistance as needed is L&I support-people, processes, and technology-that make the other two lines of business go.

Together, these lines of business provide key guidance and direction as the agency prepares to better serve its customers of the future through its Business Transformation initiative. The goal is to project the needs and service preferences of future customers in technology, accessibility, and service, and then adapt in advance to prepare for those needs. The L&I Leadership Team has selected six transformation projects to advance during the 2017-19 biennium:

1. Replace the workers' compensation computer systems
2. Redesign the L&I website
3. Develop an agencywide information and data strategy
4. Complete a thorough assessment of L&I's IT capabilities and needs
5. Deploy customer incentives to get results
6. Connect customers with L&I employees (foster better understanding)

Many of these transformational projects replacing the workers' compensation computer systems, will likely take multiple biennia to complete.

In 2011, the Legislature directed Joint Legislative Audit and Review Committee (JLARC) staff to conduct a performance audit of workers' compensation claims management. In 2015, the JLARC concluded that efforts to help workers return to work promptly and safely could be improved. JLARC made the following recommendations which L&I is working to implement:

- L&I should institute standards for early phone contact, claims management planning, and clear documentation in claims management.
- L&I should expand its pilot programs and enhance its claims management support systems (training, performance measures, and technology) with a focus on return to work.

L&I continues to measure specific categories of its work. Governor Jay Inslee directed state agencies to measure performance, improvements, innovation, engagement, transparency and accountability in state government. In response, L&I maintains focus on five goals:

1. Make workplaces safe
2. Help injured workers heal and return to work
3. Make it easy to do business with L&I
4. Help honest workers and businesses by cracking down on the dishonest ones
5. Ensure L&I is an employer of choice

L&I has made great strides in its goal to make workplaces safe by reducing the rate of injury and fatality by fostering a culture of safety. Washington had the nation's lowest construction fatality rate in 2015, the latest year for which complete data is available, improving from being ninth-rated the previous-year, this at a time when the construction industry was booming in our state. Overall, Washington had the third-lowest worker fatality rate in the country[36] and reduced the occupational illness and injury rate by about one-third. L&I has been instrumental in these achievements.

[36] 2015 Washington state work-related fatalities report, WA Fatality Assessment & Control Evaluation

L&I is a national leader in helping injured workers heal and return to work, with innovative incentives and return-to-work programs. The agency is well-respected among other states and in the industry, leading to three L&I leaders recently being appointed to committees of the International Association of Industrial Accident Boards and Commissions. This reflects L&I's commitment to create a culture in which employers, workers, medical providers, vocational experts, and L&I staff focus on maintaining the workers' connection to the workforce, along with their motivation to return to work. This culture, combined with quality medical services and operational efficiencies, saves employers money - an estimated $839 million in reduced benefit liabilities over the past three fiscal years. Through these programs and initiatives, long-term disability rates are down 18 percent in Washington since 2012. Return-to-work services are now provided, on average, 100 days earlier than in 2012; the proportion of workers who return to work through earlier services is 91 percent higher than in the past. L&I promotes high quality, evidence-based care and is a national leader in reducing chronic opioid use, which is down to about one percent of incoming time-loss claims. These and other measures help to control health care cost growth, which was about 2.8 percent for fiscal year 2017.

L&I's direct deposit and debit card options for injured workers continued to help make it easier to do business with L&I. Other improvements are having a similar impact. Improvements to L&I's provider hotline reduced wait times by 92 percent, dropped abandoned calls by 54 percent, and cut turnaround time in half for service authorizations. L&I's agencywide initiative to serve limited-English-proficiency customers includes mandatory staff training on using a telephone interpreter service when necessary, and all bilingual employees have been tested for oral proficiency. This commitment to customers whose English skills are limited aims to make it easier to do business with L&I in any language.

L&I is cracking down on unscrupulous business practices with improved methods of identifying illegal activities. The agency is working with the Washington State Attorney General's Office to step up criminal and civil enforcement, especially cases of wage theft. L&I investigations resulted in returning more than $4.1 million in wages to workers last fiscal year ($3.3 million in wage/hour and $0.8 million in prevailing wages). L&I is also continuing efforts to identify and hold accountable all workers, providers and businesses that defraud the workers' compensation system. For every dollar spent on workers' compensation fraud prevention, $11.45 was returned. The jump of more than $2.50 from the previous fiscal year is due to collecting more late premiums, fines and penalties, while reducing operating costs.

Ensuring L&I is an employer of choice focuses on providing a culture of trust while developing opportunities for workplace flexibility, such as alternative schedules and telework options. Since October 2016, the Infants at Work pilot program tested the option to provide additional flexibility options for new families. L&I made great strides in telework in fiscal year 2017, completing eight pilot projects from a wide variety of programs in the agency, and increasing official participation from 65 in February 2016 to about 300 by May of 2017. L&I remains committed to using Lean to empower employees to make decisions that affect their work. Employee-led Lean projects have reduced time for claim processing, improved relationships with customers, streamlined our collections process, and reduced burden on staff. Participation in wellness initiatives is brisk among the agency's employees, with more than 5,000 sign-ups for various events in agencywide wellness campaigns in calendar year 2016. L&I also added a lactation room, expanded onsite nutritional food options, and increased engagement in the SmartHealth wellness platform to 67 percent of the workforce.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2016. A copy of the Certificate of Achievement is included in the introductory section of the CAFR. This was the seventh consecutive year that L&I received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easy-to-read and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Sincerely,

Joel Sacks
Director

Randi Warick
Deputy Director for
Financial Management

FOR VICKIE KENNEDY

Victoria Kennedy
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 Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

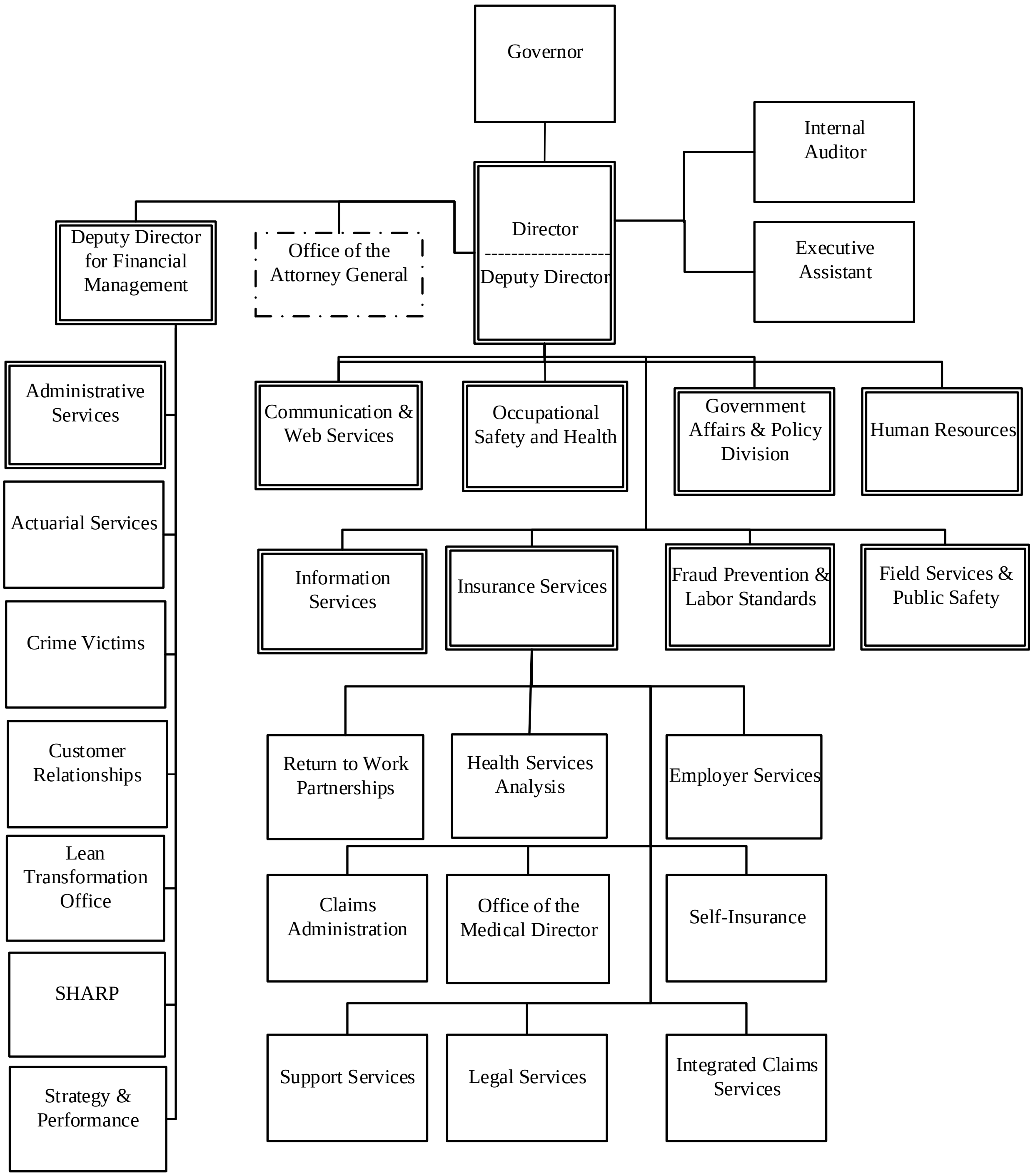
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart

June 30, 2017



Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Financial Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

October 20, 2017

Joel Sacks, Director
Workers Compensation Program
Department of Labor and Industries
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 3. These investments represent 93.7 percent, and 17 percent, respectively, of the assets and total revenues of the Program. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Workers' Compensation Program of the state of Washington, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material

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misstatement. The financial statements of the Labor and Industries' Funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers Compensation Program, an enterprise fund of the state of Washington, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Workers Compensation Program, an enterprise fund of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements as a whole. The Combining and Individual Account Financial Schedules are presented for 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, based on our audit, the procedures performed as described above, and the report of other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated October 20, 2017, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Management's Discussion and Analysis

Our management's discussion and analysis of the state of Washington Workers' Compensation Program's Comprehensive Annual Financial Report provides an overview of the Workers' Compensation Program's financial activities for the fiscal year ended June 30, 2017. 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 and deferred outflows of resources increased $871 million from the prior fiscal year, mainly due to increases in investments of $819 million and an increase in receivables of $72 million, offset by a decrease in security lending collateral of $21 million.

- Total liabilities and deferred inflows of resources increased $801 million from the prior year. The increase is largely due to increases in claims payable of $788 million and recognition of additional net state employee pension liability of $26 million, offset by a decrease in securities lending collateral of $21 million.

- Total revenues earned decreased $122 million from the prior year, mainly due to unrealized losses on fixed income securities. Increases in net premiums and unrealized gains on equities partially offset the revenue decrease.

- Total expenses incurred increased $30 million from the prior year, primarily due to a $13 million increase in claims expense and $12 million increase in miscellaneous expenses.

- Total net deficit decreased $71 million from the prior year, mainly due to the increase in premiums offset by the unrealized losses on fixed income securities.

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 Accounts, and the Industrial Insurance Rainy Day Fund, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, Pension Reserve Accounts, and the Industrial Insurance Rainy Day Fund represent the Workers' Compensation Program Industrial Insurance Fund, or Basic Plan.

For the fiscal year ended on June 30, 2017, 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 95-98 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, 2017. It can be found on page 37 of this report.

The Statement of Revenues, Expenses, and Changes in Net Position shows how the program's net position changed during the fiscal year. It presents both operating and non-operating revenues and expenses for the fiscal year. It can be found on page 38 of this report.

The Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash and cash equivalents during the fiscal year. It can be found on page 39 of this report.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the Workers' Compensation Program's financial statements. They can be found on pages 41-84 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position (dollars in millions)	June 30, 2017	June 30, 2016	$ Change	% Change
Assets				
Current assets	$ 1,678	$ 2,662	$ (984)	(37.0%)
DOE assets, noncurrent	5	5	-	0.0%
Investments, noncurrent	15,755	13,910	1,845	13.3%
Capital assets, net	65	67	(2)	(3.0%)
Total Assets	17,503	16,644	859	5.2%
Deferred outflows of resources	37	25	12	48.0%
Liabilities				
Current liabilities	2,348	2,330	18	0.8%
Noncurrent liabilities	24,836	24,037	799	3.3%
Total Liabilities	27,184	26,367	817	3.1%
Deferred inflows of resources	3	19	(16)	(84.2%)
Net Position (Deficit)				
Investment in capital assets	65	67	(2)	(3.0%)
Unrestricted	(9,712)	(9,785)	73	(0.7%)
Total Net Position (Deficit)	$ (9,647)	$ (9,718)	$ 71	(0.7%)

Current assets - Current assets decreased by $984 million during fiscal year 2017, largely due to decreases in current investments and securities lending collateral offset by an increase in receivables. Current investments decreased by $1,027 million due to fixed income securities held having later maturity dates than those held in the prior year. Securities lending collateral decreased because demand for borrowing securities decreased. Receivables increased due to more hours reported by employers and a premium rate increase in the Accident Account.

Noncurrent investments - Noncurrent investments increased during fiscal year 2017 by $1,845 million, mainly due to increases of $472 million in fixed income securities, $340 million in equity investments, and $1,027 million that moved from current investments to noncurrent investments as discussed above.

Total fiscal year 2017 current and noncurrent investments of $16,406 million increased $819 million, or 5.3 percent, when compared to the prior year. The most significant changes in the total investment balance are from the following:

- Fixed income securities increased by $472 million compared to fiscal year 2016. Additional fixed income investments were purchased from interest income and realized gains. Interest income of $483 million accounts for most of this increase. The average coupon rate at June 30, 2017, ranged from 3.1 to 3.7 percent. This was a significant decrease from the prior year average coupon rates that ranged from 3.5 to 4.0 percent. This resulted in unrealized losses in fixed income securities.

- Equities increased $340 million due to net realized and unrealized gains. Currently, the Workers' Compensation Program equity investments are split 52 percent U.S. and 48 percent non-U.S. During fiscal year 2017, equities returned 19.2 percent compared to the negative 2.4 percent return in fiscal year 2016.

Current liabilities - Current liabilities, other than claims payable, decreased during fiscal year 2017 by $7 million, mainly due to the decrease of $21 million in security lending collateral offset by increases in accounts payable and accrued liabilities that total $14 million. Accrued liabilities increased $10 million, mainly due to an increase in the retrospective rating liability, as compared to fiscal year 2016. The fiscal year 2017 retrospective rating liability is higher due to the increases in reported hours and premium rates.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. Claims payable, included in current and noncurrent liabilities, was $26,641 million at the end of fiscal year 2017, an increase of $788 million, or 3.0 percent, when compared to the previous fiscal year. This increase is primarily due to a net increase in benefit liabilities. Benefit liabilities increased $794 million, as shown by the table below:

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

	June 30, 2017	June 30, 2016
Benefit liabilities, beginning of year	$ 25,239	$ 24,492
New liabilities incurred, current year	1,903	1,891
Development on prior years		
Change in reserve discount	735	527
Change in discount rate	44	34
Other development on prior liabilities	200	373
Claim payments	(2,088)	(2,078)
Change in benefit liabilities	794	747
Benefit liabilities, end of year	$ 26,033	$ 25,239

* Excludes claims administration expense liabilities

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 $1,045 million. The Supplemental Pension Fund provides for the Cost-of-Living Adjustments (COLA) on workers' compensation time loss and pension benefit payments for injured workers insured through both the State Fund and self-insurance programs. The COLA calculation is based on the State's Average Annual Wage published by Washington State Employment Security Department, which increased 4.77 percent in 2016, much higher than the 2.52 percent expected.

- The Workers' Compensation Program has developed a plan to reduce the pension discount rate from 6.5 percent to 4.5 percent by 2023. The pension discount rate was reduced from 6.3 to 6.2 percent in fiscal year 2017, which increased the Pension Reserve liability estimate by $44 million.

- These increases were partially offset by net decreases in benefit liabilities from new information on previously-estimated liabilities. The Accident Account benefit liabilities were lower due to fewer active time loss claims, as well as permanent partial disability awards having fewer awards and lower-than-estimated average award amounts. The Medical Aid Account had lower-than-expected claim counts and lower-than-anticipated medical payments.

Total net position (deficit) - The Workers' Compensation Program's deficit decreased $71 million during fiscal year 2017, ending the year with a deficit balance of $9,647 million. This deficit consists of a $13,063 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program accounts, which increased as a result of investment activities. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position
(dollars in millions)

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,698	$ 2,516	$ 182	7.2%
Miscellaneous revenue	61	58	3	5.2%
Total Operating Revenues	2,759	2,574	185	7.2%
Nonoperating Revenues				
Earnings on investments	551	858	(307)	(35.8%)
Other revenues	9	9	-	0.0%
Total Revenues	3,319	3,441	(122)	(3.5%)
Operating Expenses				
Salaries and wages	161	160	1	0.6%
Employee benefits	69	63	6	9.5%
Personal services	6	8	(2)	(25.0%)
Goods and services	82	82	-	0.0%
Travel	4	4	-	0.0%
Claims	2,887	2,874	13	0.5%
Depreciation	10	10	-	0.0%
Miscellaneous expenses	50	38	12	31.6%
Total Operating Expenses	3,269	3,239	30	0.9%
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	3,269	3,239	30	0.9%
Income (Loss) before Transfers	50	202	(152)	(75.2%)
Net Transfers	-	-	-	0.0%
Change in Net Position (Deficit)	50	202	(152)	(75.2%)
Net Position (Deficit) - Beginning of Year*	(9,697)	(9,920)	223	(2.2%)
Net Position (Deficit) - End of Year	$ (9,647)	$ (9,718)	$ 71	0.7%

*Net Position (Deficit) – Beginning of Year for Fiscal Year Ended June 30, 2017 is restated.

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2017 were $2,698 million compared to $2,516 million for fiscal year 2016, an increase of $182 million. This increase resulted from additional hours reported by employers and premium rate increases in the Accident Account, effective January 1, 2016 and 2017. In fiscal year 2016, employers reported 3,681 million hours worked; this figure increased to 3,837 million hours for fiscal year 2017. There has been a steady growth of quarterly standard premiums for 25 quarters since March 31, 2011.

Earnings on investments - The earnings on investments decreased $307 million from the prior fiscal year mainly as explained below:

Significant Changes in Investment Activity*
(dollars in millions)

	June 30, 2017	June 30, 2016	$ Change	% Change
Fixed Income				
Interest earnings	$ 483	$ 503	$ (20)	(4.0%)
Realized gains and losses	104	65	39	60.0%
Unrealized gains and losses	(369)	325	(694)	(213.5%)
Fixed Income Total	218	893	(675)	(75.6%)
Equities				
Realized gains and losses	1	74	(73)	(98.6%)
Unrealized gains and losses	338	(105)	443	(421.9%)
Equities Total	339	(31)	370	(1193.5%)
Total Fixed Income and Equities	$ 557	$ 862	$ (305)	(35.4%)

*The above does not include investment expenses.

- Interest earnings decreased due to the decrease in coupon rate from fiscal year 2016 to fiscal year 2017. As bonds mature, they are reinvested in fixed income securities with lower coupon rates because interest rates have decreased.

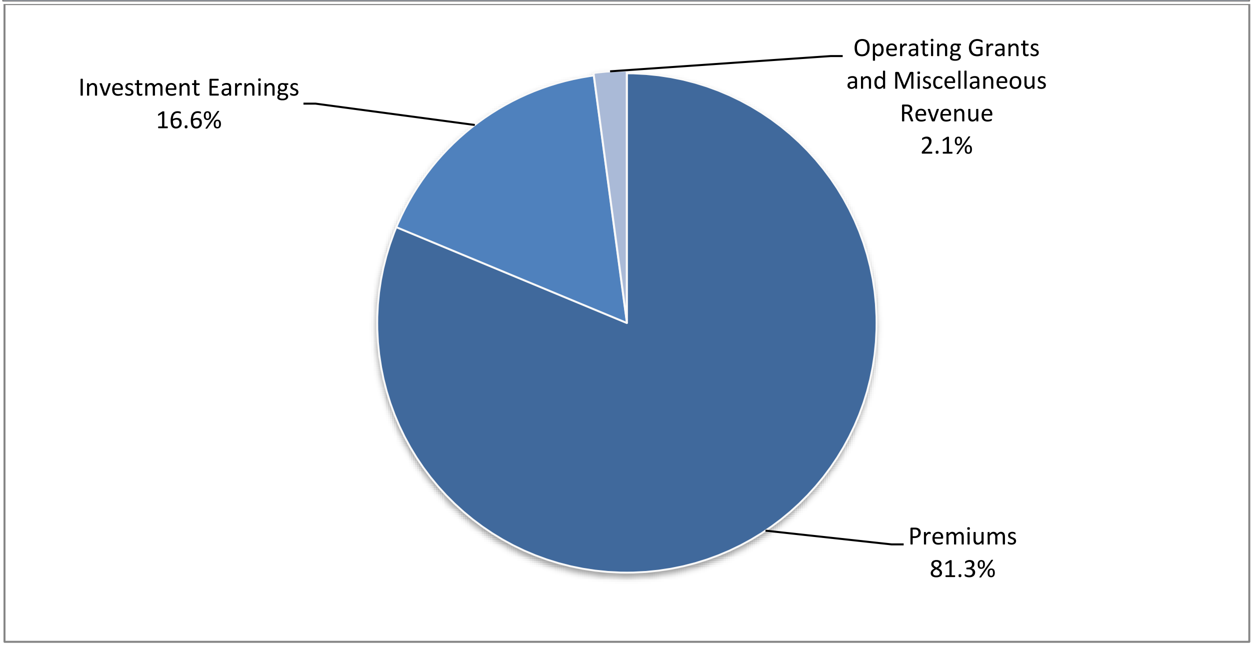
- Fixed income realized gains increased mostly due to the sale of $900 million in fixed income securities in order to shorten duration targets to align with the new asset allocation policy.

- Fixed income unrealized gains decreased due to rising interest rates. The fair market value of debt securities moves in the opposite direction to changes in interest rates. Rising interest rates result in decreasing bond market prices, while falling rates cause bond prices to increase.

- Equity realized gains decreased compared to the prior fiscal year due to the sale of equities to rebalance the portfolio in fiscal year 2016. Equity unrealized gains increased due to the strong stock market.

The following chart provides additional detail on the distribution of revenues by source during fiscal year 2017:

Fiscal Year 2017 Revenues by Source



Claims expense - Claims expense for fiscal year 2017 increased $13 million, or 0.5 percent, as compared to fiscal year 2016. Claims expense includes two main components: payments to beneficiaries and the change in claims payable.

Claim payments to beneficiaries increased by $10 million, or 0.5 percent, when compared to the prior year, which accounts for most of the increase in claims expense. Increases in the Medical Aid Account and Pension Reserve Account were partially offset by decreases in the Accident Account and the Supplemental Pension Accounts. The net increase is explained by the following:

- The Medical Aid Account's $13 million increase in claim payments to beneficiaries resulted mainly from an increase in exposure and medical inflation.

- The Pension Reserve Account's claim payments to beneficiaries increased $19 million, mostly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

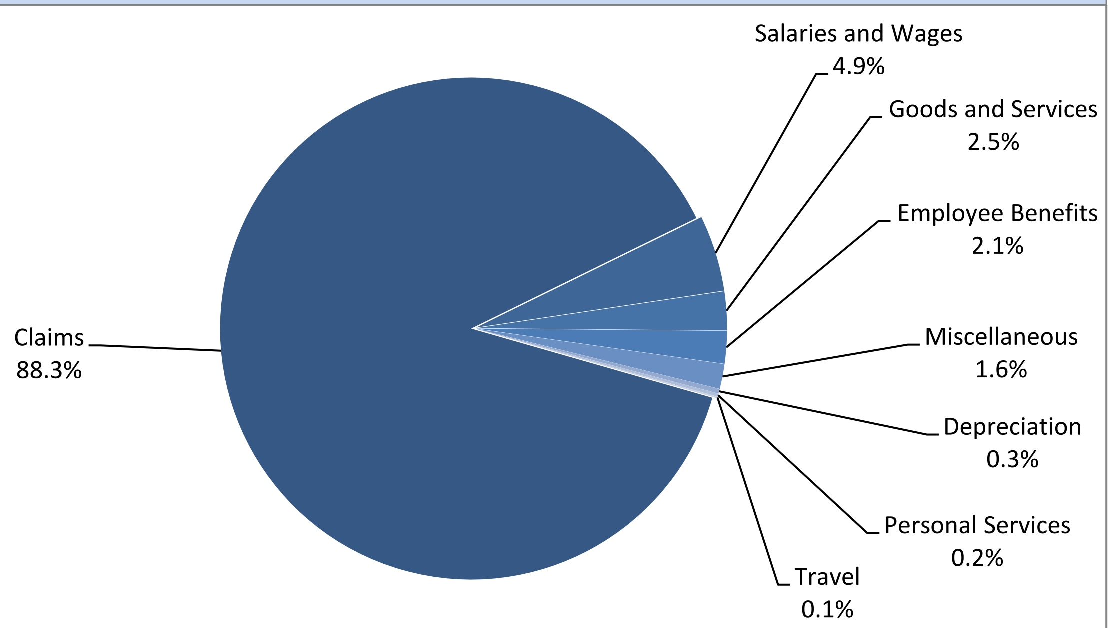
- The Accident Account's $14 million decrease in claim payments to beneficiaries resulted primarily from fewer active time-loss claims.

- The Supplemental Pension Account's claim payments to beneficiaries decreased by $8 million. The decrease is mainly the result of last year's claim payments being higher due to implementing a court decision and an increase in the state's average annual wage.

Operating expenses - Operating expenses for fiscal year 2017, other than claims expense, were $382 million as compared to $364 million in fiscal year 2016, an $18 million, or 4.7 percent, increase. Higher operating expenses in fiscal year 2017 resulted mainly from increases in state employee benefits and miscellaneous expenses. State employee benefits increased mainly due to a $4.5 million increase in the state employee pension expense. The increase in miscellaneous expenses is due primarily to an $11 million increase in bad debt expense. One third of the bad debt expense increase is due to an increase in premium receivables caused by an increase in hours reported and a rate increase, as discussed above. The remaining two-thirds increase in bad debt expense is due to an increase in normal business activities, including waivers, adjustments and making accounts uncollectable after exhausting all legal means of collection.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2017:

Fiscal Year 2017 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2017, was $65 million. This reflects a net decrease of $2 million from the previous year. This net decrease is due mainly to an increase in accumulated depreciation resulting from prior year costs incurred for internally-developed software that are now being depreciated. Additional information on capital assets can be found in Note 1.D.6 and Note 6 of this report.

Potentially Significant Matters with Future Impacts

In order to maintain the actuarial solvency of the funds while keeping reasonable limits on rate fluctuations, L&I had a nine-year plan to steadily rebuild the Industrial Insurance Fund contingency reserve (similar to net position) to a range between 13 and 15 percent of liabilities (less securities lending obligations). "Contingency reserve" refers to any surplus remaining on the statutory financial statements prepared in accordance with the National Association of Insurance Commissioners statutory accounting principles for the Industrial Insurance Fund. L&I's goal for fiscal year 2017 was to increase the contingency reserve balance from $1,455 million to $1,583 million by increasing rates and reducing costs by $35 to $70 million. The contingency reserve goal was met during fiscal year 2017, with the contingency reserve ending at $2,971 million, or 21.8 percent of liabilities. L&I's plan for fiscal year 2018 is to maintain the contingency reserve balance by continuing to operate efficiently.

The Workers' Compensation Program also has a plan to reduce the pension discount rate from 6.5 percent to 4.5 percent by 2023. Over the past three fiscal years, the pension discount rate was reduced from 6.5 to 6.2 percent. In fiscal year 2018, L&I and the Workers' Compensation Advisory Council members will continue the discussion of future reduction of the discount rate. Each tenth of a percent that the pension discount rate drops, the contingency reserve decreases an estimated $29 to $32 million.

The Workers' Compensation Program has many computer systems 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. The focus for the next year will be to analyze the business requirements for the new system(s).

Reinsurance is insurance for insurance companies. L&I is currently looking into purchasing reinsurance to mitigate losses resulting from a catastrophic event. An intermediary has been hired to determine whether reinsurance is an option for L&I.

Requests for Information

This report is designed to provide a general overview of the Workers' Compensation Program and illustrate the program's financial condition to interested parties. If you have questions about this report or need additional financial information, please contact the Chief Accounting Officer at the Department of Labor & Industries, P.O. Box 44833, Olympia, Washington 98504-4833.

In accordance with the Revised Code of Washington (RCW) 51.44.115, L&I also publishes a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) annually. This report is prepared in compliance with statutory accounting practices and principles.

The Workers' Compensation Program Comprehensive Annual Financial Report and Statutory Financial Information Report for the Industrial Insurance Fund are also available at L&I's website at http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/.

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	35,025,529
Investments		651,042,902
DOE trust cash and investments		653,905
Collateral held under securities lending agreements		94,318,059
Receivables, net of allowance		893,084,598
Receivables from other state accounts and agencies		60,405
Receivables from other governments		1,351,540
Inventories		176,590
Prepaid expenses		1,605,138
Total Current Assets		1,677,318,666
Noncurrent Assets		
DOE trust receivable		4,939,668
Investments, noncurrent		15,755,192,748
Capital assets, net of accumulated depreciation		65,149,293
Total Noncurrent Assets		15,825,281,709
Total Assets		17,502,600,375
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		36,559,677
Total Assets and Deferred Outflows of Resources	$	17,539,160,052
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
LIABILITIES		
Current Liabilities		
Accounts payable	$	8,710,818
Deposits payable		7,769,463
Accrued liabilities		192,652,472
Obligations under securities lending agreements		94,318,059
Payable to other state accounts and agencies		6,069,287
Due to other governments		1,860
Unearned revenues		1,844,718
DOE trust liabilities		645,000
Claims payable, current		2,035,874,000
Total Current Liabilities		2,347,885,677
Noncurrent Liabilities		
Claims payable, net of current portion		24,604,664,000
Other long-term liabilities		7,345,204
DOE trust long-term liabilities		4,948,573
Other post-employment benefits		63,456,000
Net pension liability for employee retirement plans		155,439,202
Total Noncurrent Liabilities		24,835,852,979
Total Liabilities		27,183,738,656
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		2,526,028
NET POSITION (DEFICIT)		
Investment in capital assets		65,149,293
Unrestricted		(9,712,253,925)
Total Net Position (Deficit)		(9,647,104,632)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	17,539,160,052

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, 2017

OPERATING REVENUES	
Premiums and assessments, net of refunds	$ 2,697,735,066
Miscellaneous revenue	61,238,696
Total Operating Revenues	2,758,973,762
OPERATING EXPENSES	
Salaries and wages	160,502,557
Employee benefits	68,547,415
Personal services	5,686,473
Goods and services	82,024,988
Travel	3,867,455
Claims	2,887,423,417
Depreciation	9,850,524
Miscellaneous expenses	51,548,263
Total Operating Expenses	3,269,451,092
Operating Income (Loss)	(510,477,330)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	551,367,236
Other revenues	9,186,287
Total Nonoperating Revenues (Expenses)	560,553,523
Income Before Transfers	50,076,193
Transfers out	(192,000)
Change in Net Position	49,884,193
Net Position (Deficit) at July 1	(9,717,572,421)
Prior Period Adjustment	20,583,596
Net Position (Deficit) - July 1, as restated (see Note 2)	(9,696,988,825)
Net Position (Deficit) - June 30	$ (9,647,104,632)

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,614,152,843
Payments to/for beneficiaries		(2,097,324,111)
Payments to employees		(221,026,194)
Payments to suppliers		(86,544,202)
Other		56,569,288
Net Cash Flows from Operating Activities		265,827,624
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out		(192,000)
Operating grants received		9,099,964
License fees collected		120,345
Net Cash Flows from Noncapital Financing Activities		9,028,309
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets		(7,557,537)
Net Cash Flows from Capital and Related Financing Activities		(7,557,537)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of trust investments		443,902
Receipt of interest and dividends		485,886,388
Investment expenses		(5,235,240)
Proceeds from sale of investment securities		7,176,307,478
Purchases of investment securities		(7,932,791,640)
Net Cash Flows from Investing Activities		(275,389,112)
Net decrease in cash and cash equivalents		(8,090,716)
Cash & cash equivalents, July 1 (includes trust cash of $210,003)		43,770,150
Cash & cash equivalents, June 30 (includes trust cash of $653,905)	$	35,679,434
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	(510,477,330)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation		9,850,524
Change in Assets: Decrease (Increase)		
Receivables		(55,445,707)
Inventories		24,090
Prepaid expenses		368,319
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		788,020,426
Accrued liabilities		33,487,302
Net Cash Flows from Operating Activities	$	265,827,624
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Decrease in fair value of investments	$	(31,278,477)

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, 2017

Index

Note 1 - Summary of Significant Accounting Policies

The accompanying basic financial statements of the Workers' Compensation Program of the state of Washington were prepared in conformity with generally accepted accounting principles (GAAP). The Washington State Office of Financial Management (OFM) is the primary authority for the Workers' Compensation Program 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. Following is a summary of the significant accounting policies:

1.A. Reporting Entity

The Department of Labor & Industries (L&I), an agency of Washington State and a part of the primary government, administers and enforces laws and regulations in accordance with Titles 43 and 51 of the Revised Code of Washington (RCW) and Title 296 of the Washington Administrative Code (WAC). The provisions of Title 51 RCW require all employers, unless excluded or exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the Workers' Compensation Program or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

The Workers' Compensation Fund is classified as an enterprise fund of the state of Washington. The accompanying basic financial statements present only the activity of the Workers' Compensation Program and do not present the financial position, results of operations, or cash flows of L&I or the state of Washington. The Workers' Compensation Program's financial report is included in the basic financial statements of the Comprehensive Annual Financial Report of the state of Washington. A copy of the report may be obtained from the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, WA 98504-3127. A copy can also be obtained from the OFM website at http://ofm.wa.gov/cafr.

1.B. Basic Financial Statements

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

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

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

On behalf of injured workers, the Medical Aid Account, established on July 1, 1917, per RCW 51.44.020, pays for the cost of medical services, vocational rehabilitation services, and Stay at Work reimbursements. Revenues for this account come mostly from equal contributions from employers and employees; employers are required to withhold half of their medical aid premium from their employees' wages.

The Pension Reserve Account pays benefits to the surviving spouse or dependent 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 was created by the Legislature during the 2011 session 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. Primarily, the balance in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. This account was first used in fiscal year 2017. Additional information can be found in Note 12 of this report.

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

The Supplemental Pension Account provides for a supplemental cost-of-living adjustment (COLA) to injured workers and their dependents 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 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 reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer assessments.

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

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

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

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

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

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

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

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

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

1.C. Measurement Focus and Basis of Accounting

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

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

1.D. Assets, Liabilities, and Net Position

1.D.1. Cash and Cash Equivalents

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

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

1.D.2. DOE Trust Cash and Investments

Per RCW 51.04.130, the U.S. Department of Energy has contracted with the Workers' Compensation Program to pay benefits to Hanford nuclear production complex workers injured on the job. Funds provided in advance by the U.S. Department of Energy to cover the pension liability determined by the Workers' Compensation Program are restricted assets and recorded as "DOE trust cash and investments." The remaining pension liability not covered by DOE trust cash and investments is recorded as "DOE trust receivable."

As of June 30, 2017, trust cash and investments of $653,905, 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 in 2017.

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, 2017, 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 age 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, claim 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 claim administrative expense liabilities are discounted to reflect the time value of money using an average discount rate of 2.37 percent. The amount of discount is based on an actuarially derived projected payment pattern and selected annual interest rate. The Medical Aid and Supplemental Pension Accounts are discounted at 1.5 percent. The Pension Reserve Account is discounted at 6.2 percent. For the Accident Account, combinations of discount rates are used. The future total permanent disability and fatal transfers made to the Pension Account assume a discount rate of 6.2 percent through the first quarter of fiscal year 2018. This rate is reduced to

6.0 percent for the next 12 months and then is gradually reduced each 12-month period until settling at a long-term annual rate of 4.5 percent. The transfer payments and all other liabilities are discounted at 1.5 percent.

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

1.D.5. 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, 2017, prepaid expenses amounted to $1,605,138.

1.D.6. Capital Assets

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

- All land

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

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

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

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

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

- All capital assets acquired with a Certificate of Participation

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

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

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

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

Generally, estimated useful lives are as follows:

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

1.D.7. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past ten fiscal years. 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 2017 reporting, the Workers' Compensation Program adopted the following new standard issued by the GASB:

Statement No. 82 *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* GASB Statement No. 82 amends the definition of covered payroll for pensions reported in required supplementary information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based.

Prior Period Adjustments

During the course of operations, an error was identified in billing for pensions that resulted in total assets, operating income, and net position being understated. A self-insured employer transitioned to an arrangement that deviated from standard self-insurance billing procedures. Due to an error in implementing the agreement, pension payments made by the Workers' Compensation Program were not billed for reimbursement. The parties have agreed on the unbilled portion and the Workers' Compensation Program will be reimbursed $20,583,596 for pensions paid from April 2001 through June 2016. Beginning in July 2016, the Workers' Compensation Program billed for the pension payments made on behalf of this self-insured employer and reimbursements were received.

Under Statement No. 62 of the Governmental Accounting Standards Board, Codification of Accounting and Financial Reporting Guidance, paragraph 88, states, "Correction of an error in the financial statements of a prior period discovered subsequent to their issuance should be reported as a prior-period adjustment." Had this error been noted during 2016, total assets and net position would have increased by $20,583,596 for the fiscal year ended June 30, 2016. The billing process was corrected prospectively during 2017 and a receivable for $20,583,596 was appropriately recognized. The Workers' Compensation Program recorded an increase to the beginning net position as a result of correcting this error. The Net Position (Deficit) at July 1, 2016, has been restated as follows:

Net Position (Deficit) at June 30, 2016, as previously reported	$	(9,717,572,421)
Prior Period Adjustment - Correction Of An Error		20,583,596
Net Position (Deficit) at July 1, 2016, as restated	$	(9,696,988,825)

<u>Note 3 - Deposits and Investments</u>

3.A. Deposits

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

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

The OST manages the deposits for the Workers' Compensation Program. At June 30, 2017, $35.3 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $403,905 uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

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

In accordance with RCW 43.33A.110, the Workers' Compensation Program portfolios are to be managed to limit fluctuations in workers' compensation premiums and, subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the objectives are to:

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

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

- U.S. equities
- International equities
- U.S. Treasuries and government agencies

- Credit bonds

- Mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices

- Asset-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices

- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices

- Investment grade non-U.S. dollar bonds

- Real Estate

Investment Policies and Restrictions

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

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

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

- Asset allocations are to be reviewed every four years or sooner if there are significant changes in funding levels or the liability durations. Asset allocations per the June 2017 L&I asset investment policy are:

Asset Allocation Target and Ranges

Fund	Fixed Income	Equity	Real Estate
Accident Fund	80% ±6	15% ±4	5% ±2
Pension Reserve Fund	85% ±5	10% ±3	5% ±2
Medical Aid Fund	75% ±7	20% ±5	5% ±2
Supplemental Pension Fund	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 - Sector allocation for U.S. equities should be within a range of 47 to 57 percent. Allocation for international equities should be within a range of 43 to 53 percent.

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 are 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 practical. 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 Barclays Family of Fixed Income Indices) shall not exceed five 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 five percent of total market value of the funds.

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

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

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

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

3.B.2. Valuation of Investments

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

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates).

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

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

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

- Researches price changes from the previous day of two to five percent or greater, 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 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 issues or reduces shares for contributions and redemptions from the fund. 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, 2017:

Schedule of Fair Value Measurement
June 30, 2017
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 1,252,255		$ 1,252,255	
Corporate bonds	9,524,313		9,524,313	
U.S. and foreign government and agency securities	3,322,956		3,322,956	
Total investments by fair value level	$ 14,099,524		$ 14,099,524	
Investments measured at net asset value (NAV)				
Commingled equity investment trusts	2,106,218			
Total investments measured at the NAV	2,106,218			
Total investments measured at fair value	$ 16,205,742			
Other assets (liabilities) measured at fair value				
Collateral held under securities lending agreements	$ 94,142		$ 94,142	
Obligations under securities lending agreements	$ (94,142)		$ (94,142)	
Total other assets (liabilities) measured at fair value	$ -		$ -	

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

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

Investments measured at net asset value (NAV) - The Workers' Compensation Program invests in seven separate collective investment trust funds (fund) that are 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 fund. 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 holdings within each fund are publicly traded equity securities.

Six of the seven funds are passively managed to collectively approximate the capitalization weighted total rates of return of the MSCI All Country World Ex U.S. Investable Market Index. Each fund has monthly openings and contributions, and withdrawals can be made on each opening date. The fund manager, at its discretion, reserves the right to delay the processing of deposits and withdrawals from each fund in order to ensure that securities transactions will be carried out in an orderly manner. The fund may suspend valuation and withdrawal rights when, at the fund manager's sole discretion, prevailing market conditions or other circumstances, events, or occurrences make the disposition or valuation of investments impracticable or inadvisable, or when the fund manager otherwise considers such action to be in the best interest of the participants or believes that such action would assist in eliminating or mitigating an adverse effect on the fund or participants.

The remaining fund is passively managed to approximate the capitalization weighted total rates of return of the MSCI U.S. Investable Market Index. The fund has daily openings and contributions, and withdrawals can be made on any business day. The fund manager, at its 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.

3.B.3. Securities Lending

The Workers' Compensation Program participates in securities lending programs with the WSIB and the OST to increase investment income. At June 30, 2017, the Workers' Compensation Program had $94,141,614 of cash collateral received in the Medical Aid, Pension Reserve and Supplemental Pension Accounts invested through the WSIB. There was $176,445 of cash collateral received in the Medical Aid and the Supplemental Pension Accounts invested through the OST.

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.

The fair value of the securities on loan at June 30, 2017, was approximately $506.1 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2017, cash collateral received totaling $94.1 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $94.1 million is reported as security lending collateral in the Statement of Net Position. Securities received as collateral for which the Workers' Compensation Program does not have the ability to pledge or sell unless the borrower defaults are not reported as assets or liabilities in the Statement of Net Position. Total securities received as collateral at June 30, 2017, was $430.3 million.

During fiscal year 2017, fixed income securities were loaned and collateralized by the Workers' Compensation Program's agent with cash and U.S. government or U.S. agency securities, including U.S. agency mortgage-backed securities (exclusive of letters of credit). When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities.

As of June 30, 2017, the Workers' Compensation Program held the following securities from reinvestment of cash collateral and securities received as collateral:

Collateral Held Under Securities Lending
June 30, 2017
(in thousands)

	Cash Collateral	Non-Cash Collateral	Total
Mortgage-backed	$ -	$ 429,377	$ 429,377
Repurchase agreements	41,229	-	41,229
Yankee CDs	17,142	-	17,142
Commercial Paper	21,021	-	21,021
Cash equivalents and other	14,750	922	15,672
Total Collateral Held	$ 94,142	$ 430,299	$ 524,441

Securities lending transactions can be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2017, the collateral held had an average duration of 19.1 days and an average weighted final maturity of 62.6 days. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral cannot be pledged or sold absent borrower default. No more than 20 percent of the total on-loan value can be held by a specific borrower. Collateral investment guidelines specifically prohibit European-domiciled holdings. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Corporation indemnified the Workers' Compensation Program by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Corporation's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During fiscal year 2017, 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 2017 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 Citibank, N.A. as a lending agent and receives a share of income earned from this activity. The lending agent lends U.S. government and U.S. agency 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. The Local Government Investment Pool (LGIP) portfolio is invested in a manner that meets the requirements set forth by the Governmental Accounting Standards Board for the maturity, quality, diversification and liquidity for the external investment pools that wish to measure all of its investments at amortized costs. The funds are limited to high quality obligations with regulated maximum average maturities, the effect of which is to minimize both market and credit risk. The LGIP transacts with its participants at a stable net asset value per share of one dollar, which results in the amortized cost reported equaling the number of shares in the LGIP. During fiscal year 2017, cash received as collateral was invested in the LGIP money market fund and/or demand deposit accounts, which allow withdrawals each business day to cover maturing loans. At June 30, 2017, the Workers' Compensation Program's cash collateral totaled $176,445.

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, 2017, the fair value of securities on loan for the Workers' Compensation Program totaled $172,116.

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 2017, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

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

3.B.4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program 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, 2017, the Workers' Compensation Program 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, 2017. The schedules display various asset classes held by years until maturity and effective duration, and credit ratings. All debt securities are reported using average life within the portfolio. The average life is a calculated estimate of the average time (in years) until maturity for these securities, taking into account possible prepayments of principal.

Schedule of Maturities and Effective Duration
June 30, 2017
(dollars in thousands)

		Maturity				Effective
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Duration (years)**
Mortgage and other asset-backed securities	$ 1,252,255	$ 4,449	$ 790,690	$ 404,776	$ 52,340	4.80
Corporate bonds	9,524,313	286,490	4,185,071	2,387,038	2,665,714	6.90
U.S. government and agency securities	2,464,572	159,588	1,074,527	821,981	408,476	6.80
Foreign government and agencies	858,384	-	567,899	259,764	30,721	4.60
Total investments categorized	14,099,524	$ 450,527	$ 6,618,187	$ 3,873,559	$ 3,157,251	
Investments Not Required to be Categorized						
Commingled investment trusts	2,106,218					
Cash and cash equivalents	200,515					
Total investments not categorized	2,306,733					
Total*	$ 16,406,257					

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

Investments with multiple credit ratings at June 30, 2017, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2017
(in thousands)

Moody's Equivalent Credit Rating	Investment Type: Mortgage and Other Asset-Backed Securities	Investment Type: Corporate Bonds	Investment Type: Foreign Government and Agency Securities	Total Fair Value
Aaa	$ 1,252,255	$ 545,263	$ 241,826	$ 2,039,344
Aa1	-	114,369	-	$ 114,369
Aa2	-	114,626	143,472	$ 258,098
Aa3	-	752,893	303,495	$ 1,056,388
A1	-	1,786,795	88,275	$ 1,875,070
A2	-	1,097,503	-	$ 1,097,503
A3	-	1,696,543	-	$ 1,696,543
Baa1	-	1,121,269	27,596	$ 1,148,865
Baa2	-	1,192,272	-	$ 1,192,272
Baa3		765,282	53,720	$ 819,002
Ba1 or lower	-	337,498	-	$ 337,498
Total Fair Value	$ 1,252,255	$ 9,524,313	$ 858,384	$ 11,634,952

3.B.5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Workers' Compensation Program 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 rated debt investments of the Workers' Compensation Program as of June 30, 2017, 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 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, 2017.

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 relating to custodial credit risk. The WSIB mitigates custodial credit risk by having its investment securities (excluding cash, cash equivalents, and repurchase agreements held as securities lending collateral) registered and held in the name of the WSIB for the benefit of the Workers' Compensation Program.

3.B.6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Workers' Compensation Program does not have a formal policy to limit foreign currency risk. The only security held by the Workers' Compensation Program with foreign currency exposure at June 30, 2017, consisted of $785.2 million (includes U.S. dollar-denominated securities) invested in an international commingled equity index fund.

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

Workers' Compensation Program
Foreign Currency Exposure by Country
June 30, 2017
(in thousands)

Foreign Currency Denomination	Equity Securities
Australia-Dollar	$ 39,031
Brazil-Real	12,006
Canada-Dollar	53,110
Denmark-Krone	9,877
E.M.U.-Euro	174,944
Hong Kong-Dollar	56,921
India-Rupee	17,977
Japan-Yen	138,291
Mexico-Peso	6,864
New Taiwan-Dollar	25,091
Singapore-Dollar	7,441
South Africa-Rand	12,118
South Korea-Won	29,773
Sweden-Krona	18,539
Switzerland-Franc	44,890
United Kingdom-Pound	102,328
Miscellaneous Foreign Currencies	35,965
Total	$ 785,166

3.B.7. Derivatives

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

Derivative transactions involve, to varying degrees, market and credit risk. 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, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2017, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $746.6 million.

3.B.8. Reverse Repurchase Agreements

State law permits the Workers' Compensation Program to enter into reverse repurchase agreements, i.e., a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the Workers' Compensation Program would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements entered into during fiscal year 2017, and there were no liabilities outstanding as of June 30, 2017.

Note 4 - Receivables

Receivables at June 30, 2017, consisted of the following:

Receivables June 30, 2017	
Current Receivables	
Premiums receivable	
Actual premiums receivable	$ 175,500,991
Estimated premiums receivable [1]	679,654,000
Estimated self-insurance premiums receivable [2]	65,879,014
Total Premiums Receivable	921,034,005
Other receivables	
Receivable from overpayments	2,060,468
Investment interest receivable	106,660,672
Safety fines and penalties receivable	16,998,999
Miscellaneous receivables	14,796,202
Total Current Receivables, Gross	1,061,550,346
Less: Allowance for uncollectible receivables	168,465,748
Total Current Receivables, Net of Allowance	$ 893,084,598

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2017. 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, 2017, based on prior employer quarterly reports. This amount also includes pension receivables, experting, and accounts receivable balances.

Note 5 - Interfund/Interagency Balances

Receivables from other state accounts and agencies as of June 30, 2017, consisted of the following:

Receivables From Other State Accounts and Agencies June 30, 2017		
General Fund	$	2,519
L&I accounts*		20,559
Other state agencies		37,327
Total Receivables From Other State Accounts and Agencies	$	60,405

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

All balances are expected to be received within one year from the date of the basic financial statements. These balances resulted from goods and services provided prior to June 30, 2017.

Payables to other state accounts and agencies as of June 30, 2017, consisted of the following:

Payables To Other State Accounts and Agencies June 30, 2017		
General Fund	$	40,189
L&I accounts*		420,363
Other state agencies		5,608,736
Total Payables To Other State Accounts and Agencies	$	6,069,287

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

All balances are expected to be paid within one year from the date of the basic financial statements. These balances resulted from goods and services received prior to June 30, 2017, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

Capital Assets Activity For the Fiscal Year Ended June 30, 2017	Beginning Balance July 1, 2016	Increases	Decreases	Ending Balance June 30, 2017
Capital Assets Not Being Depreciated:				
Land and collections	$ 3,239,748	$ -	$ -	$ 3,239,748
Construction in progress	9,553,812	6,660,622	(7,146,623)	9,067,811
Total Capital Assets Not Being Depreciated	12,793,560	6,660,622	(7,146,623)	12,307,559
Capital Assets Being Depreciated:				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(31,701,966)	(1,353,502)	-	(33,055,468)
Net Buildings and Building Components	33,431,636	(1,353,502)	-	32,078,134
Furnishings, equipment, and collections	60,680,314	896,916	(623,838)	60,953,392
Accumulated depreciation	(58,929,201)	(811,362)	614,409	(59,126,154)
Net Furnishings, Equipment, and Collections	1,751,113	85,554	(9,429)	1,827,238
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(747,991)	(20,408)	-	(768,399)
Net Other Improvements	541,271	(20,408)	-	520,863
Total Capital Assets Being Depreciated, Net	35,724,020	(1,288,356)	(9,429)	34,426,235
Intangible assets - definite useful lives	42,146,437	7,146,623	(4,338,842)	44,954,218
Accumulated amortization	(23,212,308)	(7,665,253)	4,338,842	(26,538,719)
Total Capital Assets Being Amortized, Net	18,934,129	(518,630)	-	18,415,499
Total Capital Assets, Net of Depreciation and Amortization	$ 67,451,709	$ 4,853,636	$ (7,156,052)	$ 65,149,293

For fiscal year 2017, the total depreciation expense was $9,850,524.

Note 7 - Noncurrent Liabilities

7.A. Debt Refunding

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refund issued are used to purchase U.S. government securities. These securities are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased, and the liability has been removed from the Statement of Net Position. There were no debt refundings in fiscal year 2017.

7.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
June 30, 2017 and 2016

Claims Payable	**June 30, 2017**	**June 30, 2016**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 25,852,326,000	$ 25,066,149,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,062,195,000	2,048,491,000
Increase in provision for insured events of prior fiscal years	968,518,000	975,846,000
Total Incurred Claims and Claim Adjustment Expenses	3,030,713,000	3,024,337,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	309,490,000	303,784,000
Insured events of prior fiscal years	1,933,011,000	1,934,376,000
Total payments	2,242,501,000	2,238,160,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 26,640,538,000	$ 25,852,326,000
Current portion	$ 2,035,874,000	$ 2,011,574,000
Noncurrent portion	$ 24,604,664,000	$ 23,840,752,000

At June 30, 2017, $38,238 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $26,641 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 $26,641 million as of June 30, 2017, include $13,306 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 claim liabilities of $13,335 million are fully funded by a diverse portfolio of fixed income instruments, equity index funds, and cash, managed by the WSIB.

7.C. Changes in Current and Noncurrent Liabilities

Current and noncurrent liability activity for the fiscal year ended June 30, 2017, was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2017

Current and Noncurrent Liabilities	Beginning Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2017	Due Within One Year[2]	Noncurrent Balance June 30, 2017
Claims payable, current & noncurrent	$ 25,852,326,000	$ 3,030,713,000	$ (2,242,501,000)	$ 26,640,538,000	$ 2,035,874,000	$ 24,604,664,000
Other current and noncurrent liabilities						
Compensated absences[1]	14,175,933	13,736,984	(13,598,686)	14,314,231	6,969,027	7,345,204
DOE trust liabilities	5,662,935	-	(69,362)	5,593,573	645,000	4,948,573
Other postemployment benefits	53,078,000	12,927,000	(2,549,000)	63,456,000	-	63,456,000
Net pension liability	129,683,674	25,755,528	-	155,439,202	-	155,439,202
Total Other Current and Noncurrent Liabilities	202,600,542	52,419,512	(16,217,048)	238,803,006	7,614,027	231,188,979
Total Current and Noncurrent Liabilities	$ 26,054,926,542	$ 3,083,132,512	$ (2,258,718,048)	$ 26,879,341,006	$ 2,043,488,027	$ 24,835,852,979

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

7.D. Operating Leases

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

The following schedule presents future minimum payments for operating leases as of June 30, 2017:

Future Minimum Payments for Operating Leases
June 30, 2017

Fiscal Year Ended June 30,	
2018	$ 6,848,456
2019	5,469,741
2020	4,419,068
2021	3,191,387
2022	2,253,289
Total Future Minimum Lease Payments	$ 22,181,941

The total operating lease rental expense for fiscal year 2017 was $10,965,191.

Note 8 - Deficit

At June 30, 2017, the Workers' Compensation Program had a deficit of $9,647 million. This is a result of a $13,063 million deficit in the Supplemental Pension Account at June 30, 2017, offset by a combined $3,416 million net position in the total Basic Plan, Second Injury Account, Self-Insured Employer Overpayment Reimbursement Account, and the Industrial Insurance Rainy Day Fund. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2017, noncurrent claims payable in the Supplemental Pension Account totaled $12,760 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2017:

Supplemental Pension Account Net Position (Deficit)	
Balance, July 1, 2016	$ (12,042,276,259)
Fiscal year 2017 activity	(1,020,357,093)
Balance, June 30, 2017	$ (13,062,633,352)

Note 9 - Retirement Plans and Net Pension Liability

Workers' Compensation Program employees participate in the Washington State Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) administered by the Department of Retirement Systems (DRS).

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2017, for the Workers' Compensation Program's proportionate share of the liabilities for the PERS and TRS employee retirement plans. Additional detail is provided later in this note.

Workers' Compensation Program Proportionate Share
June 30, 2017

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 1	$ 72,577,582	$ 10,039,297	$ -
PERS 2/3	82,761,762	26,505,740	(2,524,721)
TRS 1	70,402	9,903	-
TRS 2/3	29,456	4,737	(1,307)
Total	$ 155,439,202	$ 36,559,677	$ (2,526,028)

Note: The Workers' Compensation Program implemented GASB Statements 68 and 71 in fiscal year 2015.

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380 or online at http://www.drs.wa.gov/administration/annual-report.

9.A. Public Employees' Retirement System

Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community college, technical college, 4-year college, and university employees not covered in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to make a selection within 90 days default to Plan 3.

Benefits Provided

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

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

Contributions

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

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2017 for each of Plans 1, 2, and 3 was 11.18 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, 2017, was 6.12 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, 2015, with the results rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Discount rate	7.50%
Investment rate of return	7.50%

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

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

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

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

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

The Office of the State Actuary (OSA) selected a 7.5 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the

2015 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

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

The discount rate of 7.50 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually-required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 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 7.50 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 (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	PERS 1	PERS 2/3
1% Decrease	$ 87,521,251	$ 152,379,273
Current Discount Rate	$ 72,577,582	$ 82,761,762
1% Increase	$ 59,717,615	$ (43,082,277)

Net Pension Liability

At June 30, 2017, the Workers' Compensation Program reported a liability of $72,577,582 for its proportionate share of the collective net pension liability for PERS 1 and $82,761,762 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.22 percent, a decrease of 0.04 percent since the prior reporting period, and 3.31 percent for PERS 2/3, a decrease of 0.03 percent. The proportions are based on the Workers' Compensation Program's contributions to the pension plan relative to the contributions of all participating employers.

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

For the year ended June 30, 2017, an increase to pension expense of $4,053,710 was recognized for PERS 1, and an increase to pension expense of $11,830,555 was recognized for PERS 2/3.

At June 30, 2017, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2017

	PERS 1	PERS 2/3	Total
Difference between expected and actual experience	$ -	$ 4,407,006	$ 4,407,006
Changes of assumptions	-	855,410	855,410
Net difference between projected and actual earnings on pension plan investments	1,827,389	10,127,651	11,955,040
Change in proportionate share of contributions	-	794,667	794,667
Contributions subsequent to measurement date	8,211,908	10,321,007	18,532,915
Total	$ 10,039,297	$ 26,505,741	$ 36,545,038

At June 30, 2017, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2017			
	PERS 1	**PERS 2/3**	**Total**
Difference between expected and actual experience	$ -	$ 2,732,102	$ 2,732,102
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	(207,380)	(207,380)
Total	$ -	$ 2,524,722	$ 2,524,722

Pension contributions made subsequent to the measurement date in the amount of $8,211,908 and $10,321,007 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2017, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ended June 30,	**PERS 1**	**PERS 2/3**
2018	$ (449,942)	$ 597,331
2019	$ (449,942)	$ 403,995
2020	$ 1,678,260	$ 7,845,374
2021	$ 1,049,012	$ 4,813,312
2022	$ -	$ -
Thereafter	$ -	$ -

9.B. Teachers' Retirement System

Plan Description

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

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

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 members of TRS Plan 3.

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

Benefits Provided

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

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

Contributions

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

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2017 for each of Plans 1, 2, and 3 was 13.13 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, 2017, was 5.95 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, 2015, with the results rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Discount rate	7.50%
Investment rate of return	7.50%

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

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

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

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

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

The Office of the State Actuary (OSA) selected a 7.5 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2015 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

Rates of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

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

The discount rate of 7.50 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually-required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 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 7.50 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 (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Employers' Proportionate Share of Net Pension Liability/(Asset)		
	TRS 1	TRS 2/3
1% Decrease	$ 95,193	$ 66,665
Current Discount Rate	$ 70,402	$ 29,456
1% Increase	$ 62,142	$ (34,220)

Net Pension Liability

At June 30, 2017, the Workers' Compensation Program reported a liability of $70,402 for its proportionate share of the collective net pension liability for TRS 1 and $29,456 for TRS 2/3. Workers' Compensation Program proportion for TRS 1 was 0.210 percent, a decrease of 0.170 percent since the prior reporting period, and 0.250 percent for TRS 2/3, a decrease of 0.230 percent. The proportions are based on the Workers' Compensation Program 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, 2017, a pension expense reduction of $32,434 was recognized for TRS 1, and an increase to pension expense of $5,975 was recognized for TRS 2/3.

At June 30, 2017, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2017			
	TRS 1	**TRS 2/3**	**Total**
Difference between expected and actual experience	$ -	$ 2,228	$ 2,228
Changes of assumptions	-	300	300
Net difference between projected and actual earnings on pension plan investments	2,233	4,742	6,975
Change in proportionate share of contributions	-	(11,200)	(11,200)
Contributions subsequent to measurement date	7,670	8,667	16,338
Total	$ 9,903	$ 4,737	$ 14,640

At June 30, 2017, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2017			
	TRS 1	**TRS 2/3**	**Total**
Difference between expected and actual experience	$ -	$ 1,307	$ 1,307
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	-	-
Total	$ -	$ 1,307	$ 1,307

Pension contributions made subsequent to the measurement date in the amount of $7,670 and $8,667 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2017, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

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

Net Deferred Outflows and (Inflows) of Resources		
Fiscal Year ended June 30,	**TRS 1**	**TRS 2/3**
2018	$ (577)	$ (2,144)
2019	$ (577)	$ (2,144)
2020	$ 2,089	$ 606
2021	$ 1,298	$ (909)
2022	$ -	$ (647)
Thereafter	$ -	$ -

Note 10 - Other Postemployment Benefits

The Workers' Compensation Program is administered by L&I, an agency of the state of Washington and part of the primary government. Employees of the Workers' Compensation Program are eligible to participate in the state of Washington's defined benefit Other

Postemployment Benefit (OPEB) plan, an agent multiple-employer plan, as administered by the state through the Washington State Health Care Authority (HCA).

Plan Description and Funding Policy

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

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

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively-established premiums at the time they retire, under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, Higher Education, Judicial, and LEOFF 2.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2016, the average weighted implicit subsidy was valued at $304 per adult unit per month, and in calendar year 2017, the average weighted implicit subsidy is projected to be $328 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2016, the explicit subsidy was $150 per adult unit per month, and it remained $150 per adult unit per month in calendar year 2017.

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

The plan has no investments or other assets. Accordingly, the PEBB OPEB plan is not reported in the financial statements of the state, nor is a separate financial report publicly available. For information on the results of the most recent actuarial valuation for the OPEB plan, refer to: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The annual OPEB cost recorded for the Workers' Compensation Program represents an allocation of the total ARC of the state of Washington, adjusted for interest and amortization. The Workers' Compensation Program's annual OPEB cost is calculated by the OSA and is recorded by OFM. The allocation is primarily based on L&I's number of active and retired employees in relation to the total number of active and retired employees of the state.

The following tables show components of the Workers' Compensation Program's allocated annual OPEB costs for fiscal year 2017 and changes in the Workers' Compensation Program's Net OPEB Obligation (NOO). All contributions required by the funding method were paid.

Components of Allocated Annual OPEB Cost Fiscal Year 2017	
Annual required contribution	$ 12,926,000
Allocated interest on net OPEB obligation	1,990,000
Allocated amortization of net OPEB obligation	(1,989,000)
Allocated annual OPEB cost	12,927,000
Allocated contributions made	(2,549,000)
Increase in net OPEB obligation	10,378,000
Net OPEB obligation, beginning of year	53,078,000
Net OPEB obligation, end of year	$ 63,456,000

The Workers' Compensation Program's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years 2017, 2016, and 2015 were as follows:

Net OPEB Obligation by Fiscal Year	2017	2016	2015
Allocated annual OPEB cost	$ 12,927,000	$ 13,030,000	$ 12,558,000
Percentage of annual OPEB cost contributed	19.7%	19.4%	18.2%
Increase in NOO	10,378,000	10,505,000	10,274,000
Net OPEB obligation	$ 63,456,000	$ 53,078,000	$ 42,573,000

The Workers' Compensation Program's NOO represents 2.0, 1.9, and 1.8 percent of the state of Washington's NOO as of June 30, 2017, 2016, and 2015, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of the assets, consistent with the long-term perspective of the calculations.

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

Note 11 - Commitments and Contingencies

11.A. Federal Assistance

The Workers' Compensation Program has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from a review or audit may become a liability of the Workers' Compensation Program. The Workers' Compensation Program does estimate and recognize a claims liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the Workers' Compensation Program's overall financial condition. The total federal assistance for fiscal year 2017 was $9.07 million.

11.B. Contingencies

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

11.C. Financial Guarantees

Effective July 1, 1992, the Washington State Legislature required the Workers' Compensation Program, under RCW 48.22.070, to participate in an assigned risk pool, the Washington United States Longshore and Harbor Workers' Compensation Act Assigned Risk Plan (WARP), providing workers' compensation coverage under the United States Longshoreman and Harbor Workers' Act (USL&H). The Workers' Compensation Program is obligated to participate 50 percent in the underwriting losses or surpluses of the assigned risk pool. This participation is scheduled to continue indefinitely due to amending legislation passed in 1997.

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

Note 12 - Subsequent Events

12.A. Proposed Rate Announcement

Each year, the Director of L&I adopts new workers' compensation insurance premium rates for the next calendar year. On September 20, 2017, the Director announced a proposed 2.5 percent decrease in the average premium rate for 2018. This rate decrease will reduce the overall hourly rate from $0.692 to $0.675 or $0.017 per hour, which equates to an average cost reduction of $34 a year per employee.

The following four principles were used to guide the rate-setting process:

1) Set steady and predictable rate increases to help businesses plan ahead.
2) Benchmark rates against wage inflation (this happens automatically in other states).
3) Maintain the reserves to protect against unexpected changes.
4) Lower costs while focusing on better outcomes for injured workers.

The final rates will be adopted in early December 2017 and go into effect on January 1, 2018.

12.B. Industrial Insurance Rainy Day Fund

RCW 51.44.023 was enacted during the 2011 Legislative session, creating an Industrial Insurance Rainy Day Fund 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 should be applied to reduce a rate increase or aid business in recovering from or during economic recessions. For the first time since the creation of the Industrial Insurance Rainy Day Fund a transfer was made to the fund in January 2017, because the contingency reserve balance as of June 30, 2016, exceeded 10 percent. Based on the June 30, 2017, Statutory Financial Information Report for the Industrial Insurance Fund, the combined contingency reserve is 21.8 percent of total liabilities. As a part of the 2018 rate-making process, the Director will determine the timing and amount of a transfer.

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

Required Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Reconciliation of Claims Liabilities by Plan
Fiscal Years 2017 and 2016
(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 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 13,591,324	$ 13,233,959	$ 12,261,000	$ 11,832,190	$ 25,852,324	$ 25,066,149
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,775,245	1,779,283	286,952	269,208	2,062,197	2,048,491
Increase (decrease) in provision for insured events of prior fiscal years	(271,892)	326,795	1,240,410	649,051	968,518	975,846
Total incurred claims and claim adjustment expenses	1,503,353	2,106,078	1,527,362	918,259	3,030,715	3,024,337
Payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	309,490	303,784	-	-	309,490	303,784
Insured events of prior fiscal years	1,450,649	1,444,927	482,362	489,449	1,933,011	1,934,376
Total payments	1,760,139	1,748,711	482,362	489,449	2,242,501	2,238,160
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 13,334,538	$ 13,591,326	$ 13,306,000	$ 12,261,000	$ 26,640,538	$ 25,852,326
Current portion	$ 1,490,328	$ 1,496,612	$ 545,546	$ 514,962	$ 2,035,874	$ 2,011,574
Noncurrent portion	$ 11,844,210	$ 12,094,714	$ 12,760,454	$ 11,746,038	$ 24,604,664	$ 23,840,752

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

	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.22%	3.26%	3.24%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 72,577,582	$ 70,982,707	$ 69,146,130
Workers' Compensation Program's covered payroll of employees participating in PERS plan 1	$ 3,324,167	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS plan 2/3	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's employers' covered-employee payroll*	$ 157,200,870	$149,664,275	$143,786,141
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	2183.33%	1804.35%	1483.82%
Plan fiduciary net position as a percentage of the total pension liability	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 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

	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	3.31%	3.34%	3.30%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 82,761,762	$ 58,566,959	$ 32,912,727
Workers' Compensation Program's employers' covered-employee payroll*	$ 153,786,703	$145,729,911	$139,125,855
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	53.78%	40.19%	23.66%
Plan fiduciary net position as a percentage of the total pension liability	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 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

	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.210%	0.380%	0.800%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 70,402	$ 104,621	$ 183,886
Workers' Compensation Program's covered payroll of employees participating in TRS plan 1	$ 12,044	$ 14,869	$ 36,888
Workers' Compensation Program's covered payroll of employees participating in TRS plan 2/3	104,508	161,784	282,403
Workers' Compensation Program's employers' covered-employee payroll*	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	584.57%	700.00%	497.30%
Plan fiduciary net position as a percentage of the total pension liability	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 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

	2016	2015	2014
Workers' Compensation Program's employers' proportion of the net pension liability*	0.250%	0.480%	1.100%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 29,456	$ 29,388	$ 21,139
Workers' Compensation Program's employers' covered-employee payroll*	$ 104,508	$ 161,784	$ 282,403
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	28.19%	17.90%	7.45%
Plan fiduciary net position as a percentage of the total pension liability	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 provided by the Office of Financial Management

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

	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contributions	$ 7,844,689	$ 7,431,555	$ 6,064,083	$ 5,942,879
Workers' Compensation Program's employer contributions related to covered payroll of employees participating in PERS plan 1	307,076	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	7,537,613	7,064,968	5,703,131	5,522,847
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	7,844,689	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	$2,747,980	$3,324,167	$3,934,364	$4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS plan 2/3	163,143,479	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's covered-employee payroll	$ 165,891,459	$ 157,200,870	$ 149,664,275	$ 143,786,141
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	4.73%	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 Year Ended June 30

	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 10,148,160	$ 9,501,317	$ 7,327,801	$ 6,911,983
Workers' Compensation Program's contributions in relation to the contractually-required contribution	10,148,160	9,501,317	7,327,801	6,911,983
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$163,143,479	$153,876,703	$145,729,911	$139,125,855
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	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 Year Ended June 30

	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 7,577	$ 6,174	$ 7,297	$ 12,295
Workers' Compensation Program's employer contributions related to covered-payroll of employees participating in TRS plan 1	685	775	1,475	3,605
Workers' Compensation Program's employer UAAL contributions related to covered-payroll of employees participating in TRS plan 2/3	6,892	5,399	5,822	8,690
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	7,577	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	$5,198	$12,044	$14,869	$36,888
Workers' Compensation Program's covered-payroll of employees participating in TRS plan 2/3	131,335	104,508	161,784	282,403
Workers' Compensation Program's covered-employee payroll	$136,533	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	5.55%	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 Year Ended June 30

	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$8,855	$7,069	$9,233	$15,989
Workers' Compensation Program's contributions in relation to the contractually-required contribution	8,855	7,069	9,233	15,989
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$131,335	$104,508	$161,784	$282,403
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	6.74%	6.76%	5.71%	5.66%

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

Notes to Required Supplementary Information

Methods and assumptions used in calculations of Actuarially Determined Contributions (ADC) for PERS and TRS.

The Office of the State Actuary (OSA) calculates the 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. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different, pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015, and ending June 30, 2017, the contribution rates adopted by the Pension Funding Council and unchanged by the Legislature reflect a phase-in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS 1/2/3 and TRS 1/2/3.

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

Supplementary and Other Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2017

	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	$ 7,358,662	$ 1,741,390	$ 1,073,267	$ -	$ 10,173,319	$ 2,213,485	$ 21,941,799	$ 696,926	$ 35,025,529
Investments	165,429,187	213,747,453	222,925,421	-	602,102,061	48,940,841	-	-	651,042,902
DOE trust cash and investments	-	-	653,905	-	653,905	-	-	-	653,905
Collateral held under securities lending agreements	-	30,531,133	53,613,102	-	84,144,235	10,173,824	-	-	94,318,059
Receivables, net of allowance	437,069,734	269,233,265	39,870,604	-	746,173,603	129,069,044	17,841,951	-	893,084,598
Receivables from workers' compensation accounts	33,511	1,493,085	50,649,310	111,021,356	163,197,262	436	246	-	163,197,944 *
Receivables from other state accounts and agencies	25,588	31,962	-	-	57,550	2,855	-	-	60,405
Receivables from other governments	1,114,233	237,307	-	-	1,351,540	-	-	-	1,351,540
Inventories	88,295	88,295	-	-	176,590	-	-	-	176,590
Prepaid expenses	739,012	866,127	-	-	1,605,139	-	-	-	1,605,138
Total Current Assets	611,858,222	517,970,017	368,785,609	111,021,356	1,609,635,204	190,400,485	39,783,996	696,926	1,840,516,610
Noncurrent Assets									
DOE trust receivable	-	-	4,939,668	-	4,939,668	-	-	-	4,939,668
Investments, noncurrent	5,834,292,197	5,430,160,463	4,424,058,958	-	15,688,511,618	66,681,130	-	-	15,755,192,748
Capital assets, net of accumulated depreciation	28,579,657	36,569,636	-	-	65,149,293	-	-	-	65,149,293
Total Noncurrent Assets	5,862,871,854	5,466,730,099	4,428,998,626	-	15,758,600,579	66,681,130	-	-	15,825,281,709
Deferred Outflows of Resources									
Deferred outflows from pensions	18,416,330	18,143,348	-	-	36,559,677	-	-	-	36,559,677
Total Assets and Deferred Outflows of Resources	$6,493,146,406	$6,002,843,464	$ 4,797,784,235	$ 111,021,356	$ 17,404,795,460	$ 257,081,615	$ 39,783,996	$ 696,926	$17,702,357,996

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

Combining Schedule of Net Position
June 30, 2017

	Accident Account	Medical Aid Account	Pension Reserve Account	Industrial Insurance Rainy Day Fund	Total Basic Plan	Supplemental Pension Account	Second Injury Account	Self-Insured Overpayment Reimbursement Account	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)									
Current Liabilities									
Accounts payable	$ 4,256,513	$ 4,403,276	$ 40,483	$ -	$ 8,700,272	$ 10,546	$ -	$ -	$ 8,710,818
Deposits payable	4,633,635	971,611	1,888,770	-	7,494,016	275,447	-	-	7,769,463
Accrued liabilities	179,657,699	9,499,435	3,008,776	-	192,165,910	485,459	1,103	-	192,652,472
Obligations under securities lending agreements	-	30,531,133	53,613,102	-	84,144,235	10,173,824	-	-	94,318,059
Payables to workers' compensation accounts	39,567,049	111,054,717	135	-	150,621,901	1,114,869	11,461,175	-	163,197,944 *
Payables to other state accounts and agencies	3,432,753	2,636,450	-	-	6,069,203	84	-	-	6,069,287
Payables to other governments	930	930	-	-	1,860	-	-	-	1,860
Unearned revenues	124,000	65,980	-	-	189,980	1,654,738	-	-	1,844,718
DOE trust liabilities	-	-	645,000	-	645,000	-	-	-	645,000
Claims payable, current	553,948,000	468,049,000	468,331,000	-	1,490,328,000	545,546,000	-	-	2,035,874,000
Total Current Liabilities	785,620,579	627,212,532	527,527,266	-	1,940,360,377	559,260,967	11,462,278	-	2,511,083,621
Noncurrent Liabilities									
Claims payable, net of current portion	4,113,215,000	3,672,681,000	4,058,314,000	-	11,844,210,000	12,760,454,000	-	-	24,604,664,000
Other long-term liabilities	3,858,911	3,486,293	-	-	7,345,204	-	-	-	7,345,204
DOE trust long-term liabilities	-	-	4,948,573	-	4,948,573	-	-	-	4,948,573
Other post-employment benefits	32,117,601	31,338,399	-	-	63,456,000	-	-	-	63,456,000
Net pension liability for employee retirement plan	78,616,371	76,822,831	-	-	155,439,202	-	-	-	155,439,202
Total Noncurrent Liabilities	4,227,807,883	3,784,328,523	4,063,262,573	-	12,075,398,979	12,760,454,000	-	-	24,835,852,979
Total Liabilities	5,013,428,462	4,411,541,055	4,590,789,839	-	14,015,759,356	13,319,714,967	11,462,278	-	27,346,936,600
Deferred Inflows of Resources									
Deferred inflows from pensions	1,609,671	916,358	-	-	2,526,028	-	-	-	2,526,028
Net Position (Deficit):									
Investment in capital assets	28,579,657	36,569,636	-	-	65,149,293	-	-	-	65,149,293
Unrestricted	1,449,528,616	1,553,816,415	206,994,396	111,021,356	3,321,360,783	(13,062,633,352)	28,321,718	696,926	(9,712,253,925)
Total Net Position (Deficit)	1,478,108,273	1,590,386,051	206,994,396	111,021,356	3,386,510,076	(13,062,633,352)	28,321,718	696,926	(9,647,104,632)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$6,493,146,406	$ 6,002,843,464	$ 4,797,784,235	$ 111,021,356	$ 17,404,795,460	$ 257,081,615	$ 39,783,996	$ 696,926	$17,702,357,996

*Receivables and payables between 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, 2017

	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	$ 1,241,632,583	$ 870,481,677	$ 18,124,295	$ -	$ 2,130,238,555	$ 499,347,870	$ 68,248,465	$ (99,824)	$ 2,697,735,066
Miscellaneous revenue	48,096,420	1,628,429	64,432	-	49,789,281	11,449,408	7	-	61,238,696
Total Operating Revenues	1,289,729,003	872,110,106	18,188,727	-	2,180,027,836	510,797,278	68,248,472	(99,824)	2,758,973,762
OPERATING EXPENSES									
Salaries and wages	79,987,928	80,514,629	-	-	160,502,557	-	-	-	160,502,557
Employee benefits	34,273,288	34,274,127	-	-	68,547,415	-	-	-	68,547,415
Personal services	1,609,085	4,077,388	-	-	5,686,473	-	-	-	5,686,473
Goods and services	42,747,531	39,277,457	-	-	82,024,988	-	-	-	82,024,988
Travel	2,518,816	1,348,639	-	-	3,867,455	-	-	-	3,867,455
Claims	308,324,041	406,877,045	643,571,327	-	1,358,772,413	1,527,453,442	1,043,656	153,906	2,887,423,417
Depreciation	3,649,603	6,200,921	-	-	9,850,524	-	-	-	9,850,524
Miscellaneous	35,290,744	11,951,179	-	-	47,241,923	4,306,333	7	-	51,548,263
Total Operating Expenses	508,401,036	584,521,385	643,571,327	-	1,736,493,748	1,531,759,775	1,043,663	153,906	3,269,451,092
Operating Income (Loss)	781,327,967	287,588,721	(625,382,600)	-	443,534,088	(1,020,962,497)	67,204,809	(253,730)	(510,477,330)
NONOPERATING REVENUES (EXPENSES)									
Earnings on investments	179,282,804	207,804,876	163,674,152	-	550,761,832	605,404	-	-	551,367,236
Other revenues	7,590,235	1,596,052	-	-	9,186,287	-	-	-	9,186,287
Total Nonoperating Revenues (Expenses)	186,873,039	209,400,928	163,674,152	-	559,948,119	605,404	-	-	560,553,523
Income (Loss) Before Transfers	968,201,006	496,989,649	(461,708,448)	-	1,003,482,207	(1,020,357,093)	67,204,809	(253,730)	50,076,193
Transfers in	123,410,547	-	520,228,205	111,021,356	754,660,108	-	30,339,856	-	784,999,964
Transfers out	(441,644,082)	(111,879,619)	(151,768,286)	-	(705,291,986)	-	(79,899,978)	-	(785,191,964)
Net Transfers	(318,233,535)	(111,879,619)	368,459,919	111,021,356	49,368,121	-	(49,560,122)	-	(192,000)
Changes in Net Position	649,967,471	385,110,030	(93,248,529)	111,021,356	1,052,850,328	(1,020,357,093)	17,644,687	(253,730)	49,884,193
Net Position (Deficit) at July 1	807,557,205	1,205,276,020	300,242,925	-	2,313,076,150	(12,042,276,259)	10,677,031	950,656	(9,717,572,421)
Prior Period Adjustment	20,583,596	-	-	-	20,583,596	-	-	-	20,583,596
Net Position (Deficit) - July 1, as restated (see Note 2)	828,140,802	1,205,276,020	300,242,925	-	2,333,659,747	(12,042,276,259)	10,677,031	950,656	(9,696,988,825)
Net Position (Deficit) - June 30	$ 1,478,108,273	$ 1,590,386,050	$ 206,994,396	$ 111,021,356	$ 3,386,510,075	$ (13,062,633,352)	$ 28,321,718	$ 696,926	$ (9,647,104,632)

Intrafund transfers between the 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, 2017

	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	$ 1,192,733,019	$ 854,045,861	$ 18,171,485	$ -	$ 2,064,950,365	$ 488,286,840	$ 60,915,471	$ 167	$ 2,614,152,843
Payments to/for beneficiaries	(564,658,803)	(591,355,412)	(457,687,973)	-	(1,613,702,188)	(482,423,000)	(1,045,017)	(153,906)	(2,097,324,111)
Payments to employees	(110,234,506)	(110,791,688)	-	-	(221,026,194)	-	-	-	(221,026,194)
Payments to suppliers	(44,416,826)	(42,105,576)	16,814	-	(86,505,588)	(13,481)	(450)	(24,683)	(86,544,202)
Other	46,535,716	(1,482,147)	64,431	-	45,118,000	11,451,281	7	-	56,569,288
Net Cash Flows from Operating Activities	519,958,600	108,311,038	(439,435,243)	-	188,834,395	17,301,640	59,870,011	(178,422)	265,827,624
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers in	123,717,476	(1,171,132)	621,348,475	-	743,894,819	11,015	30,339,610	-	774,245,444
Transfers out	(525,768,232)	(1,178,085)	(151,768,153)	-	(678,714,470)	1,073,568	(96,796,542)	-	(774,437,444)
Operating grants received	7,503,690	1,596,274	-	-	9,099,964	-	-	-	9,099,964
License fees collected	102,292	18,053	-	-	120,345	-	-	-	120,345
Net Cash Flows from Noncapital Financing Activities	(394,444,774)	(734,890)	469,580,322	-	74,400,658	1,084,583	(66,456,932)	-	9,028,309
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisitions of capital assets	(3,783,798)	(3,773,739)	-	-	(7,557,537)	-	-	-	(7,557,537)
Net Cash Flows from Capital and Related Financing Activities	(3,783,798)	(3,773,739)	-	-	(7,557,537)	-	-	-	(7,557,537)
CASH FLOWS FROM INVESTING ACTIVITIES									
Net sales (purchases) of trust investments	-	-	443,902	-	443,902	-	-	-	443,902
Receipt of interest and dividends	192,651,206	151,713,558	140,309,554	-	484,674,318	1,212,070	-	-	485,886,388
Investment expenses	(1,896,431)	(1,764,246)	(1,432,687)	-	(5,093,364)	(141,876)	-	-	(5,235,240)
Proceeds from sale of investment securities	2,833,540,898	2,333,406,321	1,461,228,151	-	6,628,175,370	548,132,108	-	-	7,176,307,478
Purchases of investment securities	(3,145,501,175)	(2,589,014,656)	(1,631,270,620)	-	(7,365,786,451)	(567,005,189)	-	-	(7,932,791,640)
Net Cash Flows from Investing Activities	(121,205,502)	(105,659,023)	(30,721,700)	-	(257,586,225)	(17,802,887)	-	-	(275,389,112)
Net Increase (Decrease) in Cash and Cash Equivalents	524,526	(1,856,614)	(576,621)	-	(1,908,709)	583,336	(6,586,921)	(178,422)	(8,090,716)
Cash & cash equivalents, July 1 (includes trust cash of $210,003)	6,834,136	3,598,004	2,303,793	-	12,735,933	1,630,149	28,528,720	875,348	43,770,150
Cash & cash equivalents, June 30 (includes trust cash of $653,905)	$ 7,358,662	$ 1,741,390	$ 1,727,172	$ -	$ 10,827,224	$ 2,213,485	$ 21,941,799	$ 696,926	$ 35,679,434
Cash Flows from Operating Activities									
Operating income (loss)	$ 781,327,967	$ 287,588,721	$ (625,382,600)	$ -	$ 443,534,088	$ (1,020,962,497)	$ 67,204,809	$ (253,730)	$ (510,477,330)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities									
Depreciation	3,649,603	6,200,921	-	-	9,850,524	-	-	-	9,850,524
Change in Assets: Decrease (Increase)									
Receivables	(26,880,720)	(14,202,287)	(25,579)	-	(41,108,586)	(7,104,125)	(7,332,987)	99,991	(55,445,707)
Inventories	12,045	12,045	-	-	24,090	-	-	-	24,090
Prepaid expenses	95,896	272,423	-	-	368,319	-	-	-	368,319
Change in Liabilities: Increase (Decrease)									
Claims and judgments payable	(256,954,574)	(184,384,000)	184,359,000	-	(256,979,574)	1,045,000,000	-	-	788,020,426
Accrued liabilities	18,708,383	12,823,215	1,613,936	-	33,145,534	368,262	(1,811)	(24,683)	33,487,302
Net Cash Flows from Operating Activities	$ 519,958,600	$ 108,311,038	$ (439,435,243)	$ -	$ 188,834,395	$ 17,301,640	$ 59,870,011	$ (178,422)	$ 265,827,624
Non Cash Investing, Capital and Financing Activities									
Increase (Decrease) in fair value of investments	$ (55,080,641)	$ 23,484,743	$ 953,783	$ -	$ (30,642,115)	$ (636,362)	$ -	$ -	$ (31,278,477)

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

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September 29, 2017

**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 a Member of the American Academy of Actuaries and meet its qualification standards for issuing Statements of Actuarial Opinion. I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditor's 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 ("LAE") reserves as of June 30, 2017.

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").

Scope

I have examined the reserves for the unpaid loss and LAE as shown in the Program's Comprehensive Annual Financial Report as of June 30, 2017. I have reviewed the June 30, 2017 loss and loss adjustment expense recorded under U.S. Governmental Accounting Standard GAAP. My review considered information provided to me through the date of this opinion.

In forming my opinion on the loss and LAE reserves, I relied upon data provided by Mr. William Vasek, the Department's Chief Actuary, his actuarial staff, and Sharon Elias, the Department's Financial Services Program Manager. I evaluated that data for reasonableness and consistency. 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 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 LAE reserves by account in its Comprehensive Annual Financial Report as of June 30, 2017 is as follows:

Accident Account	$4,667,163,000
Medical Aid Account	4,140,730,000
Pension Reserve Account	4,526,645,000
Total Basic Plan Loss and LAE Reserves	$13,334,538,000
Supplemental Pension Account	13,306,000,000
Total Program Loss and LAE Reserves	$26,640,538,000

In my opinion, the loss and LAE amounts listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2017:

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

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

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

Relevant Comments

A. Company-Specific Risk Factors

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

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 of June 30, 2017 are described in the sections below.

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 LAE 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 has become increasingly difficult in recent years because it has been 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 LAE reserves to reflect the time value of money using an average annual interest rate of 2.37%. Changes to the interest rate used for discounting could result in material changes to the reserves. We note that the current risk free interest rate matching the duration of these liabilities (approximately 17.3 years) was 2.53% as of June 30, 2017.

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 reserves.

The Program is exposed to the uncertainty of variability of the reserves which could result in material adverse deviation. I have identified those risk factors as the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, and future cost of living adjustments. These risk factors are described in greater detail in the preceding paragraphs and in the report supporting this opinion. The absence of other risk factors from this commentary is not meant to imply that additional factors cannot be identified in the future as having had a significant influence on the Program's 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.

Due to a new Governmental Accounting Standard, GAAP now 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, 2017. 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 $11.4 million less than the SAP CAE liability.

Therefore, the GAAP unpaid claim liabilities shown above upon which I am expressing an opinion exclude the liabilities for the unfunded State employee pensions for staff administering claims. The amounts excluded total $11,436,000 ($3,785,000 for the Accident Account and $7,651,000 for the Medical Aid Account).

Discounting

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

- For the Medical Aid Account, the Department's selected interest rate is 1.5%.
- For the Pension Reserve Account, the Department's selected interest rate is 6.2%.
- 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 Account assume interest discounts based on an annual rate of 6.2% through the 1st quarter of 2018. This rate is reduced to 6.00% for the next 12 months and then is gradually reduced each additional 12-month period by 0.25% for the following six 12-month periods until settling on a long term annual rate of 4.5%. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.5%.
- For the Supplemental Pension Account, the Department's selected interest rate is 1.5%.

The average combined interest rate for the Program is approximately 2.37% with a total discount amount of $11.6 billion. The interest rates were selected by the Department, and I make no opinion regarding the appropriateness of the selected rates. We note that the current risk free interest rate matching the duration of these liabilities was 2.53% as of June 30, 2017.

The interest rate used to discount the Pension Reserve Account changed from 6.3% last year to 6.2% this year. The effect of reducing these interest rate assumptions this year was an increase in the discounted unpaid claim liability of $53.6 million on the Pension Reserve Account reserve.

The interest rate used to discount the Accident Account future total permanent disability and fatal transfers made to the Pension Reserve Account continued to gradually decrease to 4.5% this year. Although, we note that the rate at which the interest rates gradually decreased to 4.5% changed this year, causing the discounted unpaid claim liability to decrease $44.5 million. The interest rate used for all other future payments remained the same this year at 1.5%.

The net effect of all the interest rate assumption changes combined this year was an increase in the discounted unpaid claim liability of $9.1 million including the current fiscal accident year.

Underwriting Pools or Associations

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

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

Reinsurance

The Program has no ceded or assumed reinsurance. Based on discussions with the Department's management and their description of the Program's ceded (and/or assumed) 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 2018 of 4.77% was obtained from the Employment Security Department's State Average Annual Wage data and represents the change in calendar year 2016 wages. By statute, the COLAs are based on the annual calendar year change to the states' average wages. The Department projects the COLA adjustments for fiscal years 2019 through 2027 by using a linear interpolation between the average of the most recent ten years of COLA adjustments (3.1%) and a long term constant COLA adjustment assumption of 1.5%. For projected COLA adjustments subsequent to fiscal year 2027, the Department uses the long term assumption of 1.5% per year. Although this is a consistent approach to last year's analysis, we note that updating the future COLA assumptions caused the Supplemental Pension Account liability to increase by $632 million. In addition, last year the Department used a linear interpolation between the current fiscal year COLA adjustment (or 4.77%) and 1.5%. If this approach was used instead of the most recent ten year average of COLA adjustments, we note that the Supplemental Pension Account unpaid claim liability estimate would have been $1.6 billion higher.

During our review of the Supplemental Pension Account, we considered the Department's selection of future COLA adjustments. The Department's selections are lower than the most recent or long term historical average of COLA adjustments. For example, the simple average of the most recent 15 years of COLA adjustments is 3.18% with annual changes varying between 2.4% (at the 30th percentile) and 3.8% (at the 70th percentile). These COLA adjustments have been at this level while interest rate and/or inflation rate changes have been declining during this same time period. The materiality of this assumption is significant given that selecting the most recent 15 year historical average COLA adjustment of 3.18% would increase the Supplemental Pension Account discounted liability by $5.4 billion. The Department has assumed that there will be a significant correlation between changes in the future COLA adjustments and changes in the interest rates in the future even though the correlation between the two has been weak at best in the past.

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

The Department's average interest rate used to discount the GAAP reserves is 2.37%. The risk free interest rate that matches the duration of these liabilities (approximately 17 years) as of June 30, 2017 is 2.53% which is higher than the Department's selected 2.37% but not enough to offset the low future COLA assumptions discussed above. Although there is a current disconnect between the current risk free interest rate and the Department's chosen discount rate, we do agree with the Department that wages long term (and thus COLA Adjustments) will move in the same direction as inflation and the risk free interest rates. In addition, we believe that there are alternative approaches to calculating the risk free interest rate used to discount the liabilities that would be high enough to offset the low future COLA assumptions the Department is currently using. Therefore, we conclude that the GAAP reserves are reasonable overall.

Over the past few years the claim count persistency rates (i.e. number of active time-loss claims) have continued to decline dramatically. The Department's actuarial methodologies for certain types of claim categories (i.e. medical, time-loss, and total permanent disability) are highly dependent on a future estimate of the persistency rates. The future persistency rate assumptions selected over the past year by the Department have dropped significantly to reflect the actual recent changes or declines in the persistency rates. This drop in assumption has caused a significant decrease in the unpaid claim liability estimates even more than what would be indicated in the favorable paid amounts over the past year.

C. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and LAE, it is necessary to project future loss and LAE payments. It is certain that actual future losses and LAE 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 data base or which are not yet quantifiable.

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

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September 29, 2017

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

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

Washington State Department of
Labor & Industries

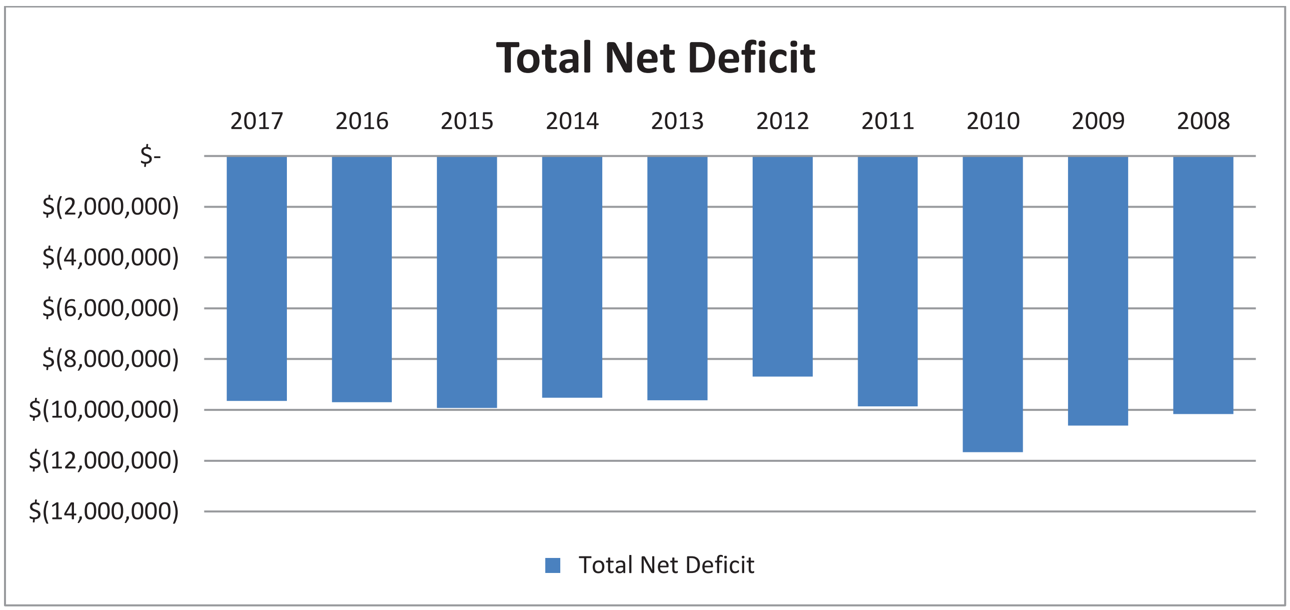
Keep Washington Safe and Working

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net investment in capital assets	$ 65,149	$ 67,452	$ 67,595	$ 58,781	$ 57,687	$ 52,708	$ 51,101	$ 41,251	$ 37,415	$ 37,838
Unrestricted	(9,712,254)	(9,764,441)	(9,987,396)	(9,577,704)	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)	(10,654,926)	(10,203,709)
Total Net Position (Deficit) [1, 2]	$ (9,647,105)	$ (9,696,989)	$ (9,919,801)	$ (9,518,923)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,165,871)

[1] Starting in fiscal year 2009, the Self-Insured Overpayment Reimbursement Account was added to the Workers' Compensation Program.

[2] Fiscal years 2008, 2012, 2014 and 2016 are restated amounts.



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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960
Miscellaneous revenues	61,239	57,682	56,714	53,986	47,354	47,964	51,411	40,250	52,859	50,023
Total Operating Revenues	2,758,974	2,573,938	2,394,197	2,254,396	2,170,837	2,062,805	2,034,759	1,767,972	1,877,135	1,613,983
Operating Expenses										
Salaries and wages	160,503	159,686	150,278	145,431	140,203	136,406	135,979	137,085	134,295	133,773
Employee benefits	68,547	62,966	55,397	58,367	54,367	54,379	51,397	48,545	51,025	41,298
Personal services	5,686	7,457	11,304	5,661	8,895	8,013	6,366	4,521	6,449	7,533
Goods and services	82,025	82,424	82,416	76,389	79,315	69,194	72,443	67,817	73,594	72,568
Travel	3,867	4,106	4,145	4,047	4,068	3,779	3,401	3,339	3,314	4,183
Claims	2,887,424	2,873,993	2,666,452	2,810,658	3,014,796	1,594,192	888,159	3,971,059	2,180,781	3,727,966
Depreciation	9,851	10,206	7,184	7,228	8,428	6,634	8,037	7,991	10,003	10,281
Miscellaneous	51,548	37,450	41,041	33,954	28,486	45,946	52,463	26,287	88,589	63,442
Total Operating Expenses	3,269,451	3,238,288	3,018,217	3,141,735	3,338,558	1,918,543	1,218,245	4,266,644	2,548,050	4,061,044
Operating Income (Loss)	(510,477)	(664,350)	(624,020)	(887,339)	(1,167,721)	144,262	816,514	(2,498,672)	(670,915)	(2,447,061)
Nonoperating Revenues (Expenses)										
Earnings on investments	551,367	857,707	215,557	1,119,761	223,875	1,009,688	981,927	1,441,576	216,035	466,963
Other revenues	9,186	8,909	7,840	8,329	8,998	8,421	9,294	7,878	7,477	7,785
Interest expense	-	(37)	(255)	(461)	(656)	(839)	(1,064)	(1,271)	(1,466)	(1,942)
Total Nonoperating Revenues (Expenses)	560,553	866,579	223,142	1,127,629	232,217	1,017,270	990,157	1,448,183	222,046	472,806
Income (Loss) Before Transfers [1]				240,290	(935,504)	1,161,532	1,806,671	(1,050,489)	(448,869)	(1,974,255)
Transfers in				325,015	371,670	303,273	311,777	323,623	465,908	430,544
Transfers out	(192)			(325,015)	(371,670)	(303,273)	(311,777)	(322,783)	(468,679)	(430,544)
Net Transfers	(192)			-	-	-	-	840	(2,771)	-
Changes in Net Position	49,884	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671	(1,049,649)	(451,640)	(1,974,255)
Net Position (Deficit), July 1 [2]	(9,696,989)	(9,919,801)	(9,518,923)	(9,624,691)	(8,689,188)	(9,860,489)	(11,667,160)	(10,617,511)	(10,165,871)	(8,185,543)
Net Position (Deficit), June 30	$ (9,647,105)	$ (9,717,572)	$ (9,919,801)	$ (9,384,401)	$ (9,624,692)	$ (8,698,957)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)	$ (10,159,798)

[1] Starting in fiscal year 2015, intrafund transfers should not be reported, per GFOA comments.
[2] Fiscal years 2009, 2013, 2015 and 2017 deficits at beginning of year are restated amounts.

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

FISCAL YEAR	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,395,147	$ 1,299,794	$ 1,231,128	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584	$ 939,558
Medical Aid	855,218	820,177	779,315	695,460	624,913	596,421	614,714	601,087	637,975	332,781
Supplemental Pension	367,623	340,034	321,967	316,448	302,915	318,328	318,835	264,934	250,211	248,827
Net retrospective rating refunds	(169,105)	(156,378)	(188,302)	(174,854)	(136,404)	(171,509)	(75,011)	(112,494)	(81,255)	(98,125)
Dividend refunds	-	-	-	-	-	-	-	-	-	(33,560)
Total State Fund Premiums	2,448,883	2,303,627	2,144,108	2,002,192	1,897,327	1,803,910	1,775,052	1,521,442	1,639,515	1,389,481
Self-insurance assessments	248,852	212,629	193,375	198,218	226,156	210,931	208,296	206,280	184,761	174,479
Total Premiums and Assessments	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960
Investments [1]										
Investment income (interest and dividend)	$ 482,427	$ 503,057	$ 493,679	$ 479,457	$ 466,299	$ 488,831	$ 501,382	$ 501,143	$ 546,021	$ 601,649
Investment balances	$16,406,236	$15,587,449	$14,634,116	$14,502,551	$13,381,566	$13,321,822	$12,512,715	$11,894,375	$10,886,051	$11,019,207
Average rate of return	2.9%	3.2%	3.4%	3.3%	3.5%	3.7%	4.0%	4.2%	5.0%	5.5%

CALENDAR YEAR	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Average Standard Premium Rates [2] (per hour worked) - Effective from January 1 to December 31										
Accident	0.3739	0.3691	0.3597	0.3601	0.3601	0.3601	0.3530	0.2720	0.2603	0.2557
Medical Aid	0.2179	0.2179	0.2179	0.2107	0.1905	0.1905	0.1897	0.2115	0.1951	0.1891
Supplemental Pension	0.0958	0.0950	0.0894	0.0909	0.0928	0.0932	0.1077	0.0969	0.0835	0.0780
Stay At Work [3]	0.0046	0.0055	0.0073	0.0073	0.0080	0.0076	N/A	N/A	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6922	0.6875	0.6743	0.6690	0.6514	0.6514	0.6504	0.5804	0.5389	0.5228
Employer portion	0.4871	0.4907	0.4734	0.4600	0.4578	0.4626	0.4588	0.3853	0.3644	0.3542
Worker portion	0.1592	0.1592	0.1573	0.1545	0.1457	0.1457	0.1487	0.1542	0.1393	0.1336
State Fund average hourly wage	$ 30.76	$ 30.01	$ 28.64	$ 27.91	$ 26.79	$ 26.26	$ 25.40	$ 24.51	$ 24.00	$ 23.54
Composite net of Retro rate per $100 Payroll [4]	$ 2.10	$ 2.17	$ 2.20	$ 2.20	$ 2.25	$ 2.32	$ 2.39	$ 2.20	$ 2.10	$ 2.07

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

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

Schedule 4 - Employer Accounts
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Employers insured	176,000	177,000	174,000	169,000	168,000	166,000	163,000	163,000	168,000	171,000
Workers covered	2,914,000	2,800,000	2,690,000	2,577,000	2,487,000	2,420,000	2,360,000	2,330,000	2,460,000	2,570,000
Hours reported	3,824,000,000	3,678,000,000	3,538,000,000	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000	3,380,000,000
Self-insured employers	356	355	355	355	363	365	360	363	369	382
Workers covered under self-insured employers	909,405	872,000	865,000	884,000	846,000	845,000	821,000	826,000	830,000	870,000
Industry Classifications - NAICS Sector										
Construction	25,309	23,562	22,460	21,998	21,229	21,191	21,631	21,963	25,051	27,244
Prof., scientific, and technical services	24,500	22,801	22,074	21,474	20,035	19,960	19,278	17,839	18,428	18,677
Other services (except public administration)	17,103	16,749	16,541	16,511	16,353	16,613	16,391	15,660	16,115	16,347
Retail trade	15,654	15,645	15,796	16,146	16,219	16,627	16,385	15,779	16,892	17,616
Health care and social assistance	15,215	15,147	15,007	15,013	14,843	14,929	14,579	13,929	14,199	14,156
Accomodation and food services	15,158	15,009	14,672	14,611	14,538	14,754	14,642	13,807	14,367	14,641
Administrative and support services	12,454	11,706	11,399	11,138	10,458	10,459	10,018	9,447	9,928	10,261
Wholesale trade	11,383	10,483	10,832	10,652	10,189	10,450	10,218	9,163	9,328	9,431
Agriculture, forestry, fishing, and hunting	7,151	7,202	7,069	6,980	7,141	7,238	7,258	7,284	7,690	7,905
Real estate, rental and leasing	7,033	6,828	6,765	6,721	6,642	6,627	6,719	6,563	7,117	7,372
Manufacturing	6,722	6,559	6,603	6,604	6,670	6,717	6,694	6,615	6,993	7,229
Finance and insurance	5,078	4,873	4,997	5,017	5,003	5,073	5,110	4,998	5,437	5,701
Transportation and warehousing	4,189	5,636	6,130	6,106	5,753	5,569	4,095	3,833	4,013	4,211
Education services	3,089	2,991	2,907	2,769	2,653	2,618	2,487	2,177	2,161	2,126
Arts, entertainment, and recreation	2,934	2,866	2,742	2,715	2,624	2,655	2,568	2,418	2,508	2,585
Information	2,159	2,090	2,144	2,147	2,114	2,107	1,836	1,746	1,880	1,933
Unclassified establishments	1,059	5,387	2,265	985	3,816	382	1,512	8,016	4,537	1,888
Public administration	1,024	1,025	1,027	1,028	1,026	1,030	1,040	1,042	1,063	1,058
Utilities	357	356	359	357	355	352	344	338	345	351
Mgmt. of companies and enterprises	193	169	158	150	144	133	118	103	99	102
Mining	156	159	167	172	177	180	178	176	200	210
Total Employer Accounts	177,920	177,243	172,114	169,294	167,982	165,664	163,101	162,896	168,351	171,044

Note: The data is a snapshot of the fiscal year ending 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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Outstanding Debt:										
General obligation bonds [1]	$ -	$ -	$ 4,050	$ 7,870	$ 11,475	$ 14,875	$ 18,080	$ 22,110	$ 25,930	$ 29,555
Debt Ratios:										
Principal paid on total debt	$ -	$ 4,050	$ 3,820	$ 3,605	$ 3,400	$ 3,205	$ 4,030	$ 3,820	$ 3,625	$ 3,525
Ratio of principal paid to total prior year debt	0.0%	100.0%	48.5%	31.4%	22.9%	17.7%	18.2%	14.7%	12.3%	10.7%
Interest paid on total debt	$ -	$ 110	$ 325	$ 527	$ 717	$ 897	$ 1,143	$ 1,346	$ 1,537	$ 1,584
Ratio of interest paid to total prior year debt	0.0%	2.7%	4.1%	4.6%	4.8%	5.0%	5.2%	5.2%	5.2%	4.8%
Premiums and assessments earned	$ 2,697,735	$ 2,516,256	$ 2,337,483	$ 2,200,410	$ 2,123,483	$ 2,014,841	$ 1,983,348	$ 1,727,722	$ 1,824,276	$ 1,563,960
Ratio of total debt to premiums and assessments earned	0.0%	0.0%	0.2%	0.4%	0.5%	0.7%	0.9%	1.3%	1.4%	1.9%
Total debt per covered worker [2]	$ -	$ -	$ 1.51	$ 3.05	$ 4.61	$ 6.15	$ 7.66	$ 9.49	$ 10.54	$ 11.50

[1] Bonds were paid in full in 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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,006,789	$ 21,887,148	$ 19,746,492
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,062,195	2,048,491	2,102,923	1,910,196	1,924,011	1,823,525	1,950,485	2,204,709	2,225,312	2,273,716
Increase (decrease) in provision for insured events of prior fiscal years	968,518	975,846	711,211	1,043,312	1,226,506	(92,184)	(933,553)	1,895,787	109,437	1,749,155
Total incurred claims and claim adjustment expenses	3,030,713	3,024,337	2,814,134	2,953,508	3,150,517	1,731,341	1,016,932	4,100,496	2,334,749	4,022,871
Payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	309,490	303,784	300,862	296,885	296,347	283,763	288,812	297,520	327,536	316,086
Insured events of prior fiscal years	1,933,011	1,934,376	1,884,657	1,846,649	1,822,960	1,794,539	1,810,641	1,783,933	1,730,293	1,566,129
Total payments	2,242,501	2,238,160	2,185,519	2,143,534	2,119,307	2,078,302	2,099,453	2,081,453	2,057,829	1,882,215
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,164,068	$ 21,887,148

[1] Claims payable liabilities are reported net of recoveries starting in fiscal year 2010. In prior years, they were grossed up to include recoveries.

Source: Washington Department of Labor & Industries Actuarial Services

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Population	7,310.3	7,183.7	7,061.4	6,968.2	6,882.4	6,817.8	6,767.9	6,724.5	6,672.2	6,608.3
Net Increase	126.6	122.3	93.2	85.8	64.6	49.9	43.4	52.4	63.9	83.2
Percent change	1.8%	1.7%	1.3%	1.2%	0.9%	0.7%	0.6%	0.8%	1.0%	1.3%
Components of change										
Births	91.2	89.8	88.5	87.0	87.3	87.1	86.4	88.4	89.8	89.6
Deaths	55.4	54.6	52.8	50.7	51.1	49.2	48.8	47.7	48.1	47.9
Net migration	90.8	87.1	57.6	49.5	28.5	12.0	5.8	11.5	22.2	41.5

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 2008 through 2009 have been revised to reflect intercensal estimates. "Intercensal estimates" are estimates of population between official census dates. Intercensal estimates are more accurate than postcensal estimates because they are bracketed on both sides by decennial or state-certified special census counts. Estimates for 2010 have been replaced with the 2010 U.S. Census Bureau count. Estimates for 2011 through 2017 are postcensal estimates developed by the Washington State Office of Financial Management. Some figures may not total due to rounding.

Source: Washington State Office of Financial Management Forecasting Division

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Personal income	$ 390	$ 372	$ 356	$ 333	$ 326	$ 302	$ 285	$ 279	$ 294	$ 279
Percent change	5%	5%	7%	2%	8%	6%	2%	-5%	5%	9%
Per capita	$ 53,493	$ 51,971	$ 50,421	$ 47,814	$ 47,338	$ 44,202	$ 42,194	$ 41,844	$ 44,794	$ 43,192

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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Civilian labor force	3,642	3,545	3,488	3,457	3,463	3,482	3,515	3,535	3,479	3,393
Less Employed	3,443	3,346	3,275	3,217	3,185	3,162	3,167	3,206	3,286	3,237
Total unemployed	198	199	213	240	278	320	348	329	193	156
Unemployment rate	5.4%	5.6%	6.1%	6.9%	8.0%	9.2%	9.9%	9.3%	5.5%	4.6%

Note: The Washington State Economic and Revenue Forecast Council periodically revises its civilian labor force and employment data for periods up to 5 years.

Source: Washington State Economic and Revenue Forecast, June 2017

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

	2016 Annual Averages			2007 Annual Averages		
Industry [1]	Number of Employees [2]	Percent of Total	Number of Employers	Number of Employees [2]	Percent of Total	Number of Employers
Government	545,694	17.0%	2,120	509,022	17.4%	2,052
Health care and social assistance [3]	399,708	12.4%	52,937	296,667	10.1%	13,529
Retail trade	363,130	11.3%	14,712	321,206	11.0%	14,450
Manufacturing	286,148	8.9%	7,298	289,286	9.9%	7,193
Accommodation and food services	268,059	8.3%	14,062	230,185	7.9%	12,375
Professional, scientific, and technical services	189,703	5.9%	23,976	151,728	5.2%	16,805
Construction	174,666	5.4%	23,975	194,491	6.6%	24,904
Administrative and support services [4]	160,544	5.0%	11,685	149,995	5.1%	9,116
Wholesale trade	130,120	4.1%	13,186	125,710	4.3%	12,473
Information	120,122	3.7%	3,500	102,006	3.5%	2,466
Agriculture, forestry, fishing, and hunting	104,600	3.3%	7,342	84,699	2.9%	7,726
Other services [3]	94,888	3.0%	18,165	114,718	3.9%	49,316
Transportation and warehousing	93,826	2.9%	4,531	85,493	2.9%	4,025
Finance and insurance	92,886	2.9%	5,652	101,824	3.5%	5,982
Arts, entertainment, and recreation	49,847	1.6%	2,767	45,563	1.5%	2,382
Real estate, rental and leasing	48,844	1.5%	6,669	49,968	1.7%	6,776
Mgmt. of companies and enterprises	43,080	1.3%	632	34,648	1.2%	636
Education services	41,174	1.3%	3,165	31,524	1.1%	2,072
Utilities	4,563	0.1%	223	4,648	0.2%	225
Mining	2,375	0.1%	161	3,036	0.1%	169
Total average employment [5]	3,213,977	100%	216,758	2,926,417	100%	194,672

[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 health care and social assistance. This reclassification caused the annual average wage for other services to increase. Wages classifies as other services do not include public administration.

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

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

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

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

	Annual Average Wages [1]									
Industry [2]	**2016 [3]**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Information	$ 159,236	$ 150,503	$ 148,429	$ 135,304	$ 131,872	$ 119,968	$ 109,777	$ 105,715	$ 104,053	$ 96,240
Management of companies and enterprises	109,462	108,447	106,518	105,501	105,535	102,009	95,731	87,642	87,431	86,867
Utilities	88,789	85,644	87,212	86,373	84,024	82,058	77,591	84,410	76,945	73,736
Finance and insurance	88,308	92,790	82,102	79,587	77,455	73,154	70,137	71,304	72,653	70,044
Professional, scientific, and technical services	88,223	85,968	84,883	81,893	79,972	77,178	75,376	71,837	70,120	70,104
Manufacturing	74,641	73,860	74,303	70,798	69,306	68,065	64,925	62,931	61,260	59,568
Wholesale trade	73,903	72,523	70,169	68,230	68,481	65,831	63,348	61,569	61,041	59,345
Mining	67,389	67,425	63,404	62,444	60,231	58,871	55,654	52,981	54,718	58,056
Government	58,945	57,274	55,603	53,733	52,871	52,174	51,394	50,420	48,705	46,914
Construction	58,887	56,925	55,037	53,735	53,056	52,304	51,127	51,043	49,443	46,783
Transportation and warehousing	56,173	54,344	52,293	51,967	50,876	49,628	47,743	46,522	45,433	45,320
Health care and social assistance [5]	49,337	46,986	44,245	47,733	47,067	45,852	44,673	43,561	41,424	39,474
Real estate, rental and leasing	48,965	47,459	45,181	43,426	42,040	39,816	38,359	36,777	36,669	36,334
Administrative and support services [4]	47,050	45,934	44,382	43,261	43,381	42,942	41,466	39,571	37,536	36,463
Retail trade	45,930	38,300	36,127	34,084	32,364	30,917	30,021	29,356	29,268	29,082
Education services	37,667	36,414	36,918	36,775	36,226	35,576	35,158	34,505	33,550	32,076
Other services [5]	37,557	37,437	35,571	26,717	25,651	24,549	24,227	24,881	25,637	24,385
Arts, entertainment, and recreation	30,908	30,509	29,725	27,771	25,276	25,023	25,121	25,527	26,949	27,643
Agriculture, forestry, fishing, and hunting	29,971	28,398	27,758	26,880	26,295	25,097	24,034	23,675	24,491	23,413
Accommodation and food services	21,301	20,451	19,561	19,136	18,698	18,062	17,632	17,063	16,430	16,019

[1] Wages include only employment covered by unemployment insurance. Wages may not include private firms or disclosure of individual employers.
[2] Industry classifications and wages are based on North American Industry Classification System (NAICS) codes.
[3] 2016 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 "health care 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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Male injured workers	67%	67%	67%	67%	67%	67%	66%	66%	68%	70%
Female injured workers	33%	33%	33%	33%	33%	33%	34%	34%	32%	30%
Average age of injured workers	38	38	38	38	38	38	38	38	38	37
Injured workers younger than 30	29%	29%	29%	28%	27%	27%	28%	29%	32%	34%
Injured workers 30 to 50	44%	45%	45%	46%	46%	46%	47%	48%	48%	47%
Injured workers older than 50	25%	24%	24%	24%	24%	24%	23%	22%	21%	19%
Injured workers age unknown	1%	2%	2%	2%	2%	2%	2%	1%	0%	0%

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

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

Schedule 13 - Number of Employees by Division
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Administrative Services	131	136	132	127	122	121	169	172	171	176
Communications & Web Services	54	54	51	47	N/A	N/A	N/A	N/A	N/A	N/A
Director's Office	35	32	31	31	141	87	92	93	88	89
DOSH	345	349	355	356	344	341	330	335	339	332
Field Services & Public Safety	6	7	4	4	N/A	N/A	N/A	N/A	N/A	N/A
Financial Management	53	54	53	50	N/A	N/A	N/A	N/A	N/A	N/A
Fraud Prevention & Labor Standards	125	132	131	122	86	85	83	84	74	79
Human Resources	52	54	54	46	44	46	45	45	47	50
Information Services	199	208	201	194	175	173	171	178	189	194
Insurance Services	1,090	1,101	1,076	1,048	955	990	945	944	954	977
New legislation	2	6	12	6	93	58	N/A	N/A	N/A	N/A
Region 1	58	58	60	60	61	59	56	57	59	58
Region 2	96	100	102	101	100	102	102	102	96	92
Region 3	51	52	54	55	55	54	56	59	60	59
Region 4	70	70	70	70	71	74	70	72	65	64
Region 5	70	72	72	68	71	71	71	71	70	70
Region 6	40	39	39	38	39	40	41	42	43	44
Specialty Compliance Services	N/A	N/A	N/A	N/A	37	38	37	40	36	29
Total	2,477	2,524	2,497	2,423	2,394	2,339	2,268	2,294	2,291	2,313

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 2,088 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 and Labor Standards and Field Services & Public Safety.

Source: Fiscal Interactive Reporting System

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	18	18	19	19	19	19
Warehouses	1	1	1	1	1	1	1	1	1	1
Labs	1	1	1	1	1	1	1	1	1	1
Other offices	2	2	2	2	2	2	1	1	1	1

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

Source: Washington State Department of Labor & Industries Facilities Services

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Claim Statistics:										
Number of Claims Filed [1]	109,965	110,498	109,359	106,903	103,328	101,524	100,690	102,734	116,616	136,791
Number of Claims Accepted [1, 2]	94,128	95,277	82,707	86,968	84,064	84,863	81,274	86,184	102,440	119,788
Number of Claims Denied [1, 2]	15,981	16,760	14,098	14,593	14,077	13,857	12,762	12,703	14,964	15,748
Fatal Pensions Awarded	50	48	61	51	44	35	59	45	42	63
Total Permanent Disability Pensions Granted	1,062	1,047	1,063	1,085	1,614	925	1,036	937	1,612	1,109
Permanent Partial Disability Awards Granted	10,038	10,280	10,769	10,431	10,760	11,524	11,782	11,452	12,684	12,316
New Time-loss (Wage Replacement) Claims [3]	18,782	19,065	19,509	20,049	19,740	20,205	21,377	22,604	26,295	28,593
Medical-only Claims Accepted	78,054	78,816	66,411	69,752	67,171	67,539	63,308	66,885	80,171	95,052
Retraining Plans Completed [4]	411	438	474	501	1,740	1,665	1,667	1,229	1,142	1,694
Total Days Paid for Lost Work	6,102,780	6,475,281	6,841,091	7,054,849	7,521,311	7,850,982	8,099,675	8,121,263	7,926,800	7,488,000
Five Most Frequent Injuries: [5]										
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	10,930	11,652	10,624	10,466	10,247	10,829	10,227	12,026	13,486	16,192
Finger(s): Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	10,809	11,068	9,429	9,459	8,665	8,761	7,974	8,641	10,837	12,871
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)	4,133	4,126	3,728	3,646	3,441	3,457	-	3,501	4,053	4,235
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	4,083	3,939	3,696	3,802	3,614	3,484	3,362	3,774	4,356	4,460
Face: Surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,724	4,056	3,473	3,611	3,723	3,775	3,320	3,753	5,020	6,153
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains, or fractures affecting more than one body part)	-	-	-	-	-	-	3,314	-	-	-

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

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

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

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

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

[5] L&I adopted the national coding system for injury categories starting in fiscal year 2007. Data for these injury categories is not available in prior years.

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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
3905	Restaurants and Taverns	7,717	7,676	7,518	7,190	6,935	6,706	6,439	6,689	7,131	8,459
4803	Orchards	3,205	3,360	3,395	3,078	2,867	2,654	2,152	2,051	2,221	1,950
6509	Boarding Homes and Retirement Centers	2,334	2,432	2,372	2,501	2,407	2,482	2,398	2,436	2,397	2,365
6109	Physicians & Medical Clinics	2,304	2,122	2,112	2,217	2,139	2,179	2,264	2,219	2,248	2,393
3411	Automobile Dealers, Rentals and Service Shops	1,661	1,667	1,580	1,542	1,564	1,494	1,594	1,605	1,790	2,201
0510	Wood Frame Building Construction	1,651	1,550	1,506	1,340	1,284	1,136	1,208	1,323	2,009	3,148
6108	Nursing Homes	1,643	1,816	1,872	2,041	2,077	2,080	2,186	2,271	2,409	2,661
2104	Fruit & Vegetable Packing - Fresh	1,553	1,686	1,862	1,562	1,481	1,304	1,246	1,309	1,412	1,364
4906	Colleges & Universities	1,539	1,744	1,716	1,758	1,707	1,817	1,773	1,841	1,875	1,903
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,418	1,390	1,300	1,339	1,345	1,389	1,432	1,343	1,489	1,475
4910	Property and Building Management Services	1,365	1,286	1,277	1,239	1,273	1,291	1,240	1,285	1,332	1,405
0516	Carpentry, N.O.C.	1,340	1,361	1,260	1,048	954	866	762	902	1,190	1,636
1101	Parcel and Package Delivery Service	1,258	1,107	984	968	957	965	957	892	1,020	1,328
4905	Motels and Hotels	1,177	1,174	1,137	1,143	1,122	994	1,020	962	994	1,134
6107	Veterinary Services	1,163	1,058	995	950	894	832	756	700	752	803
1102	Trucking, N.O.C.	1,154	1,031	1,047	1,032	1,044	1,107	1,155	1,174	1,265	1,472
0601	Electrical Wiring: Buildings and Structures	1,127	1,094	1,058	931	923	876	938	986	1,532	1,809
3402	Machine Shops and Machinery Mfg., N.O.C.	1,119	1,349	1,306	1,325	1,258	1,327	1,226	1,141	1,565	2,064
6602	Janitorial Service	1,077	1,000	1,000	971	934	987	945	849	961	998
6309	Hardware, Auto Parts and Sporting Good Stores	1,072	1,060	1,055	1,065	1,090	1,081	1,035	1,081	1,225	1,496
0307	HVAC Systems, Installation, Service and Repair	1,021	933	856	858	785	732	799	799	1,118	1,360
6406	Retail Stores, N.O.C.	1,009	948	986	1,018	931	1,012	1,010	1,202	1,362	1,495
5307	State Government - All Other Employees, N.O.C.	981	889	851	918	938	1,078	1,232	1,196	1,260	1,274
6511	Chore Services	976	949	886	976	923	921	962	935	909	918
6402	Supermarkets	967	957	1,022	1,016	886	792	823	881	961	1,039
0306	Plumbing	930	819	881	757	729	767	763	793	1,199	1,458
2903	Wood Products Manufacturing, N.O.C.	866	795	819	819	725	733	680	711	822	1,388
0518	Non Wood Frame Building Construction	848	1,006	915	758	692	610	644	762	1,450	1,923
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	833	1,006	962	782	740	728	749	836	736	852
3404	Metal Goods Manufacturing, N.O.C. - Under 9 Gauge	784	724	753	787	763	785	677	691	924	1,247
4904	Clerical Office, N.O.C.	748	825	884	1,017	1,014	1,115	1,164	1,207	1,436	1,560
3405	Aircraft Parts Manufacturing, N.O.C.	745	818	822	797	867	801	670	634	715	1,053

Notes:
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 September 30, 2017.

The Risk Class is that assigned to the claim.

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

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

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Workers' Compensation Program
Comprehensive Annual Financial Report

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